Fund Watch

Q4 2020

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Telephone calls may be recorded.

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 31 December 2020

This quarter's report includes the following analysis:

- **The BMO 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 39 IA sector averages.
- **Risky Business** – a look at the leading funds for combining first class longer-term returns with the lowest levels of volatility.

We analyse thousands of funds each quarter – in Fund Watch we highlight the elusive few that manage to outperform on a consistent basis.

Rob Burdett, co-head of BMO Multi-Manager Solutions

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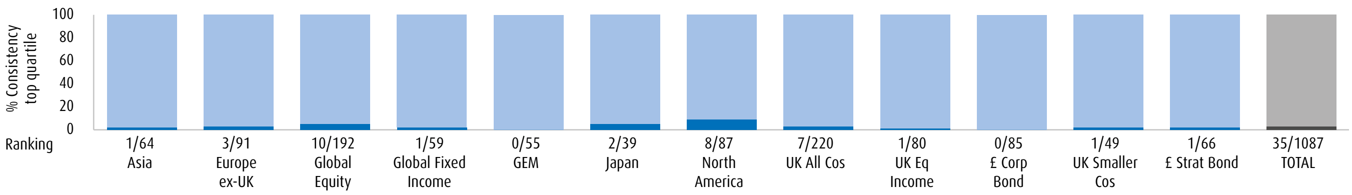
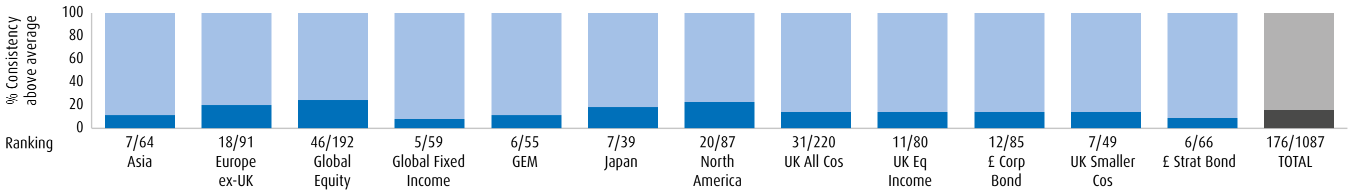
Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and you may not get back the original amount invested.

The BMO MM Consistency Ratio

Top quartile performance rolling 3 years: 3.2%



Above average performance rolling 3 years: 16.2%



Source: Lipper, 30-Sept-20 to 31-Dec-20, 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 those consistently top quartile. In the 12 main sectors researched, there are currently 1,087 funds with a 3-year track record.

- The BMO MM Consistency Ratio for top quartile returns over three years (to the end of Q4 2020) fell to 3.2% (4% last time) with 35 of the 1,087 funds achieving this feat. This ratio was within the usual historic range of c.2-4%.
- The IA North American sector was again the most consistent for top quartile returns with 9.2% of funds making the cut (this number has been high for the whole of 2020). It was followed by the IA Global Equity and IA Japan sectors, which had 5.2% and 5.1% of funds making the grade respectively. The IA £ Corporate Bond and IA Emerging Markets sectors failed to deliver any funds that achieved this level consistency, with five of the IA sectors having just 1 fund achieving the feat.
- Lowering the hurdle rate to simply above median in each of the last three 12-month periods saw 176 of the 1,087 funds delivering above median returns consistently. This means this less demanding ratio fell to 16.2% from 17.5%.
- All 12 main IA sectors contained funds that met the less demanding above median consistency hurdle. The most consistent sector on this measure was the IA Global Equity sector with an impressive 24% of funds performing above median for 3 consecutive years. The IA North American and IA Europe ex UK sectors were the next best with 24% and 19.8% respectively achieving the target, with the IA Global Bond Bond sector the least consistent with 8.5% of funds achieving above median consistency hurdle.

BMO MM comment

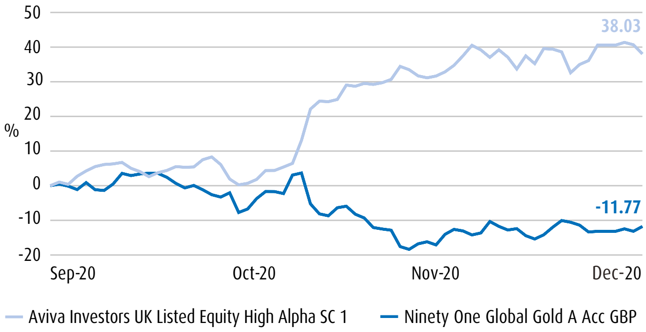
- It comes as no surprise that consistency remains elusive in such unusual times. What is interesting to observe is the composition of the funds that are popping into the universe, and also those popping out.
- It is true that the thunderous march of growth and large cap tech that is such a heavy influence on the US market (and therefore global indices too) in the earlier months of the year has meant the 12 month rolling above average consistency figures are dominated by US and global funds, but the presence of passive vehicles in these tables is dwindling.
- Q4 saw a significant rotation into risk assets and change in the leadership in markets with recovery beneficiaries taking the baton and setting off at quite a sprint. There is much ground to make up however and to labour the analogy, this is not going to be a smooth path. The fleet of foot would seem to have an advantage from here it would seem.

Tops and bottoms

Identifying the best and worst performers of all funds in the quarter across all 39 IA sectors.

- The £162m Aviva Investors UK Listed Equity High Alpha fund run by David Cummings took centre stage in the return table in the quarter with a stunning performance for the 3 month period. A surge in unloved UK asset prices benefited the fund which has a skew to economically sensitive areas of the market.
- The £281m Ninety One Global Gold fund suffered a poor quarter as the recovery in markets following the approval of a covid vaccine poured water on the case for Gold as a safe haven asset. Despite being at the bottom of the IA universe for Q4 the fund run by George Cheveley gained over 23% for 2020 as a whole placing it at 10th percentile in the IA Specialist sector – one of 7 funds in the 124 eclectic fund universe to be above average in the rolling periods to the end of 2020.

Aviva Investors UK Listed Equity High Alpha SC 1 v Ninety One Global Gold A Acc GBP



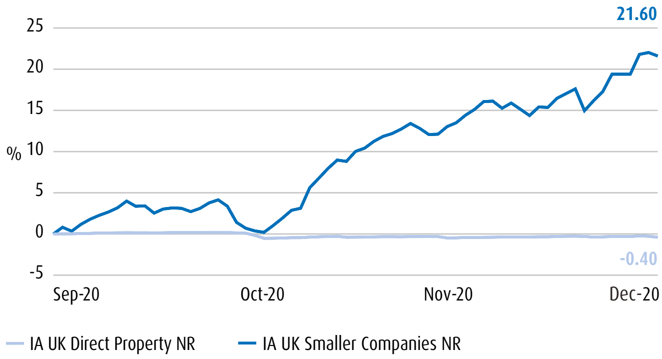
Source: Lipper, 30-Sept-20 to 31-Dec-20, percentage growth, total return.

Sector skews

Identifying the best and worst performers in the quarter across all 39 IA sectors.

- All but 2 of the 39 IA sectors made positive ground in the fourth quarter, continuing the gradually improving mood since the lows of March. The figures for 2020 as a whole make for interesting reading as 6 IA sectors are still in negative territory – 4 of these being UK asset focused.
- The IA UK Smaller Companies sector topped a table of IA sector averages gaining 21.6%, with the table laggard being the IA UK Direct Property sector – a reflection of the expected future fortunes in a post covid world.
- Of the UK equity sectors as mentioned – the IA UK Smaller Companies sector was the best performer. This stunning performance has dragged the sector average to a positive return of 7.3% for the year as a whole. In contrast the IA UK All Companies sector is still underwater for the year to the tune of 6.3%, though this too bounced strongly in Q4 gaining 15.4%. The IA UK Equity Income sector gained 15.6% for the quarter but is also yet to make up for lost ground for 2020 as a whole where it is still down 10.8%.
- It was a positive quarter for corporate bond sectors with all averages making positive ground. The IA £ High Yield sector led gaining 6.4%, with the IA Strategic Bond fund returning 3.8%. The IA £ Corporate Bond fund gained 3.3% in the quarter.

IA UK Direct Property NR v IA UK Smaller Companies NR



Source: Lipper, 30-Sept-20 to 31-Dec-20, Percentage growth, total return.

- The IA UK Gilt sector just eeked a positive return of 0.06% in Q4. The surge in the early months of the year resulted in a 9% return for the year however. The IA index Linked sector rose just 0.14% in the final quarter of the year. The 2020 return was a staggering 12%. The IA Global Bond sector returned 1.1% and 5.4% respectively in comparison for the quarter and year end.

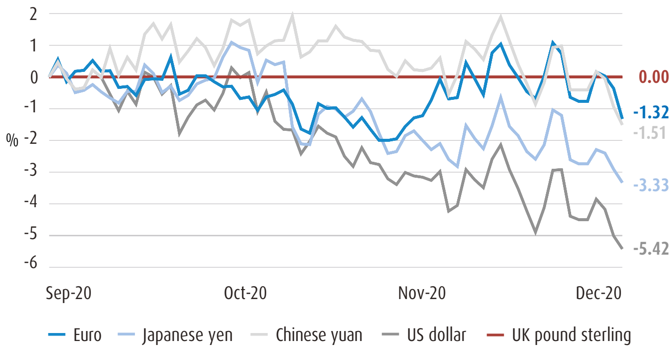
Sector skews (continued)

- The IA Targeted Absolute Return sector gained 4.3% in the quarter. In the year to date the sector has now gained 2.9%.
- Looking at the Mixed Asset IA offerings, the IA Mixed 40-85% Shares sector was the strongest performer rising 8.1%. The IA Mixed Investment 20-60% Shares returned 6.8% ahead of the 4.2% gain from the IA Mixed Investment 0-35% Shares.
- The IA Global Equity sector rose 9.5% against a return of 8.9% for the IA Global Equity Income sector

Currencies

- As predicted Q4 2020 was a reasonably volatile one for Sterling with the end result being a positive one with a resolution to Brexit being reached. The bigger story sat with the dollar that finally succumbed to the talk of weakness as the country's finances came into focus alongside continued covid misery and political sabre rattling as we prepare for the transition from a Trump to a Biden administration.

Currencies relative to sterling



Source: Lipper, 30-Sept-20 to 31-Dec-20, Percentage growth, total return.

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Kelly Prior, Investment Manager

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 Q4 2020, 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 to be becoming ever more elusive. The Comgest Growth Europe ex UK Fund came close achieving 98th percentile risk, and 4th percentile return however. There were no funds with top decile returns and bottom quartile risk over the three years to the end of the quarter. A simplistic observation could be that you have been able to make good returns in these years, but you may have had to weather more volatile performance to achieve it. The middle ground is becoming a crowded place – to achieve long term excellence patience is a necessity.

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Kelly Prior, Investment Manager

Looking Ahead – 2021

- "A vaccine would certainly shake things up from here. Cyclicals for Christmas anyone?" was my sign off last quarter. Santa must have been listening.
- It would be foolhardy to assume that all is rosy in the garden however. With a 5 week lockdown now in place and COVID case counts rising rapidly we face an uncertain month or two. As is regularly mentioned in our team discussions, vaccines don't end pandemics, vaccinations do and there are undoubtedly challenges to be faced here.
- Markets are a discounting mechanism and with such an unclear outlook are likely to remain newsflow rather than fundamentals driven. We are hopefully closer to the end than the beginning of the covid dominated era, and there is clearly pent up demand ever building.
- Oh and Brexit got done. It is astonishing to think that such a significant event is something of a sideshow but what is clear is that UK assets do have some ground to make up relative to the rest of the world. But while the headlines remain dominated by covid this may remain the case for some time.

Continued

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.