

The Chelsea Relegation Zone



It may be a time-worn saying but never before in fund management has the following rung as true: “only when the tide goes out do you discover who’s been swimming naked” – this is how legendary investor Warren Buffet described the clarity of torrid market conditions.

Many of you will have noticed that when fund managers, are outperforming they love to talk about their relative returns. Peer groups, indices and benchmarks once surpassed will be wheeled out to highlight the merits of an outperforming fund. And, of course, this is how it should be, but only *if* fund managers are prepared to talk about relative returns during periods of underperformance. The unfortunate truth is, however, that a section of managers dive for cover when the going gets tough. The subterfuge employed by managers has been a tactic of ‘safety in numbers’ – the excuse that everyone has fallen foul of the credit crunch, and this is what accounts for disastrous performance, is beginning to sound like a broken record. Forgive us here at CFS, but there is a great chasm between posting losses of -5% and -40%. For example, over the three years the top performing fund in the UK All Companies sector, M&G Recovery actually gained 4.7%, while in the same sector, Relegation Zone victim Gartmore UK Focus, was down a derisory 44%. It is true that the market was struck by a whirlwind of unprecedented volatility – three-year numbers show the MSCI World, an index of global companies, is down by 2.26%, while the FTSE All-Share is down 12.4% over the same period. But it is not just the job of a fund manager merely to make returns in rising markets; they must also do their utmost to protect capital on the downside. Luckily the Relegation Zone is here to highlight those funds that failed to notice the wind changing.

Over £10 billion in drop-zone

The list of shame now houses 67 funds, which together amount to a staggering £10.2 billion of assets under management.

Sometimes it feels like poor funds are like grapes – they come in bunches. The following fund houses collectively have 16 entries into the Relegation Zone: GLG; Aberdeen; AXA Framlington and Scottish Widows. Scottish Widows has the inglorious honour of having the most funds in the Relegation Zone – a formidably awful 7.

GLG is an interesting case: despite having signed a host of top-drawer managers, following the recent integration of Société Generale with GLG, it has yet to announce what exactly these managers are to do and meanwhile it has a number of underperforming funds in need of a managerial shake-up. It is akin to Chelsea FC signing some world-class strikers and opting to leave them warming the bench.

Aberdeen’s high conviction multi-manager process may have worked in Asia under Hugh Young, but it has backfired badly in Europe and the UK. The investment house has two entries in the Europe Excluding UK sector (European Opportunites and European Growth); in the UK – their UK Growth fund has been relegated.

Small-Caps run out of luck

One of the major surprises has been the inclusion of award-winning fund manager George Luckraft. Luckraft was the victim of sustained underperformance due to his fund’s bias to small caps, a sector which has had a torrid time under the weight of the credit crunch. Unfortunately for AXA Framlington that old footballing manager adage springs to mind – “You are never too good to go down”. That said, his funds are performing better in the recent rally, so now may not be the best time to switch.

Dirty dozen

As you will have seen in the last issue of Viewpoint, even amid the Relegation Zone, there is a certain group that has been dubbed the Dirty Dozen. These are the worst of the worst – the six worst performing and the six largest funds in the Relegation Zone.

The Dirty Dozen

Dirty Dozen	Worst performers	% negative deviation from sector average*	Dirty Dozen	Largest funds in Relegation Zone	Fund size (m) – millions
1st	Thesis Unit Trust Mgmt Ltd	29.96%	1st	Scottish Widows Corporate Bond	£2531.5m
2nd	Legg Mason US Equity	29.10%	2nd	SWIP MultiManager UK Equity Income	£1044.4m
3rd	Gartmore UK Focus	28.42%	3rd	SWIP MultiManager UK Growth	£885.3m
4th	Rensburg UK Micro Cap Growth Trust	28.37%	4th	M&G Dividend	£441m
5th	Halifax Far Eastern	27.52%	5th	Investec Global Free Enterprise	£401.3m
6th	CF – Canlife UK Smaller Companies	27.23%	6th	AXA Rosenberg Global	£331.9m

*Based on three year cumulative performance

	3 year % growth	Quartile position	Status (NE*)
ASIA PACIFIC EXCLUDING JAPAN			
Halifax Far Eastern	11.55	4	~
Sector Average	39.07	2	
CAUTIOUS MANAGED			
AXA Defensive Distribution	-17.53	4	~
Premier Discovery Balanced	-15.16	4	NE
Thesis Optima Income	-12.7	4	~
Sector Average	-5.92	2	
EUROPE EXCLUDING UK			
Aberdeen European Opportunities	-17.22	4	~
Aberdeen European Growth	-17.39	4	~
AXA Rosenberg European	-16.93	4	NE
Henderson European Opportunities	-8.96	4	~
Legg Mason Continental European Equity	-18.03	4	~
Sector Average	-5.14	3	
GLOBAL BONDS			
Marlborough Global Bond	14.29	3	~
Sector Average	17.63	3	
GLOBAL GROWTH			
AXA Rosenberg Global	-15.22	4	NE
CF Sackville Growth Portfolio	-22.8	4	NE
Investec Global Free Enterprise	-16.81	4	NE
L&G (Barclays) MultiManager Global Core	-24.51	4	NE
Lincoln Global	-11.42	3	NE
Marlborough Global	-9.86	3	~
PMIS MultiManager Equity	-16.78	4	NE
Pru Global Growth	-14.48	4	NE
Scottish Widows Opportunities Portfolio	-13.66	4	~
Wesleyan International	-6.26	3	NE
Sector Average	-5.49	2	
JAPAN			
Scottish Widows Japan Select Growth	-26.46	3	NE
Sector Average	-19.79	2	
NORTH AMERICA			
CIS US Growth	-15.26	4	NE
HSBC American Index	-11.24	3	NE
HSBC American Growth	-15.55	4	NE
Legg Mason US Equity	-36.7	4	~
M&G North American Value	-28.97	4	NE
Stan Life Inv North American Manager Of Managers	-17.77	4	~
Sector Average	-7.6	2	



	3 year % growth	Quartile position	Status (NE*)
UK ALL COMPANIES			
Aberdeen MMgr UK Growth Pfl	-19.62	3	NE
Aviva Inv UK Growth & Value	-19.9	4	NE
CF Real Life	-23.01	4	NE
Family Asset	-25.91	4	~
GLG UK Active 350	-20.38	4	NE
GLG UK Growth	-33.78	4	NE
Gartmore UK Focus	-43.71	4	NE
Gartmore UK Growth	-32.6	4	~
Henderson UK Equity	-21.75	4	~
Insight UK Discretionary	-17.91	3	~
JPM Premier Equity Growth	-31.57	4	NE
Martin Currie UK Growth	-28.27	4	NE
Old Mutual Ethical	-31.24	4	NE
Singer & Fried UK Growth	-20.55	4	NE
Sovereign Ethical	-40.28	4	NE
Stan Life Inv UK Equity Manager Of Managers	-20.62	4	NE
SWIP MultiManager UK Equity Growth	-21.15	4	NE
Sector Average	-15.29	3	
UK CORPORATE BOND			
AXA Sterling Long Corporate Bond	-13	4	NE
Royal Bank of Scot Extra Income	-8.16	3	~
Scottish Widows Corporate Bond	-7.32	3	~
Thesis Unit Trust Mgmt Ltd Resolution Fixed Interest	-34.31	4	NE
Sector Average	-4.35	2	
UK EQUITY INCOME			
Allianz RCM UK Equity Income	-20.44	3	NE
AXA Framlington Equity Income	-37.21	4	~
AXA Framlington Monthly Income	-41.34	4	NE
EFA OPM Equity High Income	-27.17	4	NE
GLG UK Income	-29.16	4	~
M&G Dividend	-20.19	3	NE
SWIP MultiManager UK Equity Income	-23.04	4	NE
Sector Average	-17.89	3	
UK HIGH YIELD BOND			
Invesco Perp European High Yield	-4.99	3	NE
Marlborough High Yield Fixed Interest	-14.64	4	NE
Sector Average	-0.25	2	
UK SMALLER COMPANIES			
AXA Framlington UK Smaller Cos	-35.09	4	NE
Cavendish AIM	-25.42	3	NE
CF Canlife UK Smaller Companies	-45.1	4	~
Invesco Perp UK Smaller Companies Growth	-36.22	4	NE
Rensburg UK Micro Cap Growth Trust	-46.24	4	NE
Scot Wid UK Smaller Companies	-29.24	4	NE
Sector Average	-17.87	2	
STERLING STRATEGIC BOND			
AXA Sterling Strategy Bond	-18.48	4	NE
Baillie Gifford Corporate Bond	-13.35	4	NE
Royal Bank of Scot High Yield	-9.91	3	NE
Scottish Widows Strategic Income	-12.89	4	~
Sector Average	-3.38	2	

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.

*NE = New Entry

All cumulative statistics % change, bid to bid, net income reinvested, three years to 31/07/09.
Source: Financial Express Analytics.
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