

Welcome to MFS

Matthew Butcher, Head of Research



A select few intermediary clients have been using Brewin Dolphin's Managed Fund Service since October 2008 but, having partnered with Novia in October last year, we have been able to open it to more of our adviser partners. Since then we have been delighted to see more than 50 intermediaries signing up for the service.

Necessity has been the mother of invention. Regulation makes it increasingly hard to serve small clients cost effectively. But advisers are now finding that by reviewing just five MFS models they can profitably oversee large swathes of their smaller clients' savings. These monthly emails will help keep you concisely informed of the themes and funds within your MFS clients' portfolios.

"Markets will fluctuate" as J Pierpont Morgan once remarked. He was right, and so MFS relies on a robust process. As the most unemotional implementation of the research team's views it has been buying the lows and selling the highs in terms of both asset allocation and fund selection - Invesco Perpetual High Income being a prime example of the latter.

Patience (with Neil Woodford) is a virtue

Rob Crawshaw, Fund Analyst



Most funds in MFS holdings have survived since the service's inception. Neil Woodford's Invesco Perpetual High Income, however, has provoked more raised eye brows than most. Since 2008, Woodford's cautious stance on the economy, coupled with his valuation discipline, resulted in a substantial allocation to out-of-favour healthcare and tobacco stocks. Having been an initial MFS star the fund then lagged peers during 2009 and 2010, as cyclicals outperformed.

Despite this challenging environment, the sensible and rigorously applied approach provided us with comfort. The fact that the fund was positioned so drastically differently to its peers also provided true diversification to the MFS portfolios.

Woodford's value bias and focus on cash flow have been amply rewarded in 2011. Investors have been rotating out of highly-rated cyclicals into the more defensive areas. The fund's top active overweights include GlaxoSmithKline, Imperial Tobacco and British American Tobacco which have helped it beat the FTSE All Share by more than 8% over three months. That puts it comfortably ahead of the index and peers over the last year on a cumulative basis proving the point that, in the case of Neil Woodford, patience is rewarded.

Looking forward, themes in MFS

Guy Foster, Head of Portfolio Strategy



The move from cyclical into defensive stocks reflects signs of slowing earnings momentum in the global economy but the latest US earnings season still saw more positive surprises than shocks. The US is experiencing a long overdue recovery in competitiveness; the dollar has been falling relative to trading partners and wage are struggling to beat even modest inflation.

Across the Pacific labour shortages and rising food prices are causing Chinese pay to rise at double digit rates. This shift in the economic balance of power is reflected in the MFS overweight position to the US where some of the dollar exposure hedged.

The portfolios remain underweight bonds but by long maturity bonds held gave the portfolios good participation in the rally that started in the middle of April. It also freed up capital for the portfolios to invest in diversifying assets such as asset backed securities and minor government bonds where high yields with little credit or interest rate risk.

For more information about our Managed Funds Service, email mfs@brewin.co.uk or call **0845 213 3363**.

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