

Portfolio Bulletin – February 2011

At the beginning of February the HDA Investment Committee decided to make some key changes to our portfolios. These may be summarised as follows:

Fixed Interest Securities

We feel that Investment Grade Corporate Bonds are now fully priced and we are concerned that interest rate rises – which must surely be on the horizon – will have a negative impact on valuations. We believe that there is still value in higher yielding securities but these carry higher levels of risk.

Consistent with our belief in active management, we have shifted our emphasis to Strategic Bond funds. These funds allow the management team to vary their asset allocation between government securities, investment grade bonds and higher yielding securities depending on their view of the market. In some cases these funds may also have limited exposure to equities.

We have carefully differentiated between lower risk funds with a constrained mandate (i.e. only limited exposure to high yield securities) and unconstrained funds where risk may be significantly higher.

Managed Risk Funds

We have analysed the performance and volatility of our preferred Managed Risk funds and, as a result, have downgraded our internal risk assessment. This will allow us to increase exposure to these funds in our most cautious portfolios without compromising our risk tolerance. This is an important development which allows us to reduce further our exposure to fixed interest securities.

Property Funds

We have increased exposure to commercial property funds across most portfolios. At this stage in the economic cycle we believe these funds offer fair value relative to the level of risk they represent.

UK and Global Equities

Historically we have rated our mainstream global equity fund holdings as a higher risk than our mainstream domestic equity holdings. Having analysed performance and volatility we no longer consider this appropriate. There are two key reasons. Firstly, many funds already hedge their currency exposure back to sterling; secondly, increasing globalisation means that most UK funds contain significant global market exposure.

Going forward all funds of this type will be categorised as “Developed Equity”.

The net result of this change is a downgrading of our internal risk assessment of global equity funds. This has allowed us a modest increase in exposure to emerging market funds in some of our portfolios.

We believe that the changes we have made will allow us to meet our twin objectives of providing targeted real returns with careful control of risk.

If you have any queries about the changes we have made and how they affect you, please do not hesitate to contact us.