Weekly Commentary 21B – June 2023

The Performance of Discretionary Fund Managers

A recent article in the Financial Times reaffirmed something I have known for a long time. The writer of this opinion piece, Stuart Kirk, wrote it on 2 June.

The key conclusion is something I have already known very well for years. It basically says that discretionary funds don't perform well. The whole fund management industry that pushes discretionary funds is a sham. So I agree with Mr Kirk, and I will let you read his article yourself.

Active management is a sham — no wonder my returns are suspect

I'm a hypocrite for deriding stock pickers but choosing my own funds

By Stuart Kirk, Financial Times Opinion Piece, 2 Jun 2023

OK readers. We've been together for six months now and if any of you still have your money in an active fund — you know, where you actually let portfolio managers choose things all on their own — I haven't done my job.

There is no excuse for it. Actually, there's one. If your manager says: "I am privy to inside information and am willing to go to jail to make you rich," then of course you pretend not to hear and stay invested.

Otherwise, let's remind ourselves of active management's diabolical record. My favourite place to start is the annual persistence scorecard by S&P Dow Jones Indices. It not only dismisses stock pickers, but also the industry of ranking them.

The latest report for 2022 came out last month. As usual, it showed that the majority of US large-cap managers trailed the S&P 500, this despite an unusually wide spread of returns between sectors and between stocks, which should have made it easier to outperform.

Plenty of managers beat the index, sure. But was it skill or luck? If the former, you would expect persistent outperformance. The good ones would keep winning year after year. Alas, this was not the case. It never is.

Take whatever period or category you wish. For example, of the managers in the top quartile two years ago, none was in the top quartile for the next two years. Even of those in the top half in 2020, only 5 per cent could stay there.

Stuart Kirk's holdings, June 2 2023 Assets under management (£) Weighting Vanguard FTSE 100 ETF 120,953 27% Amundi MSCI Europe Banks ETF 53,911 12% iShares MSCI EM Asia ETF 48,155

11% Vanguard FTSE Japan ETF 52,410 11% Vanguard S&P 500 ETF 52,609 11% iShares $ Treasury 1-3 Years ETF 97,337 22% iShares $ Tips ETF 23,952 5% Total 449327 Any trades by Stuart Kirk will not take place within 30 days of being discussed in this column

How about small-caps? Those guys always boast of the chief executives on speed dial or how many company visits they do. Again, only a third of them were among the top 50 per cent of managers in the past five years having achieved it in the previous five.

This lack of persistence is across regions and asset classes. I remember as a consultant reaching the same conclusion for an asset management client who was buying a rival. Don't overpay for the hot funds, we advised — they will soon fade.

Yet how many of us are sold products based on quartile performance? The whole ranking system is nonsense. Worse, it is usually the case that a majority of funds on offer are trailing their benchmarks anyway.

For example, looking at global equity managers for the past 10 years (long after I was one, ahem), only 380 of them out of the 1,000 monitored by Refinitiv Lipper beat their respective indices in any year on average.

And exactly like asking a 1,000-person crowd to flip a coin and for everyone who gets heads each time to sit down, guess the number of managers who outperformed in every year for the past decade? Just one. It was random, in other words.

Even over rolling five-year periods, a timeframe one would think allows for style biases and mistakes to be rectified, only 260 managers could outperform their benchmarks on average. Over the whole ten years barely 200 could.

Spookily, almost exactly the same proportion of the 331 global bond managers also tracked by Refinitiv Lipper beat their indices over five and 10 years.

Hopeless, the lot of them. And good luck picking the winners in advance. Especially as your adviser would have pushed you into a top-quartile fund — the exact opposite of what you should have done.

Remember also these numbers flatter due to survivorship bias. They only include funds that were launched since 2013 and still active on April 23 this year. Hundreds of truly dreadful funds would have vanished over the period — mostly due to poor performance.

No wonder index products continue to gobble active ones for breakfast. After growing at 15 per cent annually for more than a decade — three times faster than traditional funds — ETF assets in Europe and America reached $7tn at the end of last year.

I've owned Japanese equities for so long that the 20 per cent rally since December merely feels owed to me Stuart Kirk But active management isn't only about individual shares and bonds.

All investing requires choice. I'm being illogical, therefore — if not a complete hypocrite. How come I spurn everything but index funds but happily make my own allocation decisions between asset classes and regions?

It's impossible to defend, frankly. But at least I am reinforcing the case against active management with my returns. Only a few weeks ago my portfolio was worth £460,000. Now it's back to £449,000 — just 1 per cent above where it was when I wrote my second column in November.

No, it doesn't make me feel any better that the average hedge fund is also flat over the past 12 months, according to Preqin data. Nor that all the faffing I had to do to move my pensions into a self-invested personal pension (Sipp) kept me in cash too long.

In fairness, the portfolio is mostly performing how I expected it to. Since the end of March I've made an enjoyable 7 per cent gain from the European bank punt and my new S&P 500 fund is up 5 per cent over the same period.

Meanwhile, it's always nice to front-run Warren Buffett. Trouble is I've owned Japanese equities for so long that the 20 per cent rally since December merely feels owed to me. I was also pleased with my contrarian punt on UK stocks until recently. Now the FTSE 100 has popped into the red again for the year.

As for the Treasury and inflation-protected bond funds, sure, they are both down since I bought them two months ago. But they are doing their job. The former moves in the opposite direction to my US shares and the latter provides a hedge in case inflation goes mental.

As for those bloody Asian stocks — the bane of my life — that's our topic for next time.

The author is a former portfolio manager.

The findings of Mr Kirk are not surprising at all. It has long been established that stock pickers cannot beat the indices/benchmarks against which they are measured. That is also why I personally invest only in ETFs, outside of the probability-based Asia Income Fund. This gives me the opportunity to talk a bit about the latter, which has, unlike all the products distributed by private banks and such other "wealth managers", been quietly outperforming all the big boys who boast of superior talent-based approaches. The Asia Income Fund does nothing like that, and patently acknowledges that it does not use superior investment talent, employing a fintech system that really does not depend on human traders.

This mechanical, systematic and computer driven approach has depended on the inevitable outcomes predicted by probability theory, and operates within a very well defined risk management framework. It has worked out very well. The fintech that has put it all together has produced a result quite different from the findings described in the FT article above. That makes it quite outstanding, among its peers, if in fact there are peers. The returns have been very consistent, with net returns to investors above 15% per year every year in the five years plus that it has been in existence. And it has never suffered a monthly loss ever.

Here is a brief description of the product from the fund manager, Fleur Capital Pte Ltd, which is regulated by the Monetary Authority of Singapore:

AIF Factsheet

ASIA INCOME FUND

FUND TERMS

Type	Singapore VCC Sub Fund
Status	Notified as a "Restricted Scheme" with MAS on its CISNET platform https://eservices.mas.gov.sg/cisnetportal/jsp/list.jsp
ISIN	SGXZ71929806
Fund Size	US$76 mil (Apr 23)
Min Investment	US$500,000
Tenure	3+1+1 years
Target Return	15% pa (net of fees)
Distribution	Monthly
Mgt Fee	0.3% pa
Profit Share	30%
Facility Fee	US$100 per US$15,000
Legal Counsel	Rajah & Tann
Tax Adviser	Ernst & Young
Fund Manager	Fleur Capital (S) Pte Ltd https://eservices.mas.gov.sg/fid/institution/detail/1872-FLEUR-CAPITAL-S-PTE-LTD

Date: May 2023

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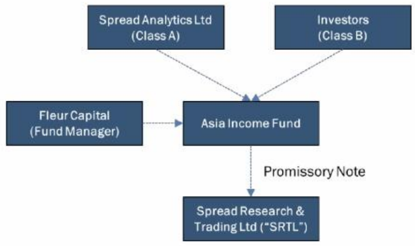
FLEUR CAPITAL
富域资本

STRATEGY

Asia Income Fund ("AIF") aims to provide investors with regular income through investing in promissory notes issued by its investee, which operates and manage a hedged forex trading strategy. AIF targets to achieve a no-loss trading outcome.



FUND PERFORMANCE

Figures for the period from Jan 2020 to Feb 2022 are based on proprietary monies before the inception of the AIF.

Important Notice

If you are reading this Commentary, have not benefitted from the performance of the AIF, and would like to meet the principals at the Asia Income Fund to explain how they use fintech to beat the market consistently, unlike in the general case tracked by the Financial Times, then just sign up for it.

By:

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Fintech Entrepreneur, Money Manager and Blogger

Un-Influencer in a World full of Hubris