

The awful truth about fund managers

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Q: Out of 175 managers, how many return a consistent above-average performance? A: Eleven. Paul Farrow looks at a jaw-dropping statistic

Shocking new figures confirm the suspicions of many private investors: the vast majority of fund managers are unable to deliver acceptable returns for more than short periods.

When Citywire, the financial publishing and data group, looked at how many managers have achieved above-average returns in each of the past five years, they came up with just 11 names - or six per cent of the 175 fund managers who have been in the business long enough to qualify for inclusion on the list.



Nowhere near sorted: only six per cent of fund managers are reliable

Only six managers made the grade in the UK All Companies sector, a further two in each of the US and European sectors and just one in the specialist sector. Even worse, not one fund manager in the UK Equity Income sector passed what Citywire calls its consistency test. Managers of Far East and Japanese funds drew a similar blank.

The number-crunchers looked at the performance achieved by each manager over the period rather than that of the funds themselves. In other words, the individual track records related to any funds run by the same manager in a given sector over the five years.

Some of the select band to pass the consistency test are well-known. Anthony Bolton, the highly regarded manager of Fidelity's Special Situations fund, is up there, for instance. So is Philip Gibbs, who has enjoyed a runaway success with Jupiter's Global Financials fund in recent years.

Two well-known New Star managers also figure among the elite: Patrick Evershed (Select Opportunities) and Richard Pease (European Growth).

But many of the rest are likely to be unknown to all but a few. Many run obscure funds which, while they may have been around for a while, have, to date, largely remained the secret preserve of the more sophisticated investor. This is because they work for investment boutiques - small fund management groups that may be unable to afford to market their funds or, more to the point, are more likely not looking to court publicity.

Andrew Green , GAM UK Diversified

Andrew Green reckons he would have been a church pastor had he not become a fund manager. A private man who avoids the media like the plague, Green learnt his trade under the tutelage of Nils Taube, another legendary fund manager.

A contrarian investor, Green shuns fashionable stocks and sectors and pays little attention to index and sector weightings. He seeks out shares that look cheap because they have been dragged down with the rest of the sector.

Such is his flexible approach, at one stage last year just 65 per cent of the GAM UK Diversified fund was actually invested in UK shares. People who invested £1,000 five years ago have more than doubled their money to £2,121 compared to the FTSE All-Share index which fell by 13 per cent over the period.

Mark Slater, MFM Slater Recovery

Mark Slater's father, Jim, is the legendary stock-picker bankrupted in the secondary banking crisis of the early 1970s and who wrote *The Zulu Principal*, a guide to investing based on the premise that superior knowledge is power.

Mark Slater set up Slater Investments in 1994 and he carved out a reputation running the Slater Growth fund on behalf of Johnson Fry before the fund management company was acquired by Legg Mason, the US fund manager in 2000.

Today he runs Slater Recovery Growth for Marlborough Fund Managers. The fund focuses on individual UK stocks with no reference to sector or index weightings, and has the ability to hold large amounts of cash. Slater clearly has faith in his own abilities; he and his colleagues have invested £3m of their own money in the fund.

Bob Brown, Matrix Quantock UK Growth

Bob Brown, 57, is not your archetypal fund manager. For one thing, he is frequently seen wearing shorts in the office and, for another, he buys most of his shares on the primary market, when they are first issued, rather than the secondary market.

During his 30 years in fund management, Brown has established a long list of City contacts willing to offer him blocks of stock when they are sold for the first time. This, for instance, could be when company directors or other shareholders sell large holdings or when there is an IPO.

The Quantock fund invests in an equal split of FTS100, FTSE250 and small cap stocks. Over the past five years the fund has risen by 25 per cent. Brown manages the fund on behalf of Matrix Securities.

Paul Mumford, Cavendish Opportunities

A former stockbroker, Paul Mumford is another with decades of experience - in his case, more than 30 years. Mumford first came to prominence in the early 1970s when he invested £2m on behalf of the Lewis brothers - the men behind the Chelsea Girl and River Island clothes chains. Five years later, the investment was worth £8m.

Cavendish Opportunities, which he has run since 1988, invests in smaller companies, recovery plays and other unloved stocks. One thousand pounds invested in the fund five years ago would now be worth £1,501.

Chris Rice, Cazenove European Growth

While higher-profile European managers such as Roger Guy (Gartmore) and Richard Pease (New Star) have grabbed the headlines over the past five years, Rice has been quietly getting on with delivering the goods.

His achievements did not go completely unnoticed, however. Cazenove poached Rice, along with several HSBC colleagues at the back end of 2002 to launch the group's consumer fund management arm.

When the Telegraph asked a group of investment experts to pick a football-style fund management "dream team" last year, Rice was chosen for his ability to adapt his investment style to market conditions. He tended to be overlooked by investors despite his "rewarding" performance, they said.

Gil Knight, Gartmore US Opportunities (formerly Govett US Opportunities) and Gordon Grender GAM North American Growth

When it comes to picking a US fund, British investors have very little choice. Decent funds are at a premium, yet the Gartmore and GAM funds stand head and shoulders above the rest.

Gil Knight manages the Gartmore fund from the US, which seems to give him an advantage over rivals based in the UK.

The fund is aggressively managed and, as with most "star" managers, flexibility is paramount for Knight. He is not afraid to hold up to 10 per cent of the fund in cash when necessary - the maximum rules will allow.

Grender, meanwhile, like his GAM colleague Andrew Green, spent his early career at Kitcat & Aitken, when he too worked alongside Nils Taube. He has

studied the US stock market for almost three decades and if there's nothing worth buying, he simply doesn't buy. A £1,000 outlay in his fund five years ago would now be worth £1,459.