

# Sentinel Fund Range Q&A Update

November 2022

In this update we provide an update on our Sentinel Fund Range performance in what has been a very challenging market environment.

One of **Sentinel's** objectives when launched was to be able to move from riskier, growth assets to more defensive assets when volatility increased. This is an underlying strategy that makes sense in most market conditions. In the past, when equity markets fell during periods of high volatility, we usually saw some benefit of diversification by moving to bonds. In 2022, we have seen an unusually high level of correlation between these assets at this time. This update provides some background to the funds' performance in 2022 to date.

## 1. How has the Sentinel Fund Range performed in 2022 to date - on an absolute basis and relative to other risk rated 3 funds in the market today?

- ▶ Performance for both the **Sentinel Fund** and **Sentinel II Fund** has been challenging so far in 2022. This is set against a very challenging market environment and at a time when most asset classes are down year to date.
  - Since its launch on 23.09.19, the **Sentinel Fund** shows a fall of -3.2%.
  - Since its launch on 08.06.20, the **Sentinel II Fund** also shows a fall -0.8%.
  - Looking specifically at 2022 year to date, performance for both funds is:
    - **Sentinel Fund** -10.5%
    - **Sentinel II Fund** -10.5%

Source: Longboat Analytics. Performance as at 30.09.22 is quoted gross of tax and charges.

## 2. Why has there been a difference in performance relative to other risk rated 3 funds?

- ▶ The primary reason for the **Sentinel Fund Range's** negative performance in 2022 is because of the funds' exposure to bonds.
- ▶ In 2022 year to date, all asset classes, as shown in Figure 1 overleaf have struggled, with bonds, as an asset class, the worst performer.
- ▶ In the year to date to end of September 2022, and as a result of the funds' risk protection mechanism, the **Sentinel Fund Range** has had:
  - Lower exposure to equities and
  - Higher exposure to bonds and alternatives than our other risk rated 3 funds - **iFunds 3**, **iFunds 3 Alpha** and **PRIME 3**.

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**Warning: These funds may be affected by changes in currency exchange rates.**

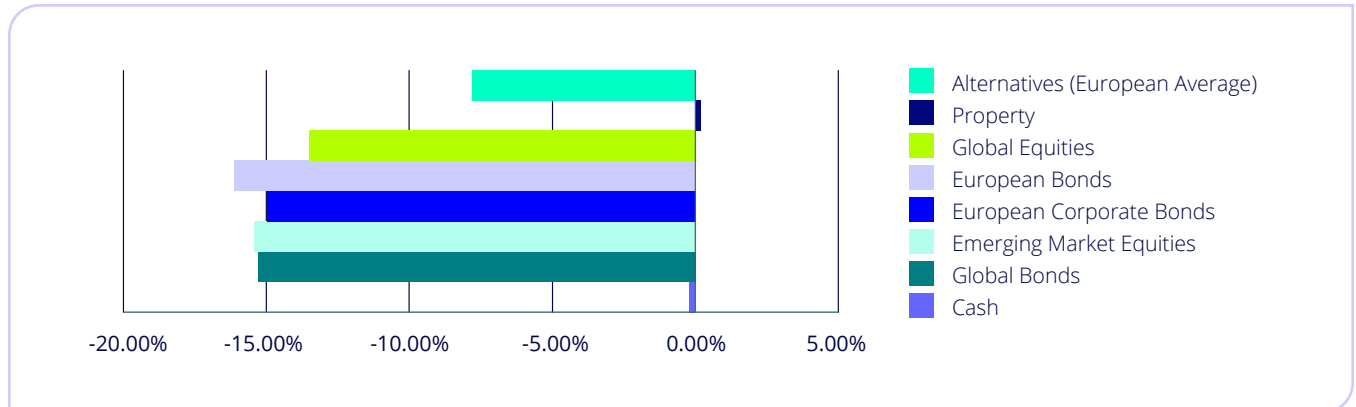
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## 2. Why has there been a difference in performance relative to other risk rated 3 funds? Cont'd

Figure 1: Asset class performance 2022 Year to Date



Source: Longboat Analytics and Bank of Ireland Investment Markets. Performance as at 30.09.22 is quoted gross of tax and charges.

## 3. What drives the Sentinel Fund Range's (Sentinel) exposure to asset classes?

- ▶ The main factor that drives asset class exposure in **Sentinel** is each fund's volatility (a measure of the rate of movements in underlying values).
- ▶ The funds have been built to target a volatility level of 6%, with the underlying 85% protection\* level, keeping the fund in line with a risk rating of 3.
- ▶ There are 3 baskets of assets that the funds can invest in – Growth assets, Defensive assets and Cash.
- ▶ Changes in volatility determine how much is allocated to higher risk Growth assets (equities & property) and how much is allocated to the lower volatility or more Defensive assets (alternatives and bonds).
- ▶ The funds' actual asset class exposure is a balancing act between how much is allocated to riskier Growth assets and more Defensive assets in order to deliver an overall level of fund volatility of 6% (the fund's in-built risk adjustment mechanism).
- ▶ If the funds become very volatile as a result of the market environment, and we want to dramatically reduce volatility, the team can allocate to cash.

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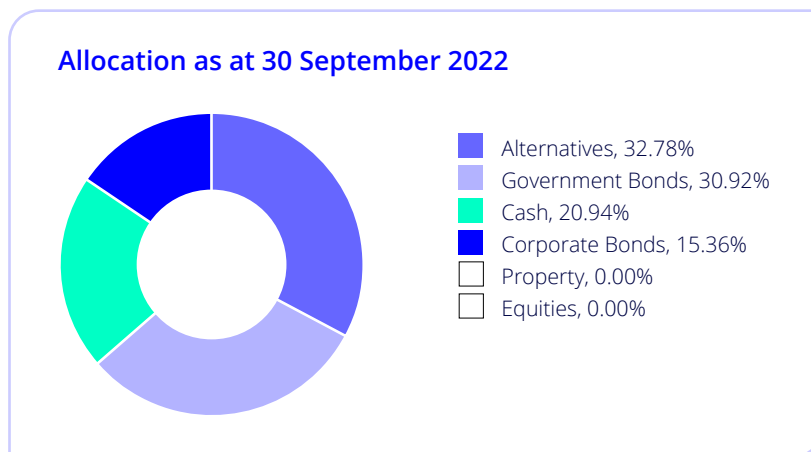
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#### 4. Based on the above, what is the current asset allocation?

- ▶ As at the end of September 2022, below is the asset class exposure of the **Sentinel Fund Range**:

Figure 2: Sentinel Fund Range asset class exposure as at 30.09.22



Source: Bank of Ireland Investment Markets, October 2022.

#### 5. Can you explain what actually makes up the building block of each asset class?

- ▶ The funds are passive funds – tracking the return of indices for each asset class.
- ▶ **Growth assets:**
  - Equities - the Growth basket tracks a global stock market index to gain exposure to global, well-diversified equities in both developed and emerging markets.
  - Property - the funds gain exposure to property returns through tracking a European Real Estate index.
- ▶ **Defensive (low volatility) assets:**
  - Bonds – bond exposure is achieved by tracking a global bond index that provides exposure to government and corporate bonds; high yield, investment grade and also regional bond exposures.
  - Alternatives – for alternative exposure the funds track a global alternatives index representative of the wide alternatives universe. It provides exposure to a wide range of alternative sub-asset classes; **Long Short** Equity positions; **Macro** which includes assets like commodities, equities and currencies; **Relative Value** where managers try to exploit price differentials between similar assets or markets and then **Event Driven** strategies which look at trying to make money on the back of catalytic events such as the likes of mergers, acquisitions etc.

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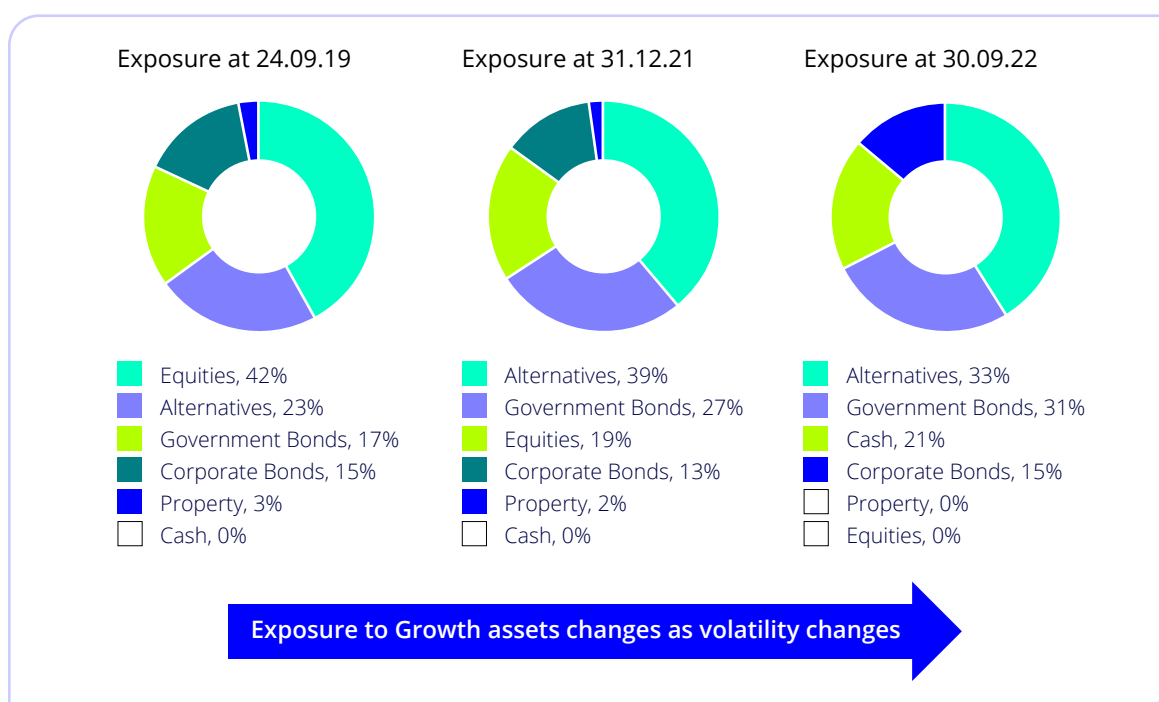
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## 6. Has asset class exposure changed much over the life of Sentinel?

- ▶ The asset class exposure of both funds has been very dynamic since inception (see Figure 3 below). This reflects the market environments and the levels of fund volatility that have been experienced.
- ▶ When it has been safe to do so, **Sentinel** has allocated to Growth assets and when it has not been safe to do so, the funds have taken a more defensive position (for example in March 2020). This is in line with how the funds have been designed.

**Figure 3: Sentinel Fund Range Dynamic Asset Class Exposure**



Source: Bank of Ireland Investment Markets, October 2022.

## 7. How has the funds' risk adjustment mechanism worked since launch?

- ▶ Over a relatively short timeframe, we have seen the funds' active risk adjustment mechanism work on numerous occasions (see Figure 4 overleaf).
- ▶ In periods of heightened market volatility, for example when Covid-19 struck in March 2020 and the invasion of Ukraine in February 2022, the funds reacted quickly and moved to cash to protect investors.
- ▶ This automatic mechanism continues to work on a daily basis, where the funds will:
  - Allocate to the higher risk assets that have greater potential for growth, when it is safe to do so.
  - However, if volatility levels are elevated, the funds take a more cautious approach, in line with their risk ratings, and allocate to more defensive assets.
- ▶ **An example:** When the funds allocated to cash on the arrival of Covid-19 in March 2020, they gradually moved into defensive assets, firstly, before ultimately allocating again to Growth assets when volatility levels allowed. Important to note: The funds did not become cash-locked.

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#### 8. How would you describe the current volatility of the funds?

- ▶ 2022 started with elevated levels of market and fund volatility and this has continued to be the case throughout the year.
- ▶ What has been particularly evident is the volatility level of the lower volatility or Defensive basket of assets. This has increased to close to, and at times above, the target volatility level of 6% for the overall fund.
- ▶ This level of volatility has kept the allocation to Growth assets minimal throughout the year. For the majority of time, most of the funds' exposure has been allocated to bonds and alternatives.
- ▶ Bonds have been particularly volatile in recent months as global central banks have begun to increase interest rates and these increases have reduced the value of bonds.
- ▶ Equity markets have also had a volatile year to date but have experienced short periods of relief when values rallied.
- ▶ Overall, volatility has, however, dictated that the funds' exposure to Growth assets has been minimal, and **Sentinel** has not participated in these periods of equity rallies. On an important positive note, the funds have been protected however over periods of equity market sell-offs as investors would have wanted.
- ▶ The funds' 2022 performance has been driven by the fact that when the fund has sought refuge from volatility by increasing exposure to traditionally lower risk assets (bonds and alternatives), over 2022 these assets have lost value, with bonds experiencing heavy falls.

#### 9. Can you make any active allocation decisions to help improve performance?

- ▶ Bank of Ireland Investment Markets, the advisor to the **Sentinel Fund Range**, can and do make active asset allocation decisions within the asset baskets (Growth and Defensive) available.
- ▶ Earlier in the year, the team took a decision to have more alternatives exposure and less bond exposure compared to a traditional balanced managed fund. They also decided to have less bond duration (a way of measuring how much bond prices are likely to change if and when interest rates move) which did help. This decision saw the funds be less sensitive than the market to recent interest rate rises.
- ▶ They are currently looking closely at the options available within the Defensive basket, to try to generate positive returns for investors and continue to reduce volatility, whilst maintaining as low a correlation as we can with the assets in the Growth basket.

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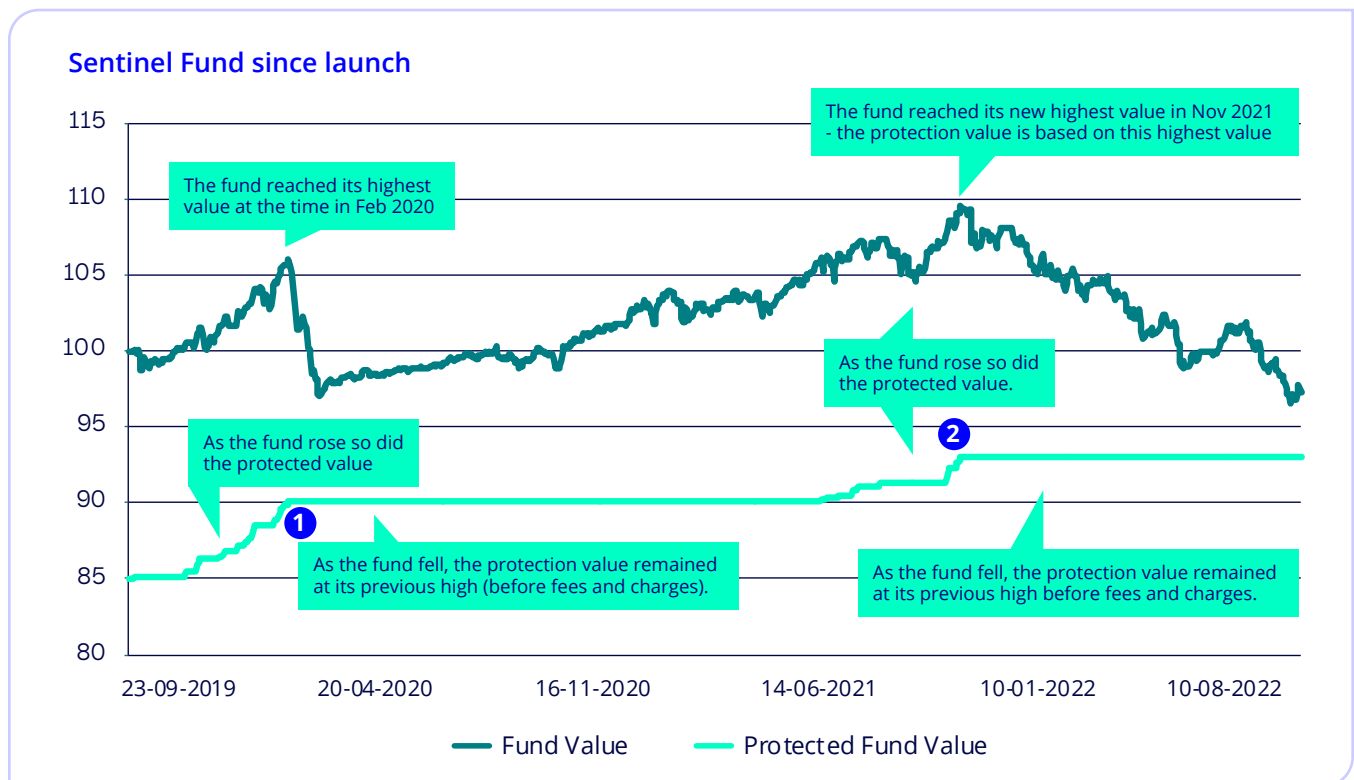
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### 10. How does the protection work in the funds?

- ▶ The funds provide investors with a minimum level of protection of 85% before costs and charges\*. The 85% protection is of the highest fund value that the fund has achieved.
- ▶ This is demonstrated on Figure 4 below:
  - As shown by the bright green line, the level of protection was 85% at launch but as the funds have grown in value (dark green line), so too has the protected level.
  - When the fund value fell in 2020, the protected level stayed at 85% of the prior highest level (**see point 1 below**).
  - When the fund recovered and exceeded its previous high in November 2021, so too did the protected level increase (**see point 2 below**).
  - In the current market sell off, when the fund value has fallen, the protected level has remained at 85% of the fund's highest ever value (November 2021).

Figure 4: Sentinel Fund Range Dynamic Asset Class Exposure



Source: Bank of Ireland Investment Markets, October 2022.

- By way of example;
  - A customer who invested in the **Sentinel Fund** on the day the fund commenced currently enjoys approximately 93% level of protection.
  - A customer who invested in the **Sentinel II Fund** on the day the fund commenced currently enjoys approximately 96% level of protection.

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# Next Steps

To find out more about the Sentinel Fund Range, talk to an Advisor available at your local Bank of Ireland branch:

**Fund Centre** 

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