News

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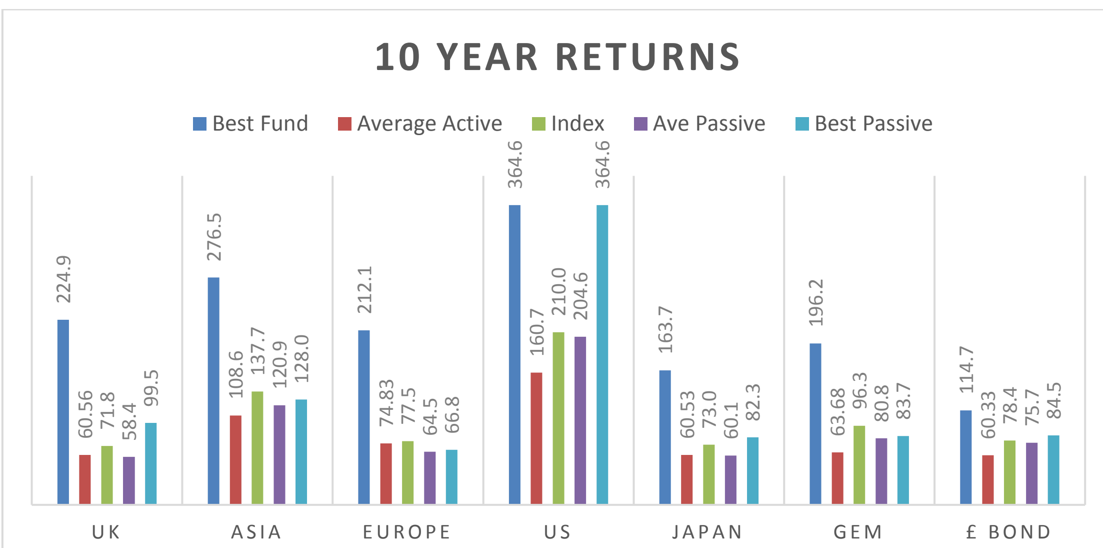
BMO Global Asset Management Multi-Manager research highlights long-term performance of active and passive funds across major markets

- *Top performing active managers have delivered three times their index benchmark over 10 years*
- *First risk targeted funds in the UK celebrate 10 year anniversary*

27 July 2017: Research from BMO Global Asset Management's Multi-Manager team reveals there are distinct markets where the probability of active funds outperforming the index over the long-term is greater, while there are other markets where it has proven more challenging to generate alpha.

Research from the team - co-managed by Rob Burdett and Gary Potter - shows of the seven popular sectors within the Lipper Global universe[1], the top performing active managers have delivered as much as three times their index benchmark over 10 years; although the index has tended to beat the average manager year by year. With the exception of the US, where the best performing fund over the past 10 years was a tracker, active funds were significant outperformers. In the UK sector, the best performing active fund outperformed the index by a multiple of 3.1x.



[1] The 7 Lipper Global Sectors analysed were: Equity UK, Equity Asia Pacific ex Japan, Equity Europe ex UK, Equity US, Equity Japan, Equity Emerging Markets Global and Bond GBP Corporates.

Rob Burdett, co-head of multi-manager at BMO Global Asset Management, commented: "Passives have undergone exponential growth over the last 10 years, with the number of funds in the major global Lipper sectors having increased by 400 per cent. This growth has increased the influence of passives on the average fund returns. Nonetheless, our research shows that a hybrid investment approach of active and passive funds over the long-term means investors can navigate different market conditions. Since the launch of the F&C Lifestyle fund range 10 years ago, we have invested in a variety of active fund managers which have delivered outperformance for our portfolios, particularly those managers investing in Emerging Markets, Asia, UK and Europe."

Number of index funds rockets, but be aware of the differential in performance

There are 1,691 funds registered for sale in the UK within the seven popular sectors within the Lipper Global universe, of which 343 are passive. A fifth of these passive funds (21%) existed 10 years ago, with the Equity Emerging Markets sector experiencing the highest percentage of growth in the number of funds, increasing from two to 49 today.

However, over ten years, the research showed there are large differences between the performances of index funds. For example, the difference between the best and worst UK passive fund ranges between 99.5% and 18.3%, due to choice of index benchmark, charges, dividend policy, gearing, currency and tracking methodology.

UK's first risk targeted fund range celebrate a decade

Coinciding with this analysis, the F&C Lifestyle fund range – the UK's first risk targeted funds – have reached their 10 year anniversary. Aligned to investors' attitude to risk, the asset allocation and volatility constraints of the five funds are designed to align with client risk profiles three to seven on Distribution Technology's Dynamic Planner. Through having the ability to tilt the asset allocation of the portfolios by five per cent in, the team has the ability to under and overweight markets globally through investing in active and passive funds. The funds are managed by the Multi-Manager team at BMO Global Asset Management, co-headed by Rob Burdett and Gary Potter.

Paul Green, investment manager in the Multi-Manager team at BMO Global Asset Management, said: "The F&C Lifestyle fund range was launched 10 years ago with the premise of targeting a specific level of risk in line with the financial circumstances of investors. Demand for risk targeted funds shows no sign of abating as investors increasingly seek funds that can invest across multiple asset classes and markets in cost efficient way. Our fund range is testament to this, having amassed £915m in assets over the last decade."

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All data referenced is as at end of 2016.

Past performance should not be seen as an indication of future performance.

The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Views and opinions expressed by individual authors do not necessarily represent those of BMO Global Asset Management.

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About BMO Global Asset Management

BMO Global Asset Management is a global investment manager with offices in more than 25 cities in 14 countries, delivering service excellence to clients across five continents.

Our four major investment centers in Toronto, Chicago, London and Hong Kong are complemented by a network of world-class boutique managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd., and Taplin, Canida & Habacht, LLC. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

BMO Global Asset Management is a part of BMO Financial Group, a highly diversified financial services provider based in North America with total assets of CDN $719 billion, as of April 30, 2017, and over 45,000 employees. BMO Wealth Management has worldwide assets under management of CDN $430 billion as of April 30, 2017.