Choosing Funds: is it the Singer or the Song?

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Before deciding which fund to invest in, check out the fund manager first. A fund manager's track record is the most important factor when a stockbroker or investment consultant makes asset allocation assessments about clients' investments.

This is in sharp contrast to the approach taken by private investors. When individual investors select funds, they are generally unaware of the faces behind the funds, and therefore choose largely on the strength of the brand, past performance and fund charges. Investors who choose to go it alone are generally at a disadvantage, since they do not tend to be familiar with the names of star fund managers. Neither do they usually have the time (or inclination) to follow their hiring, firing or retirement. That is why they end up judging funds on the wrong criteria. On the other hand, the reputation of the fund manager holds a big sway in an investment consultant's fund selection criteria.

Significantly, fund charges came 8th in the list of priorities of investment consultants polled on their fund selection process. Allow us a parenthesis about fund charges, the role of financial planners and "no-load" funds. The point was very cleverly hammered home by an American fund management company's CEO, at an MDRT meeting in Toronto. He compared financial planners to airline pilots: "You don't build the airplane; the fund management company does that. There are three things you want to do: 1) take off and land safely; 2) get to the right destination; and 3) get there on time."

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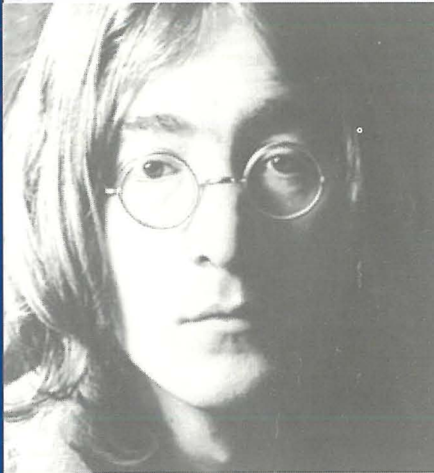
About so-called "no-load" funds, he quipped: "Let's say that you are in Los Angeles Airport, leaving for New York. There are two planes going to New York: one has a pilot, one does not. Hop on, it's your choice."



The Singer – John Lennon

Our process when selecting a fund, after having decided on the geographic and/or industry criterion, and the percentage allocation per sector, is to then double-check the short, medium and long-term performance of potential funds to be included in the client's portfolio. Then, specifically, to ensure that the same fund manager is still at the helm. As a matter of selection procedure, should it happen that a manager has left the fund – be it because of retirement or his having been head-hunted by another fund management group – we put all such funds on hold.

We generally find out about such moves from the intermediary press. We do not really expect the fund management company, who has just lost a star fund manager, to notify us. Understandably, the acquiring fund management company wastes no time in communicating their star acquisition. After such moves, advisers require a breathing space within which to look at the fund from a fresh perspective; to see what effect the new face at the fund management company has – especially on the fund's performance. This could lead us to move client assets away to another fund.

A recent major example is the retirement (now postponed to 2007) of Fidelity's superstar, AAA-rated fund manager, Anthony Bolton. A poll of U.K. advisers showed that the major beneficiary of Fidelity's loss (of Anthony Bolton) is the Artemis fund management group.

A more up-to-the-minute news item is that, effective 5th June 2006, Fidelity International has hired Nicky Richards away from Schroder Investment Management, as its new chief investment officer for European equities. One would be excused for possibly not being too familiar with Schroder's particular expertise in specific market niches. Possibly even more for asking: "Nicky who?" However, all European and U.K. equity analysts and portfolio managers will be reporting to ...her!

Incidentally, in the U.S., Fidelity International's parent, Fidelity Management & Research, has also been hurt by the sub-par performance of some of its largest, most visible funds in recent years. Could this be a consequence of their moving away from the "star" approach, and leaning towards the "team" approach?

When interviewing fund managers on their *modus operandi*, investment consultants differentiate between fund management companies which, instead of promoting their individual star managers, prefer to follow a team approach. In this way, the departure of a member of the team does not have an overbearing effect on the fund's performance or asset selection style.

Among such fund management groups are JP Morgan Fleming, Investec and Newton. With such firms, financial advisers feel that a change of one member of the choir will create much less concern than the departure of a *prima donna*.

We also follow the thinking of fund management groups as it relates to different market segments. Most readers will by now have become aware that, in investment terms, BRICs have nothing to do with property or "bricks and mortar" investments.

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Imagine there's no Heaven
It's easy if you try
No hell below us
Above us only sky
Imagine all the people
Living for today

Imagine there's no countries
It isn't hard to do
Nothing to kill or die for
And no religion too
Imagine all the people
Living life in peace

You may say that I'm a dreamer
But I'm not the only one
I hope someday you'll join us
And the world will be as one

Imagine no possessions
I wonder if you can
No need for greed or hunger
A brotherhood of man
Imagine all the people
Sharing all the world

You may say that I'm a dreamer
But I'm not the only one
I hope someday you'll join us
And the world will live as one

The Song – Imagine

Given the tremendous performance of – and clients' exposure to – emerging markets, BRICs has become the acronym for Brazil, Russia, India, and China which, as we write, are up, so far this year, as follows: Brazil – 38%, Russia – 53.2%, India – 31.5% and China – 24.7% (in U.S. Dollar terms).

The statistics on India are certainly impressive with a rise in the Sensex index of 380% in the last 3 years, thus making it one of the most expensive markets in Asia. In fact, Julian Thomson, head of global markets at Threadneedle Investments, believes that India should be avoided at present in anticipation of an imminent correction. At First State, the fund has halved its exposure to India and the Asia-Pacific region as a whole.

About emerging markets in general, Justin Urquhart Stewart of Seven Investment Management, expresses some serious concerns, and has trimmed back his weighting in India. However, he still prefers India to China. The difference between the two nations is that India's is a young population, whereas China's is an ageing one.

On the other hand, Nick Smith of Allianz Global Investors, believes that the worries may be over-egged because, on a P/E basis, India is only marginally higher than the average across Europe. His view: "There could be a correction around the corner, but our argument is about the long-term story in India."

In developed markets, F & C (Foreign & Colonial), which has £131 billion of assets under management, said in mid-April that it is no longer bullish on equities and has moved to cut its risks. F & C is currently overweight in U.S., Japanese and Continental European stocks. It is neutral on British equities, and underweight in emerging markets and Pacific ex-Japan equities.

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