Buyers' market: Q&A

Have the managers you selected lived up to your expectations over the past year?

We asked a selection of leading fund analysts whether the return on their investments over the past 12 months had been better or worse than they had expected, or just right on target. Where they had seen underperformance or outperformance, what caused this, and which managers have delivered better-than-expected results? **Pietro Cecere** and the Citywire Research team compiled the results

Peter Fitzgerald

BNP Paribas Wealth Management

Index linked gilts in the UK have returned approximately 8% over the past 12 months. This is pretty good given that many expect a deflationary period. And despite all the hype, very few Newcits or Ucits III funds managed to deliver decent returns.

The equity market has been very difficult over the past 12 months and returns over this period have been disappointing for some managers but for very different reasons. As an example, returns from Cazenove's Christopher Rice for both his hedge fund and long only fund have been disappointing over the past 12 months due to the very defensive nature of the portfolio and his belief that a double dip recession is likely.

Crispin Odey's returns have been disappointing due to poor timing and he is actually optimistic about future returns. Both managers have good long-term records but both have underperformed over the short term for very different reasons. They key is to know why and who you are going to back for the future.

Over the past 12 months Neil Woodford's Invesco Perpetual Higher Income fund has done well, and even exceeded our expectations. This fund has been a core holding for us for over 10 years and it continues to do well.

> 'The equity market has been very difficult over the past 12 months and returns over this period have been disappointing for some managers but for very different reasons'
>
> **Peter Fitzgerald**
> BNP Paribas Wealth Management

Buyers' market: Q&A

Marianne Rameau

ISGAM

The overall performance of our investments has been more or less as we expected over the past 12 months, in spite of all asset markets exhibiting some hair-raising volatility along the way. Our European clients have had the most significant benefit from global diversification. All clients have benefitted from substantial exposure to corporate bonds.

We're satisfied with how most of our managers have managed throughout this difficult period.

Nicholas Walewski (Alken European Opportunities) and Cédric de Fonclare (Jupiter European Opportunities) have managed to significantly outperform their benchmark index by sticking to their style and stock picking convictions, being cautious on the economic outlook but making use of opportunities thrown up by market volatility along the way. Lazard Emerging Markets has continued to strongly outperform its benchmark, partly through astute shifts in country allocation.

Our long/short equity funds have had the most difficult time, which is not surprising in such a volatile environment.

Fabio Catalano

AcomeA

Looking at the past 12 months, fund managers that have performed more than our expectations are on the equities side. High tracking error, and skills in taking advantage of the market inefficiency through stock picking have generated solid alpha even in different style and size universes. To mention a few of them: Threadneedle European Select, Nordea European Value, Franklin European Growth and Fidelity Active Strategy for Europe, Aberdeen Asian Smaller Companies, Vontobel Far East and Franklin Templeton Asian Growth for Emerging Markets, Lombard Odier World Gold Expertise for gold related stocks. On the bond side, credit universe and asset allocation have allowed fund managers to return considerable alpha as for M&G Optimal Income and Franklin Templeton Global Total Return.

Massimo De Palma

Swiss & Global Asset Management

Results have generally met expectations. However, there has been considerable variation, owing in particular to erratic market performance and frequent changes in the correlation between the various asset classes. In further detail, the results of hedge funds' strategies in the form of Ucits III have been uneven: long/short funds have mostly yielded disappointing results; funds based on quantitative models, while presenting encouraging back-testing results, have often been unable to achieve the expected risk/return profile. The factors that resulted in underperformance include, in some cases, inadequate risk monitoring, excessive concentration in tactical decisions and operational rigidity, even in presence of a shifting environment. The best results were achieved by products with the highest tracking error and solid, proven management skills. For example, in European equities, the Threadneedle team and the Henderson Pan European fund showed the foregoing qualities in both directional and lateral phases. Templeton Asian Growth is also worthy of mention on Asian equity markets. Lastly, among alternative products, Amundi Volatility Euro Equity achieved solid results in the past two years, owing in part to the balance between the qualitative and quantitative components of the investment process.

Ewan Graves Tamvakis

Ridgeway Capital

Expectations were that the year would be generally choppy as green shoots of growth would be tempered by the hangover of systemic risk concerns. Broad markets were flat, but from a portfolio management perspective this has been aggravated by high volatility and large swings as market opinion remains divided.

Returns are to be found by actively picking individual winners and losers, whether assets or geographies, and being able to trade around market volatility. Whereas broader and larger portfolios have not responded so well to conditions, some more focused portfolios have produced relatively strong outperformance where the experience and skillset is there to deal with these conditions. Underperformance has been caused by inability to deal with high volatility and an excessive premium on perceived liquidity and simplicity.

Areas of opportunity remain in distressed credit, secondaries, small-mid cap equities, as well as trading opportunities in event-driven and CTA.

Outside the big names, some managers that have performed well are the team at the Cairn Credit Fund, NuWave Investment Management and Seer Capital Management.

> 'Expectations were that the year would be generally choppy'
>
> **Ewan Graves Tamvakis**
> Ridgeway Capital

Giuseppe Garzoglio

CARIGE

I think we can draw an overall positive judgement, although sometimes some strategies have not provided the expected results or, more precisely, suffered more than necessary during certain stages of market weakness. In May, for example, only some strategies adopted in absolute return funds have provided a positive contribution to the performance, and trends of our models have forced us to operate in a more defensive perspective. In the core assets, managers such as Michael Hasenstab (Templeton Global Bond) or Rob Jones (Threadneedle Pan European Equity and Equity Dividend); between the flexibles Richard Woolnough (M&G Optimal Income) and Massimiliano Gnesi (Vontobel Absolute Return Bond).

Roy Kuo

Aberdeen Asset Managers

Return on investments has been as expected in the past year to date. This recovery was always going to be an anaemic one, as household de-leveraging was always going to take away one of the traditional drivers, consumer spending, of a recovery out of a recession. This meant the significant recovery in equities last year, albeit from extremely low levels, was always going to be difficult to replicate this year. The main surprise factor this year has been the continued outperformance of credit investments, with managers such as Oaktree and York continuing to build on their good performances from last year. Credit had a spectacular year in 2009 as recovery from very low levels resulted in better than equity returns for many credit investments.