

The Chelsea Relegation Zone



Since we drew up the last list of shame the markets have climbed ever higher: since publication in September '09 the FTSE 100 is up 10.61% and the MSCI global emerging markets index is up 12.81%. In the frothy conditions of the last four months where opportunities have abounded, it would appear counterintuitive to expect to see our list of shame grow longer, yet a whopping £2.9bn of assets have been added to the Relegation Zone; that amounts to 13 extra funds – a 19% increase. Unfortunately, it appears that some fund managers find it just as tough, if not tougher, to keep apace with their peers when markets are rising.

Yet again the Relegation Zone is dominated by Scottish Widows, landing it the inglorious honour of topping the list for the most entries – a shameful seven.

The 'Dirty Dozen' (below) names and shames the worst performing and largest funds within the Relegation Zone. It comes as no surprise that Scottish Widows makes up three of the dozen. The worst performer is the UBS Absolute Return Bond fund. This fund, instead of achieving a positive return whatever the market condition, as absolute returns are supposed to, managed to fail spectacularly, trailing its sector average by a whopping 59.18%.

An ethical dilemma

Principles do not always lead to performance: certain sectors that are screened out by ethical funds will often lead the market and by definition cause ethical funds to underperform. One area that drove the market higher over the last year was miners – this provided a major headwind to SRI approaches and was a major contributing factor to the anaemic performance delivered by ethical funds. The figures make for stark reading: 25% of the UK All Companies funds and UK equity funds in the Relegation Zone are ethical funds.

Falling from grace

For varying reasons we have seen some previously stand-out performances reduced to underperformance. Four years ago JP Morgan soft-closed their Dynamic fund to the public, such was its popularity. The trouble started when its manager Ajay Gambhir, left in 2007. It was stated that it was a team process, but as we see time and time again fund management is no easy science and the team have since been unable to replicate Gambhir's success. This case in point highlights how much a good active manager can bring to the table.

The machines over at Artemis are acting up. It seems a long time ago now since the boutique management group launched Smart Garp. The system: Smart (Sentiment, Momentum, Analyst Revisions [of earnings] and Top-down [Economic trends] Garp (Growth At Reasonable Price) is a complex system that aims to do something straightforward: it helps Artemis hunt down companies on low valuations with good growth prospects that everyone else hates. Unfortunately, there are two Smart Garp funds; European Growth and Capital that have qualified for the red zone.

From its launch Smart Garp appeared to be heralding a new dawn in active management – the ultimate analysis tool; indeed its European Growth fund had five years of unblemished top quartile performance. But by mid-2008, the system had begun misfiring, delivering a poor return to its investors, and as this underperformance began to deepen relative to its peers a series of changes were made to the system. Unfortunately the changes made have not stopped their European Growth vehicle careering into the red and it is with regret we see a previously top-performing fund plunge into the drop zone.

Corporate bonds enjoyed a fantastic time in the year to date, but again there were some laggards; AXA will be disappointed that

both their Long Corporate Bond fund and Corporate Bond fund find themselves in the list of shame. However, the absence of any strategic bond funds further illustrates how these go-anywhere funds give managers greater flexibility and allow them to address underperformance.

THE RELEGATION ZONE – THE 'DIRTY DOZEN'					
Largest funds in the Relegation Zone		Fund size (millions)	Worst Performers	% negative deviation from sector average*	
1st	SCOTTISH WIDOWS UK GROWTH	£1578.9m	1st	UBS ABSOLUTE RETURN BOND	59.18
2nd	SWIP HIGH YIELD BOND	£1117.5m	2nd	LEGG MASON JAPAN EQUITY	32.57
3rd	CBF CHURCH OF ENGLAND INVESTMENT	£763m	3rd	NEW STAR UK GROWTH	32.22
4th	SWIP MULTIMANAGER UK EQUITY GROWTH	£723.9m	4th	SOVEREIGN ETHICAL	30.51
5th	F&C STEWARDSHIP GROWTH	£508.6m	5th	ARTEMIS EUROPEAN GROWTH	26.48
6th	FIDELITY MONEYBUILDER GLOBAL	£506m	6th	SVM GLOBAL OPPORTUNITIES	25.60

*Based on three-year cumulative performance

	3 year % growth	Quartile position	Status (NE*)
ASIA PACIFIC EXCLUDING JAPAN			
Allianz RCM Total Return Asian Equity	25.57	4	NE
Lloyd George Asia Pacific	16.23	4	NE
Sector average	38.69	2	~

CAUTIOUS MANAGED			
AXA Defensive Distribution	-15.08	4	~
F&C MultiManager Cautious	-6.25	3	NE
IFDS Chartwell Balanced Income	-22.42	4	NE
IFDS Chartwell Cautious	-12.18	4	NE
MFM Maze Cautious Managed	-10.87	4	NE
New Star Cautious Portfolio	-12.81	4	NE
Premier Hurlingham Balanced Portfolio	-19.05	4	NE
Thesis Optima Multi Asset Strategy	-8.8	4	NE
Sector average	-1.68	2	~

EUROPE EXCLUDING UK			
Artemis European Growth	-25.84	4	NE
AXA Rosenberg European	-13.19	4	~
Franklin Templeton Templeton Europe	-7.32	4	NE
Gartmore European Focus	-12.11	4	NE
Legg Mason Continental European Equity	-13.35	4	~
Schroder European	-8.09	4	NE
Sector average	0.64	3	~

GLOBAL BOND			
BlackRock Invest Mgrs UK Ltd Charinco Common Invest	17.23	4	NE
City Financial Strategic Global Bond	7.99	4	NE
UBS Absolute Return Bond	-35.15	4	NE
Sector average	24.03	3	~

GLOBAL EMERGING MARKETS			
Aberdeen Multi Manager Emerging Markets Portfolio	12.9	4	NE
Scottish Widows Emerging Markets	25.44	4	NE
Sector average	31.23	3	~

GLOBAL GROWTH			
Architas MM Global Equity Portfolio	-4.77	3	NE
CBF Church of England Investment	-4.85	3	NE
CF Sackville Growth Portfolio	-16.38	4	~
Fidelity Moneybuilder Global	-2.03	3	NE
Franklin Templeton Templeton Growth	-7.85	4	NE
Marlborough Global	-6.88	4	~
Old Mutual Global Equity	-13.05	4	NE
SVM Global Opportunities	-24.47	4	NE
Sector average	1.13	2	~

JAPAN			
Baring Japan Growth	-30.75	4	NE
BlackRock Japan	-32.87	4	NE
JPM Japan	-22.84	3	NE
L&G Japanese	-34.94	4	NE
Legg Mason Japan Equity	-48.63	4	NE
Sector average	-16.06	2	~

NORTH AMERICA			
L&G (Barclays) MultiManager US Alpha S2	-14.52	4	NE
Old Mutual North American Equity	-12.23	4	NE
Sector average	1.9	3	~

	3 year % growth	Quartile position	Status (NE*)
UK ALL COMPANIES			
Aberdeen UK Growth	-12.7	3	~
Architas MM UK Equity Portfolio	-20.6	4	NE
Artemis Capital	-29.13	4	NE
Aviva Investors Sustainable Future UK Growth	-16.48	4	NE
Aviva Investors UK Ethical	-18.86	4	NE
Aviva Investors UK Growth & Value	-16.65	4	~
CF GHC MultiManager UK Equity	-15.45	4	NE
Ecclesiastical Amity UK	-15.65	4	NE
Family Asset	-20.19	4	~
F&C Stewardship Growth	-27.77	4	NE
Henderson UK Equity	-17.66	4	~
Insight UK Dynamic Managed	-13.32	3	NE
JP Morgan Premier Equity Growth	-26.54	4	~
JP Morgan UK Dynamic	-15.36	4	NE
Jupiter Environmental Income	-22.88	4	NE
L&G Ethical	-22.01	4	NE
L&G (Barclays) MultiManager UK Core	-11.59	3	NE
Marks & Spencer UK Selection Portfolio	-14.21	3	NE
New Star UK Growth	-42.66	4	NE
Old Mutual Ethical	-32.41	4	~
Premier Castfield UK Equity	-11.5	3	NE
Prudential Ethical	-30.72	4	NE
Scottish Widows UK Growth	-13.92	3	NE
Skandia IM UK Best Ideas	-32.37	4	NE
Sovereign Ethical	-40.95	4	~
SWIP MultiManager UK Equity Growth	-13.17	3	~
S&W Opportunities	-15.83	4	NE
UBS UK Select	-22.94	4	NE
Sector average	-10.44	3	~

UK CORPORATE BOND			
AXA Sterling Corporate Bond	-19.61	4	NE
AXA Sterling Long Corporate Bond	-7	4	~
Baillie Gifford Investment Grade Bond	-8.05	4	NE
Clerical Medical Income	-4.47	4	NE
Royal London Corporate Bond	-3.85	4	NE
Sector average	2.19	3	~

UK EQUITY INCOME			
EFA OPM Equity High Income	-23.66	4	~
F&C Stewardship Income	-26.56	4	NE
Premier Castfield Monthly Equity	-25.15	4	NE
SWIP UK Income	-24.67	4	NE
Sector average	-13.47	3	~

UK HIGH YIELD BOND			
F&C Maximum Income Bond	4.24	3	NE
SWIP High Yield Bond	-1.73	4	NE
Sector average	9.68	2	~

UK SMALLER COMPANIES			
CF Canlife UK Smaller Companies	-34.66	4	~
Schroder UK Smaller Companies	-26.74	4	NE
Scot Wid UK Smaller Companies	-31.02	4	~
SWIP UK Smaller Companies	-24.89	3	NE
Sector average	-16.69	2	~

Please read the Important Notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years.

*NE = New Entry

All cumulative statistics % change, bid to bid, net income reinvested, three years to 31/12/09.
Source: Financial Express Analytics.
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