For Professional Clients and/or Qualified Investors only

The Multi-Manager People

Fund Watch

Q4 2022

Fund Watch uses our team's process to highlight the past quarter's developments in the fund world. It is fact-based and uses performance analysis techniques which form part of our investment process. All data is from Lipper for Investment Association (IA) sectors and is calculated in total return terms in sterling for periods ending 31 December 2022.

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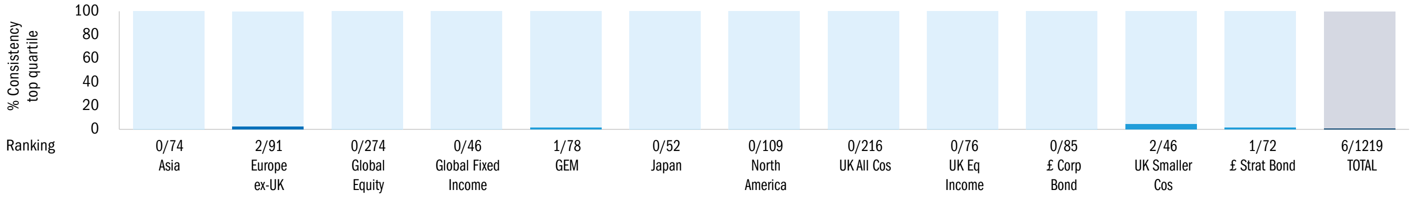
Telephone calls may be recorded.

This quarter's report includes the following analysis:

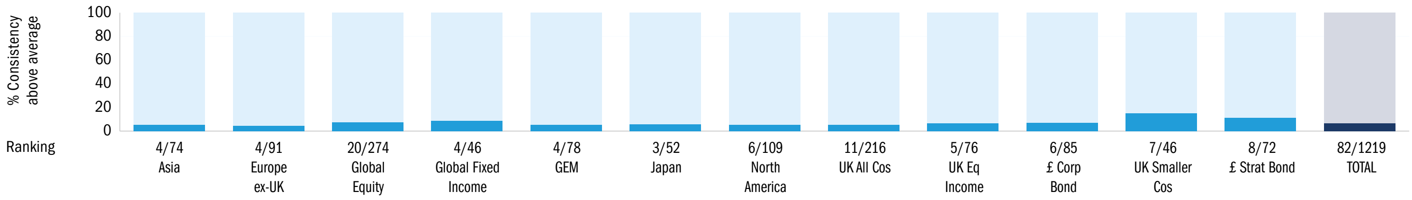
- **The CT MM Consistency Ratio** – highlighting the surprisingly limited number of funds beating their peers on a regular basis.
- **Tops and Bottoms** – the ultimate winners and losers over the quarter.
- **Sector Skews** – the best and worst of the 57 IA sector averages.
- **Risky Business** – a look at the leading funds for combining first class longer-term returns with the lowest levels of volatility.

The MM Consistency Ratio

Top quartile performance rolling 3 years: 0.49%



Above average performance rolling 3 years: 6.73%



Source: Lipper, 30 September 22 - 31 December 22, percentage growth, total return.

The CT MM Consistency Ratio

Here we conduct a review of the 12 major market sectors, filtering out only those funds that are consistently above average in each of the last three 12-month periods, and for a harder test those consistently top quartile. In the 12 main sectors researched, there are currently 1,219 funds with a 3-year track record.

- The CT MM Consistency Ratio for top quartile returns over three years to the end of Q4 2022 remains in very low territory. We have "bounced" from the all-time low of Q3 (0.26%) with 6 funds - double that of Q3 - achieving this feat. This equates to 0.5% of the selected universe. This ratio's typical range over the time we have been running this research is c.2-4%.
- The six funds that achieve the consistency of top quartile returns came from four different sectors – the sectors are the IA Europe ex UK, IA Emerging Markets, IA £ Strategic Bond and IA UK Smaller Companies.
- Lowering the hurdle rate to simply above median in each of the last three 12-month periods saw a marginal pick up with 82 of the 1,219 funds delivering above median returns consistently, compared to 60 funds last quarter. This means this less demanding ratio rose to 6.7% from 5.1%.

> "Unsurprisingly, consistency remains elusive in the rolling three-year periods to the end of 2022."

- All of the 12 main IA sectors still managed to contain funds that met the less demanding above median consistency hurdle. The most consistent sector on this measure was IA UK Smaller Companies with 15.2%, then the IA £ Strategic Bond sector with 11.1% of funds performing above median for 3 consecutive years. The IA Europe ex UK sector was the least consistent with 4.4% of funds achieving consistently above average performance for the 3 rolling 12-month periods.

CT Multi-Manager comment

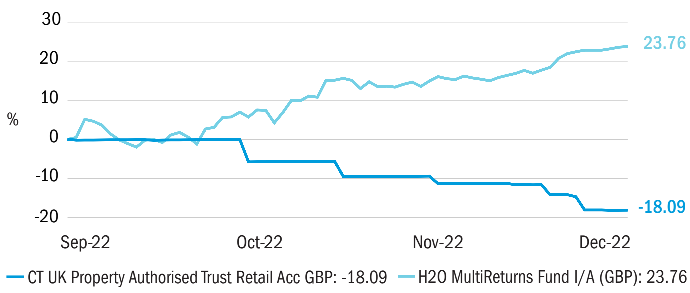
- Unsurprisingly, consistency remains elusive in the rolling three-year periods to the end of 2022 as we move from a low inflation, low interest rate world to something a little less familiar to anyone who has only been in the investment world for the last 14 years.
- If we look at the 6 funds that did offer consistent top quartile returns, the one thing that unites them is that they are all charging an "active" fee. The average of the 6 is 1.35%. The lowest return (from which the fee will have been taken) is 8.6% for the three year period for the L&G General Dynamic Bond Fund and the highest is 46.8% for the Liontrust European Dynamic Fund.
- The results are less clear if we look at the above average consistency as the fee figures are missing in a lot of cases from Lipper, however I think there is an interesting case study in the IA Japan Sector. Both the Fidelity Index Japan and Fidelity Japan funds pass the three-year rolling above average filter. The former has returned 7.5% and charged you 10bp to invest per year. The latter returned 28.6% after a charge of 1.5%. The Japanese market has fallen out of favour in recent years, so it would be understandable if a passive vehicle was used to gain exposure, but there are clearly opportunities for the active manager.

Tops and bottoms

Identifying the best and worst performers of all funds in the quarter across all 57 IA sectors.

- The controversial H20 MultiReturns Fund topped the IA peer group for the fourth quarter. Having been in the 90th decile for the previous 3 months, this switch is a good reflection of the general movements that have happened over this quarter with the fund's macro driven strategy benefiting from the swing in markets.
- The woes of the property sector continued in Q4 with commercial real estate being at the sharp end of the pull back. Reflecting this was the £316m (as at 31.12.22) CT UK Property Authorised Trust, which invests predominantly in this space.

Tops and bottoms



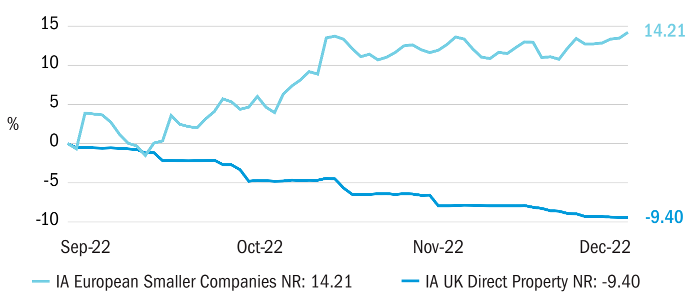
Source: Lipper, 30.09 22 to 31.12.22, percentage growth, total return.

Sector skews

Identifying the best and worst performers in the quarter across all 57 IA sectors.

- 44 of the 57 IA sectors made positive ground in the quarter, with US and dollar linked assets accounting for the vast majority of the sectors that took a step back in the 3 months.
- In a reversal of fortunes, having been the star of Q3, the IA India/Indian Subcontinent sector was only beaten to the bottom of the table by one sector – IA UK Direct Property at -9.4%, versus -7.5% for the former.
- It was all about Europe at the other end of the table with the leader of the pack being the European Smaller Companies sector where the average fund gained 14.2%. The IA Europe ex UK sector was next best, rising 12.7%, with the IA Europe inc. UK growing 10.9%.
- All UK equity sectors took a better turn in fortunes from the third quarter. The IA UK Equity Income sector led the way, rising 10.7%, with the IA All Companies sector close behind at +9.6%. The more domestic IA UK Smaller Companies sector was the worst of the three, returning 9.6%, the same trend as last quarter, reflecting the power of dividends and the relative challenge of domestic assets in the UK.
- Turning to UK bonds, there was also a much healthier return on offer in most cases. While the woes of the IA UK Index Linked Gilt sector continued with a fall of 1.3%, the IA UK Gilt sector recouped a little of this year's falls with a 1.5% gain. The real news however, was in the corporate sectors with the IA £ Corporate Bond sector gaining 5.8%, while the IA £ High Yield and IA £ Strategic sectors rose 4.7% and 4.2% respectively.
- The IA Targeted Absolute Return sector rose 2.3%. The return in 2022 as a whole for the sector was -2.3%.
- Looking at the Mixed Asset IA offerings, there was less than 1% between the three of them; the IA Mixed Investment 0-35% Shares sector gained 2.3%, followed by the IA Mixed 40-85% Shares rising 3% and lastly the IA Mixed Investment 20-60% Shares rose 3.2%.
- The IA Global Equity sector gained 2.1% against a return for the IA Global Equity Income sector of +5.4%. This can probably be summed up as a win of income over US Equities.

Sector skews

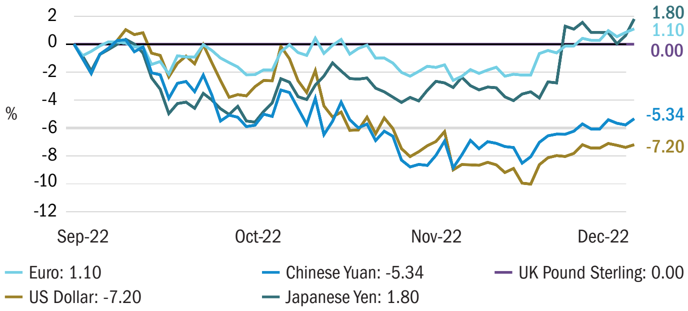


Source: Lipper, 30.09.22 to 31.12.22, Percentage growth, total return.

Currencies

Wow – what a quarter in the currency world! With the Federal Reserve now closer to the end of their tightening cycle, while the Bank of Japan is potentially just getting started, the fortunes of the relative currencies against Sterling, which is sitting somewhere in the middle, was stark. Often seen as the release valve when economies come under pressure, it is lining up to be an interesting 12 months for the major world currencies as the central banks of the world enact their QT plans at different points to reflect the different drivers of inflation and how to combat them.

Major currencies relative to Sterling



Source: Lipper, 30.09.22 to 31.12.22, Percentage growth, total return.

Risky business

Can you have your cake and eat it? Here we search for funds with good risk characteristics and establish which funds offer the holy grail of low risk and high returns. For this purpose, a longer time-period is required, so we look back over three years to the end of the quarter.

- Measured to the end of Q4 2022, the LF Ruffer Total Return Fund secured the elusive crown of achieving top sector 3-year returns with bottom of the sector 3-year volatility. Run by Luka Gakic and Alexander Chartres, the fund is focused on capital preservation and "all weather" returns, which is achieved by holding a combination of fear (protection) and greed (growth) assets. The 27% return over the last 3 years, with a standard deviation of 2, shows that an OCF of 1.23% is worth paying if you have a truly active manager.
- The Merian Global Strategic Bond Fund is also worthy of a mention, being 2nd percentile returns and 99th percentile volatility.

> “It is important in investment to recognise what you know and be humble about what you don't.”

Looking ahead – and looking within...

- To my mind, we currently sit here in something of a limbo. The crests have fallen for the previous untouchables of the US tech sector and it has been largely p/e multiples that have driven the pullback in equity markets as corporate earnings have yet to truly falter.
- In the world of bonds, the drag has been rates rather than defaults and while spreads blew out mid-year, these have come back significantly from the peaks.
- It is important in investment to recognise what you know and be humble about what you don't. Volatility is normal and welcome, as are the actions of the speculators as short-term jostling to predict the next sentence from the central bankers and what this means for the world. Investment, however, is a longer-term sport than that. It is a marathon, not a sprint. No company chief exec or their board will make a decision on strategy and expect this to yield an outcome for months, if not years, and it is the quality of these decisions that truly make a good or bad investment. I do not know if the Federal Reserve are near the end of the rate hiking cycle (I doubt even they do), or if Tesla is the next Nokia/Blackberry (remember when they ruled the world?) but I do know that active management will look through the noise and make more than an educated guess on both.

Summary

In summary, we believe the performance numbers are – as always – well worth crunching to find trends, provide ideas, layer knowledge on how each fund performs and to generally provoke thought.

Of course, the analysis must be taken in context, and the qualitative work must be done to allow for fully informed judgments. We hope you found this review interesting, and if you have any questions, please contact:

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If you would like further details or would like to discuss why we think these points are of interest, then please do contact us. We have our own observations and opinions on this analysis and would be happy to discuss them if appropriate.

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