

The Chelsea Relegation Zone



Market volatility can sometimes bring opportunities for fund managers and, with the FTSE 100 having swung between 6072 and 5007 over the past few months, there have certainly been many opportunities for managers to beat the pack and outperform their peers. However, with 40 underperforming funds still lingering in the Relegation Zone since June, it shows that some birds are just never set to fly. 111 funds now populate the dreary depths of our list of consistent laggards, which shows that volatility can also be a manager's undoing. With 71 new entries, the September Relegation Zone now has a total of £20.34bn in underperforming assets.

Old news

Whilst the number of underperforming funds in the Relegation Zone has ballooned to 111, the total amount of underperforming assets has actually shrunk by over £5.5bn. This is due to the exit of some of the large constituents of the previous Relegation Zone. However, with 11 funds contributing in excess of £500m each, and the Prudential UK Growth fund still weighing in at over £2.3bn, the list is by no means 'lightweight'. It is always pleasing to wave goodbye to past members of this not so illustrious club, however, it is also with sadness that we are presented with old familiar names.

With seven entries in the Relegation Zone, and as the most numerous represented fund group, regular readers of the Relegation Zone will surely by now be intensely bored with the seemingly eternal presence of Scottish Widows/SWIP funds. It may surprise even Chelsea investors to hear that Scottish Widows/SWIP have had the most number of entries in the Relegation Zone, in every edition of Viewpoint since March 2009. This is disappointing, especially given that they have, over that time, had funds in almost every sector in the Relegation Zone. In the interest of fairness, however, it should be noted that Scottish Widows/SWIP have around 100 funds in the retail unit trust & OEIC universe, therefore the continual inclusion of their funds in our list should be viewed with this in mind.


How the mighty have fallen

Big names include Legg Mason's Bill Miller with his US Equity fund, and the M&G Global Leaders fund managed by Aled Smith. However, a number of prestigious fund management groups are also finding they have multiple entries. Legal & General and J P Morgan both have five entries, whilst Standard Life and Henderson both have four entries. It is also with disappointment that we see Standard Life's Karen Robertson represented twice, with her UK Equity Growth and UK Equity High Income funds. They have underperformed their three-year sector average by 11.06% and 9.26% respectively, however, we are maintaining both funds on a hold rating due to Karen's considerable experience and very long-term track record. Therefore, now may not be the best time to switch. Her cyclical stance has left her particularly exposed to recent weakness in the basic materials sector on fears over global growth, and her exposure to financials has also been a drag given the crisis in Europe.

Other notable inclusions in the Relegation Zone are Mark Lyttleton's BlackRock UK & UK Dynamic funds. Both have underperformed their sector average by more than 14% over three years, which has been largely due to Lyttleton's large-cap focus, amongst other factors. Again we maintain a hold rating on both of the funds, given Lyttleton's considerable experience and the argument that large caps may become a safe haven should economic events turn ugly, in which case one might expect his funds to fare rather better.

Learning lessons from Japan

We at Chelsea have watched with bemusement the continual false dawns for the Japanese equity market. It is therefore no surprise to see two trackers in the Japanese section of the Relegation Zone and only further highlights the need for good active management in order to negotiate volatile equity markets. This lesson may prove particularly poignant should the West slide into a sustained period of weak economic growth, where the need for a fund manager able to deliver superior returns by picking stronger sectors and stocks, will be essential.

In total, there are seven tracker funds in the Relegation Zone and we are strongly of the view that by simply buying the index, you are not in any way buying a balanced portfolio, due to the biased nature of indices, such as the FTSE 100 towards banks, mining and oil & gas companies. 

THE RELEGATION ZONE – THE 'DIRTY DOZEN'			
Largest funds in the Relegation Zone		Worst Performers	
	Fund size (millions)		% under-performance from sector average*
1st	PRU UK GROWTH	£2310.2	1st UBS ABSOLUTE RETURN BOND -36.72%
2nd	BLACKROCK UK DYNAMIC	£1289.0	2nd MFM TECHINVEST SPECIAL SITUATIONS -36.51%
3rd	SWIP MULTIMANAGER UK EQUITY FOCUS	£1088.7	3rd GLG GLOBAL EMERGING MARKETS -26.76%
4th	M&G GLOBAL LEADERS	£1054.9	4th MARLBOROUGH UK LARGE CAP GROWTH -26.39%
5th	HALIFAX UK FTSE 100 INDEX TRACKING	£1052.6	5th SVM GLOBAL OPPORTUNITIES -24.45%
6th	THREADNEEDLE ASIA	£916.8	6th ELITE LJ CAUTIOUS MANAGED PORTFOLIO -23.25%

*Based on three-year cumulative performance

	3 year % growth	Quartile position
UK ALL COMPANIES		
BlackRock Invest Mgrs UK Ltd Charishare Common Invest	3.58	3
BlackRock Invest Mgrs UK Ltd Charishare Restricted	2.62	3
BlackRock UK	-8.23	4
BlackRock UK Dynamic	-7.89	4
CF Canlife General	-2.03	4
CF Canlife Growth	-2.48	4
CF Cornelian British Opportunities	-6.63	4
CF Taylor Young Opportunistic	-13.84	4
CIS Sustainable Leaders Trust	-4.84	4
Clerical Medical FTSE 100 Tracker	4.19	3
Family Asset	0.37	4
Family Charities Ethical	-8.99	4
Halifax UK FTSE 100 Index Tracking	1.81	3
Henderson UK Tracker	3.48	3
Insight UK Dynamic Managed	-0.69	4
JPM UK Equity	-9.36	4
JPM UK Managed Equity	-1.39	4
Legal & General Equity	-11.20	4
Legal & General UK Active Opportunities	-5.43	4
Marlborough UK Large Cap Growth	-20.20	4
Melchior UK Opportunities	-2.51	4
Premier Ethical	-2.46	4
Prudential UK Growth	1.17	3
RBS FTSE 100 Tracker	4.17	3
Smith & Williamson UK Equity Growth	0.49	4
Standard Life UK Equity Growth	-4.87	4
SWIP Multi Manager UK Equity Focus	-1.36	4
Sector Average	6.19	

	3 year % growth	Quartile position
UK EQUITY INCOME		
CF Canlife High Income	0.96	4
EFA OPM Equity High Income	2.03	4
Epworth UK Equity	4.32	3
JPM UK Higher Income	4.09	3
JPM UK Strategic Equity Income	2.42	4
Marlborough UK Equity Income	-11.09	4
Neptune Quarterly Income	4.70	3
Scottish Widows UK Equity Income	-2.25	4
Standard Life UK Equity High Income	-0.99	4
SWIP UK Income	-3.35	4
UBS UK Equity Income	-8.96	4
Sector Average	8.27	

	3 year % growth	Quartile position
UK SMALLER COMPANIES		
Jupiter UK Smaller Companies	9.19	4
MFM Techinvest Special Situations	-11.96	4
Scottish Widows UK Smaller Companies	12.59	4
SWIP UK Smaller Companies	11.65	4
Sector Average	24.55	

	3 year % growth	Quartile position
STERLING CORPORATE BOND		
Architas MM High Income Portfolio	7.73	4
Barclays Sterling Corporate Bond	11.33	4
Legal & General (N) High Income	13.09	4
Sector Average	16.99	

	3 year % growth	Quartile position
STERLING STRATEGIC BOND		
Architas Multi-Manager Cautious Income	12.08	4
Sector Average	16.98	

	3 year % growth	Quartile position
EUROPE EXCLUDING UK		
Barclays Europe (ex-UK) Alpha	-15.78	4
Franklin Templeton Europe	-12.36	4
Halifax European	-8.63	3
Henderson European Value	-11.58	4
HSBC European Index	-7.13	3
Kames European Equity	-22.17	4
Legg Mason Continental European Equity	-16.88	4
Newton Continental European	-13.53	4
Standard Life European Equity Manager Of Managers	-8.94	3
Standard Life European Ethical Equity	-17.64	4
Sector Average	-4.74	

	3 year % growth	Quartile position
JAPAN		
AXA Rosenberg Japan	-10.85	4
Halifax Japanese	-1.60	4
HSBC Japan Index	-0.53	3
Scottish Widows Japan Growth	-1.29	4
Scottish Widows Japan Select Growth	-0.81	4
Standard Life Japan Equity Index Tracker	-3.76	4
Sector Average	8.15	

	3 year % growth	Quartile position
NORTH AMERICA		
Barclays US Alpha	-1.42	4
Kames American Equity	-13.23	4
Legal & General North American	1.35	4
Legg Mason US Equity	-12.15	4
Sector Average	8.69	

	3 year % growth	Quartile position
ASIA PACIFIC EXCLUDING JAPAN		
Legal & General Pacific Growth	25.43	4
Marlborough Far East Growth	21.52	4
Neptune Asia Pacific Opportunities	24.23	4
Threadneedle Asia	28.82	4
Sector Average	40.92	

	3 year % growth	Quartile position
GLOBAL EMERGING MARKETS		
Aberdeen Multi Manager Emerging Markets Portfolio	7.69	4
F&C Emerging Markets	14.23	4
GLG Global Emerging Markets	-3.86	4
Sector Average	22.90	

	3 year % growth	Quartile position
GLOBAL GROWTH		
Architas MM Diversified Share Portfolio	-7.33	4
Architas MM Global Equity Portfolio	-4.61	4
Aviva Global Return	-5.16	4
EFA New Horizon Growth	-2.88	4
Franklin Templeton Growth	-3.67	4
Henderson Global Care Growth	-0.13	4
Henderson Global Focus	-7.88	4
Jupiter Ecology	-5.03	4
Legal & General (Barclays) Worldwide Trust†	-0.62	4
Legal & General Global Growth	-1.83	4
M&G Global Leaders	-5.06	4
Martin Currie Global Alpha	-16.68	4
Premier Global Alpha Growth	-7.65	4
Sarasin EquiSar Global Thematic	-3.47	4
Schroder Global Climate Change	-0.10	4
SVM Global Opportunities	-18.49	4
Thesis Fulcrum Global Diversified	-4.04	4
Wesleyan International	3.10	3
Sector Average	5.96	

	3 year % growth	Quartile position
GLOBAL BOND		
City Financial Strategic Global Bond	2.60	4
EFA New Horizon High Income	5.27	4
JPM Global ex UK Bond	7.73	4
The 140 Investment Managers Broadway ICVC Income	17.16	4
UBS Absolute Return Bond	-11.28	4
Sector Average	25.44	

	3 year % growth	Quartile position
CAUTIOUS MANAGED		
Barclays Balanced Portfolio	-0.80	4
CF 71M AAP Balanced	7.64	3
CF 71M Sustainable Balance	-3.38	4
CF Walker Crisp Select Income	6.77	3
City Financial Multi Manager Income	0.27	4
COURTIERS Total Return Cautious Risk	-0.76	4
EFA Tactica Cautious Portfolio	0.92	4
Elite Hurlingham Balanced Portfolio	-8.75	4
Elite LJ Cautious Managed Portfolio	-14.83	4
F&C Blue	-4.56	4
Ignis Multi Manager Cautious	0.02	4
Insight Diversified High Income	-11.07	4
Natvest Income	2.53	4
Sarasin GlobalSar Cautious	-4.05	4
Thesis Optima Multi-Asset Strategy	-5.75	4
Sector Average	8.42	

Please read the Important Notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years.

† The management of the Legal & General (Barclays) funds is carried out by Barclays Wealth; Legal & General are responsible for the administration only.

All cumulative statistics % change, bid to bid, net income reinvested, three years to 1/9/2011.
Source: Financial Express Analytics. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies contained therein.

Past performance is not a guide to future returns.