For Professional Clients and/or Qualified Investors only

The Multi-Manager People

Fund Watch

Q2 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 30 June 2022.

This quarter's report includes the following analysis:

- **The 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 52 IA sector averages.
- **Risky Business** – a look at the leading funds for combining first class longer-term returns with the lowest levels of volatility.

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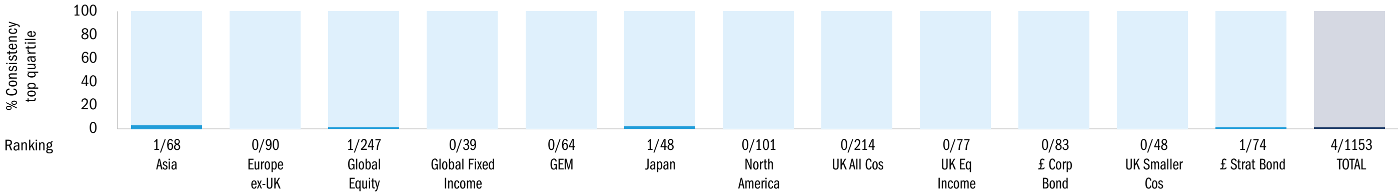
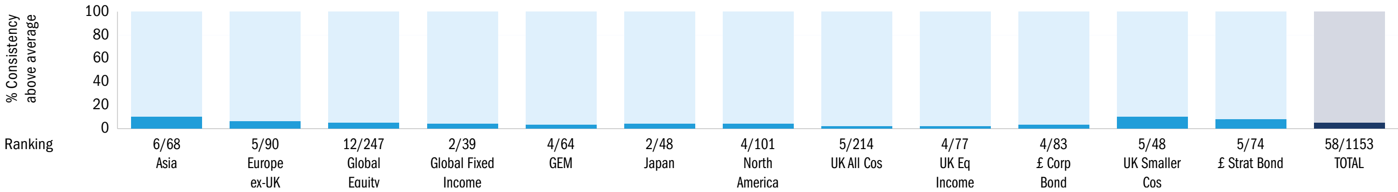
Telephone calls may be recorded.

The MM Consistency Ratio

Top quartile performance rolling 3 years: 0.35%



Above average performance rolling 3 years: 5.03%



Source: Lipper, 31 March 22 to 30 June 22, percentage growth, total return.

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 1,153 funds with a 3-year track record.

- The MM Consistency Ratio for top quartile returns over three years (to the end of Q2 2022) remains in stunningly low territory, with implications of the war in Ukraine being compounded by the creeping repricing that inflation, growth and central bank policy will have on financial assets. Incredibly, the all-time low of Q1 has been superseded in Q2 with 0.35% – (or in other words… 4 of the 1153 funds) achieving this feat. This ratio's typical range over the time we have been running this research is c.2-4%.
- The four funds from four different sectors manage the consistency of top quartile returns – the sectors are the IA Asia ex Japan, IA Global Equity, IA £ Strategic Bond and IA Japan.
- Lowering the hurdle rate to simply above median in each of the last three 12-month periods saw another new low of just 58 of the 1,153 funds delivering above median returns consistently compared to 68 funds last quarter. This means this less demanding ratio collapsed from 6.1% to just 5%!
- All 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 10.4%, then came IA Asia Pacific ex-Japan with 8.8% of funds performing above median for 3 consecutive years. The IA UK All Companies sector was the least consistent with 2.3% of funds, achieving the above median consistency hurdle.

Multi Manager comment

> It is staggering to see Q1's exceptionally low numbers superseded, and a new all-time low established so quickly. Very few funds have proven capable of navigating these choppy market waters. That said it is testament perhaps to managers that they are holding their nerve and not trying to chase these very unusual markets. Indeed, the only hiding place this year really has been cash – and that is far from the natural hiding place of most active managers who will be not fearful, but instead excited by the opportunity that this current turmoil can offer for the long term investor (as opposed to trader).

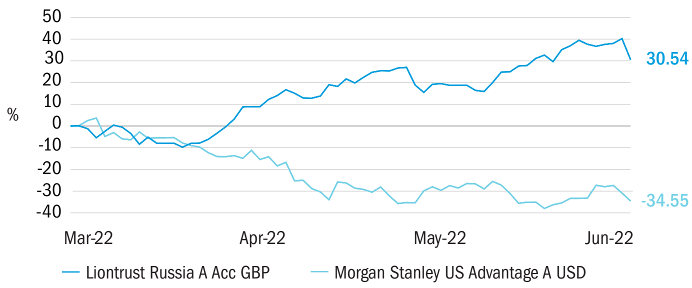
> One point to note: gone is the dominance of any one style or flavour of mandate in the consistency filter. There is also a notable absence of passive vehicles in all but the US where all 4 of the consistently above average funds are essentially index funds, and global where there are 2. The next big trend is up for grabs, but we may have to wear some volatility before the next pattern emerges for now.

Tops and bottoms

Identifying the best and worst performers of all funds in the quarter across all 52 IA sectors.

- Any brave soul that felt tempted to buy the Liontrust Russia after its 63% fall in Q1 would have been unable to do so, given the fund's continued suspension for obvious reasons, however the rebound in the underlying securities was immense on paper. One has to question the validity of this statistic.
- Being invested in a focused list of large cap US growth equities in a quarter where tech suffered created a headwind for Morgan Stanley US Advantage. This £5bn flagship bore the brunt of the swing in sentiment in the market, falling to the bottom of the list of funds in performance terms for the quarter.

Liontrust Russia A Acc GBP vs Morgan Stanley US Advantage A USD



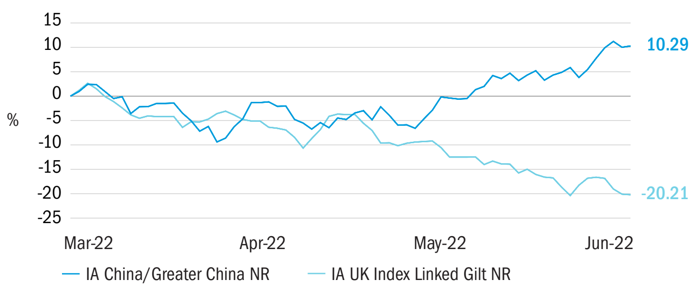
Source: Lipper, 31 March 22 to 30 June 22, percentage growth, total return.

Sector skews

Identifying the best and worst performers in the quarter across all 52 IA sectors.

- In a slight improvement from last quarter, 7 of the 52 IA sectors made positive ground in the second quarter of 2022. In reality 2 of these were essentially flat as they were cash sectors, 3 were driven by the USD and its meteoric rise in the quarter leaving just direct property and Chinese equities.
- The IA China/Greater China sector topped a table of IA sector averages gaining a respectable 10.3% effectively cancelling out most of the 11.9% fall from Q1. Positive news around covid reopening buoyed this marmite area of investing.
- The IA USD Government Bond and IA USD Corporate Bond sectors were next best rising 3.9% and 3.1% respectively, buoyed by the 8.4% rise in the dollar which otherwise saw spreads widen and interest rate expectations drag returns lower.
- The straggler of the table was the IA UK Index Linked sector which fell a staggering 20.2%. The UK is widely accepted as currently having some of the greatest inflationary pressures of all developed markets, and this market is exceptionally long duration and therefore exceptionally sensitive to interest rate rises. It is curious to see the IA Technology and & Telecoms sector as the next worst sector losing 16.6% – not two sectors you would expect to see correlated in return terms ordinarily.
- All UK equity sectors fell with the IA UK All Companies sector down 8.3%, and the IA UK Smaller Companies sector returning -13.2%. The IA UK Equity Income sector was by far the best home market equity sector again, falling 5.5%.
- Turning to UK bonds, The IA UK Gilt sector fell a significant 8.6%, though as already mentioned this was dwarfed by the -20.2% loss from the IA UK Index Linked sector. The IA Corporate Bond sector benefitted from lower duration but did start to feel the pinch from spread widening falling 7.5%.
- The IA Targeted Absolute Return sector fell -2.5%, collectively missing its objective over this short period. The 12-month return for the sector is now negative at -2.5%. There really have been few places to hide even in this sector.
- Looking at the Mixed Asset IA offerings, there was little to differentiate returns overall; the IA Mixed Investment 0-35% Shares sector fell 6.1%, followed by the IA Mixed 20-60% Shares, falling 6.5%, and lastly the IA Mixed Investment 40-85% Shares falling 7.4% reflecting the twin headwinds of equity beta and duration for the quarter.
- The IA Global Equity sector fell 10.3% against a return for the IA Global Equity Income sector of down a slightly less painful 5.5%.

IA China/Greater China NR vs IA UK Index Linked Gilt NR



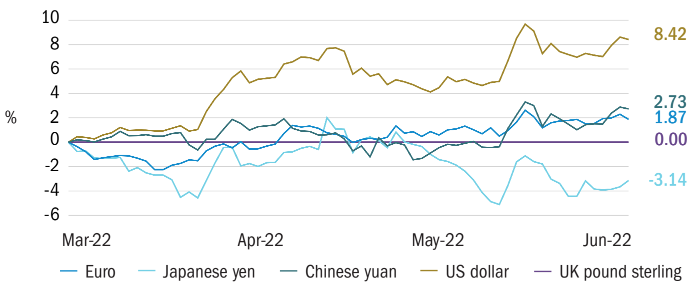
Source: Lipper, 31 March 22 to 30 June 22, Percentage growth, total return.

Currencies

- It was all about the dollar this quarter with the greenback staging a staggering rally of 8.4% in the 3 months against sterling which was the sick dog of the currency markets. The Yen continued to suffer the most however, as its central bankers stuck firm to their increasingly lonely stance of yield curve control and inactivity in interest rates.

> The next big trend is up for grabs, but we may have to wear some volatility before the next pattern emerges for now.
>
> **Kelly Prior, Investment Manager**

Currencies relative to sterling



Source: Lipper, 31 March 22 to 30 June 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 Q2 2022, yet again no fund achieved the perfect mix of top of the sector 3-year returns with bottom of the sector 3-year volatility. This mix seems remains elusive.
- The LF Ruffer Total Return Fund offered one of the best risk/reward combinations, with 1st percentile returns and 96th percentile volatility. The middle ground is becoming a crowded place – to achieve long term excellence patience is a necessity.

> The only hiding place this year really has been cash – and that is far from the natural hiding place of most active managers who will be not fearful, but instead excited by the opportunity.
>
> **Kelly Prior, Investment Manager**

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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