

For Professional Clients and/or Qualified Investors only | Multi-Manager People

The Multi-Manager People

Fund Watch

Q3 2023

Welcome to Fund Watch

Our quarterly summary of statistical outputs from our investment process.



Fund Watch uses our team's process to highlight the past quarter's performance 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 September 2023.

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.

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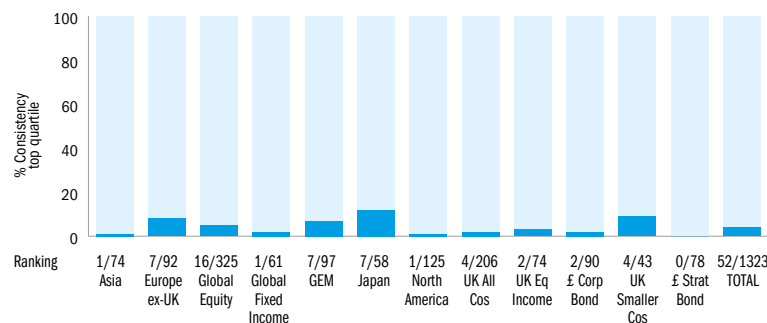
Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and you may not get back the original amount invested.

Key risks

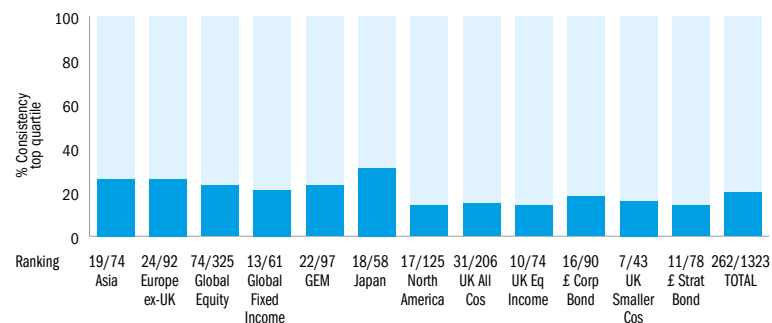
The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested. The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

The CT MM Consistency Ratio

Top quartile performance rolling 3 years: 3.93%



Above average performance rolling 3 years: 19.80%



Source: Lipper, as at 30.09.23, 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 1,323 eligible funds with a 3-year track record.

- The CT MM Consistency Ratio for top quartile returns over three years to the end of Q3 2023 has continued to improve. This quarter 52 funds achieved this feat, which equates to 3.9% of the selected universe, up from 2.1% in Q2. This ratio's typical range over the time we have been running this research is c.2-4%.
- The IA Japan sector had the most consistently performing top quartile funds

with an impressive 12.1% of offerings achieving this feat. The next best was the IA UK Smaller Companies sector with 9.3% of funds. The IA Strategic Bond sector failed to have any funds hit the mark with the IA Asia, IA Global Mixed Bond and IA North American sectors only having one fund achieving consistently top quartile returns in the 3 consecutive 12 month periods.

- Lowering the hurdle rate to simply above median in each of the last three 12-month periods also saw a significant pick up with 262 of the 1,323 funds delivering above median returns consistently, compared to 165 funds last quarter. This means this less demanding ratio rose to 19.8% from 12.8%.

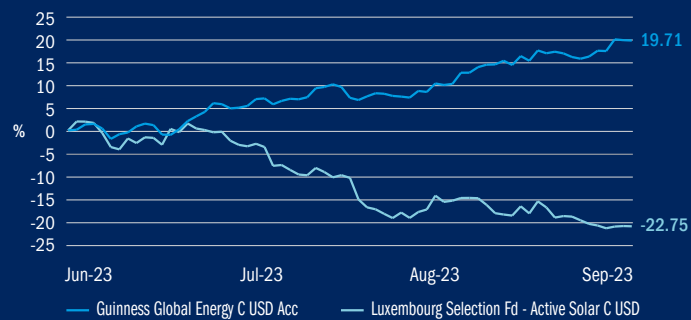
- The IA Japan sector had the most consistently above average funds with 31% achieving this feat. The next best was the IA Europe ex UK sector with 26.1% of funds qualifying. At the other end of the spectrum the IA UK Equity Income sector had the least number of funds achieving rolling 12-month consistency for the 3 years at 13.5%. All sectors had a number of funds achieving above average consistency.

“ This quarter has been driven namely by value funds in equity and short duration in bonds, which is a stark contrast to Q3 2020, when the key characteristics were growth and long duration. ”

CT Multi Manager comment

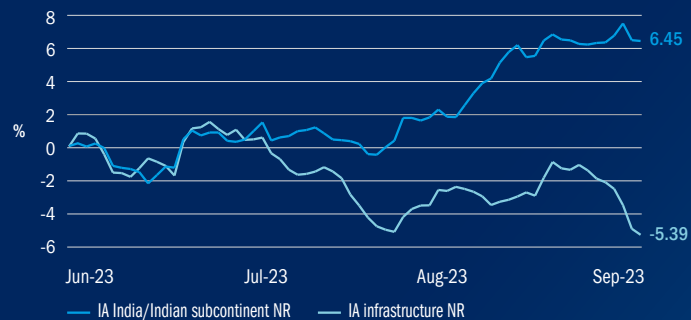
- Having hit the all-time low point in consistency in this survey's history a year ago, this quarter brought with it a continuation of the upward trend that started from that point. As is usually the case, this has been driven by a certain cohort, namely value funds in equity and short duration in bonds. Unusually there were four Index funds in the top quartile filter, however further investigation confirms that each of these are in fact active in some way with a short duration fund in the IA Sterling Corporate Bond sector, and three value filtered equity funds in global sector.
- Looking back at the consistent funds for Q3 2020 the key characteristics were growth and long duration. This demonstrates admirably why active fund management and a diversified approach to investment remain absolutely crucial for the long-term investor. The landscape is an ever-changing thing and the types of fund and manager that can succeed will flex to reflect the opportunity set.

Tops and bottoms



Source: Lipper, 30.06.23 to 30.09.23, percentage growth, total return.

Sector skews



Source: Lipper, 30.06.23 to 30.09.23, percentage growth, total return.

“ The landscape is ever-changing and the types of fund and manager that can succeed will need flex to reflect the opportunity set. ”

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

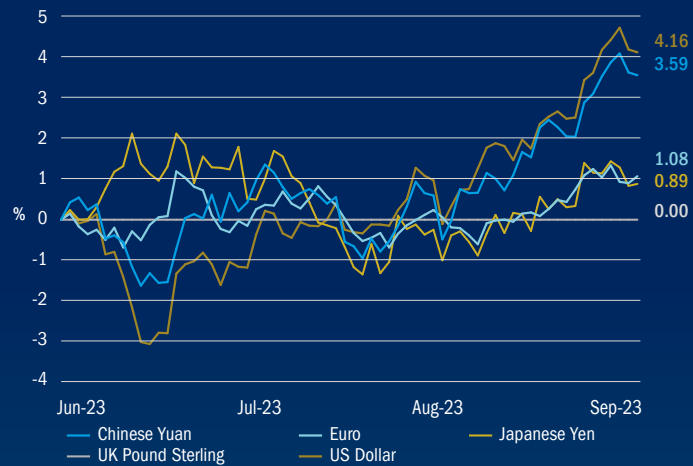
- The \$375m Guinness Global Energy Fund led the table of IA universe constituents over the quarter. Run by Jonathan Waghorn, Will Riley and Tim Guinness, the fund has a large cap value bias and uses a concentrated list of stocks to gain exposure to equities in exploration and production of oil, gas and other energy sources. A decent exposure to Europe is driven by analysis showing Oil majors in the region reducing net debt to levels last seen in 2013. Their oil price forecasts imply either higher dividends or further deleveraging for the sector from here.
- The £183m Luxembourg Selection Fund – Active Solar Fund took the wooden spoon in the IA universe in Q3. Active Solar was the first long-only mutual fund focused purely on the worldwide solar energy sector when it was launched on September 15, 2008. The fund invests in a focused list of specialist companies across the solar photovoltaic industry.

Identifying the best and worst performing of the 57 IA sectors in the quarter.

- There was a narrow range of returns for the 57 IA sector averages in the quarter with the average of the averages being -0.1% and 32 of the 57 being in a + or - 1% range. Only 9 sectors beat the IA Standard Money Market sector average which returned 1.4%.
- The IA India/Indian Subcontinent sector continued its strong run as the best returning sector average gaining 6.5%. The IA EUR High Yield Bond sector was second best gaining 3.5%, with all 4 High Yield sectors gaining over 1% near the top of the table. The IA £ High Yield sector was the laggard of the 4 gaining 1.1%, behind the IA Short Term Money Market sector average. At the other end of the table the theme was longer duration assets and small caps. The IA Infrastructure sector was the worst performer falling 5.4%, with the IA UK Index Linked Gilt sector just behind at -4.5%.
- Within the bottom 10 sector averages were the 3 IA Smaller Companies sectors of the UK, Europe and North America.
- There was a big divergence in UK Equity sectors in the quarter. The IA UK Smaller Companies sector average fell 2%, while the UK Equity Income sector gained 2.3%. The IA UK All Companies sat firmly in the middle gaining 0.8%.
- Turning to UK Bonds, much like in the equity space there was significant divergence depending on where you invested. The IA UK Index Linked Gilt sector average fell 4.5%, while the UK £ Corporate Bond equivalent rose 2.1%, beating the IA £ High Yield sector which also rose but by 1.1%. The IA £ Strategic Bond average rose 0.3% while the IA UK Gilt fell 0.9%.
- The IA Targeted Absolute Return sector rose 0.8%. On a 12 month view this sector average has gained 3.1%.
- The returns for the Mixed Asset IA offerings continued to be tight There was less than 0.2% between each with all losing ground.

Currencies

Major currencies relative to Sterling



Source: Lipper, 30.06.23 to 30.09.23, Percentage growth, total return.

Currencies

After a stunning run, Sterling weakened relative to other major currencies in the quarter. With central banks coming closer to (or reaching) the end of their

rate hiking cycles and growth and inflation rates being in sharp focus, volatility in currency markets at this juncture is an inevitability.

“ With the shock of COVID and all that came with it now in the past, it’s time to think about where we may go from here. Interest rates and inflation are at an interesting juncture so we’re undoubtedly about to see a difference in the characteristics of what leads the pack in the coming quarters. ”

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.

- The Orbis OEIC Global Cautious Standard Acc came close to achieving sector topping returns and low volatility in Q3 with a 100th percentile risk and 2nd quartile return for the 3 years within the IA Mixed Investment 20-60% Shares sector. A credible 21.6% return reflects strong recovery since the onset of COVID when the fund faced challenges – as did many.

Looking Ahead – and looking within...

- With the shock of COVID and all the changes in the investment landscape that came with it rapidly shifting from the rear-view mirror to the windscreen, it is a natural time to think about where we may go from here. Interest rates and inflation are at an interesting juncture, so while we have seen a changing of the guards in terms of consistent funds we are undoubtedly about to see a difference in the characteristics of what leads the performance pack in the coming quarters.
- The best and worst funds in the IA universe in this quarter, and what this represents, deserve more discussion. What makes a good investment is certainly a different thing depending on who you speak to with the appetite to do good, while also enhancing the value of hard-earned savings the ideal combination. However, there is a lesson in this quarter's winner and loser in that while intellectually the case for investing in specialist companies in the ever evolving solar space may feel like

the ultimate win, there is more money to be made in some instances in the incumbents who may be on a pathway to cleaner balance sheets and cleaner business'.

- India has been the surprise hit of 2023 so far, while its Chinese cousin has floundered. For years there has been a creative tension around the two countries as potential areas for investment with chaotic democratic India losing out to the structured, expansive and investment hungry China. While the latter licks its wounds having failed to live up to the post COVID boom hype, India has casually surged with investor interest heightened by the potential for an alternative exciting growth prospect from China.

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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