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News in Brief

Expect excellence

F&C Investments

Strong asset managers will "have little to fear" from RDR scrutiny

The FSA's final RDR policy statement and platform discussion paper has predictably split opinion amongst incumbent providers according to their existing model.
Philip Martin, Head of Proposition at F&C, believes the often under-siege FSA deserves some praise for holding firm against intense legacy provider lobbying and leaving the general shape of the initial RDR proposals in place. He anticipates that the most interesting outcome for the retail fund management industry will be whether full transparency is finally demanded in the platform space.
Martin commented: "Opening up the elements of the value chain (adviser, advice, asset management and platform) to relative scrutiny will demand far greater articulation from fund supermarkets on both their value in the chain (for collecting money, investing it and reporting its subsequent value to clients) and how they justify being paid a basis point charge for what is predominantly transactional activity."
Such scrutiny throws up equally awkward questions for asset managers, particularly regarding an acceptable margin for fund management. It is easy to predict that only strong managers, who are genuinely adding demonstrable value, will be able to command the average retained margin currently seen in the industry. Over time, Martin envisages a shift away from commonality of charges to greater differential pricing, as better managers seek to charge more for delivery than their underperforming counterparts.
Martin anticipates that assessment of a fund will likely centre on possible performance in the context of value-for-money (not absolute cost) when compared with alternatives, particularly the likelihood of outperforming equivalent passive strategies at lower cost – judgments advisers and their clients are unable to make when elements of the value chain remain bundled.
"Strong asset managers, with a clear, well-articulated and delivered proposition have little to fear from this scrutiny. Weaker asset managers ought to be very afraid indeed," Martin concluded.

Multi Manager Team add Harewood volatility fund

F&C's Multi Manager Team have recently purchased a certificate linked to Harewood Vol Edge, a fund which looks to profit from market volatility.
The Team added 2.25% in their Multi Manager Balanced portfolio, which they funded by exiting their position in Fidelity Strategic Bond. The move reflects the strong gains made during 2009 and the potential impact of rising interest rates on investment-grade bonds.
Fund Manager Paul Carne commented: "The purchase sits well with our central thesis that 2010 will likely be another positive one for equities and corporate bonds. However, we believe that there is scope for large corrections within this upward trend and feel that by using this offering we will be able to provide some protection against adverse market movements. Volatility tends to spike higher during corrective periods and the performance potential of Harewood Vol Edge is positively related to volatility in the DJ Euro Stoxx 50 – an index containing the 50 largest companies in the European Union."
Harewood Vol Edge was also added to Multi Manager Growth (also 2.25%), with the purchase funded by a trimming of UK equity exposure through reductions in Artemis Income, Neptune Income and BlackRock UK Absolute Alpha. Harewood Asset Management is a subsidiary of BNP Paribas.

F&C Global Smaller Companies alters benchmark to reflect more international portfolio

F&C Global Smaller Companies investment trust is to alter the composition of its benchmark with effect from 1st May.
The Company has from the start of the 2005/6 financial year been benchmarked against a blended index of the returns from the Hoare Govett UK Smaller Companies Index (40%) and the MSCI World Small Cap ex UK index (Developed Countries version) (60%). As part of a regular review, the Board has concluded that in order to reflect better the current and likely future geographic emphasis of the Company's portfolio and the evolution of market indices, the benchmark should be changed to a 30%/70% split between the Hoare Govett UK Smaller Companies Index (excluding investment companies) and the MSCI World Small Cap ex UK index (All Countries version). The decision to use the All Countries version reflects the fact that this Index incorporates a much broader range of countries; for example previously China was not included within the benchmark.
Lead manager Peter Ewins explained: "Over the past decade or so, the Company has reduced its exposure to the UK from more than 50% of the portfolio to less than 35% today. The UK equity market still offers a good spread of interesting smaller companies with the ability to deliver positive shareholder returns, many of which have an international spread to their business. It is clear however, that some other parts of the world, notably in Asia, are better placed from a macroeconomic growth perspective for the long term, and their equity markets and the companies listed on them are maturing. Logic suggests that this should be reflected in the benchmark against which overall performance is measured. We will continue to seek to adjust the asset allocation of the portfolio proactively to enhance returns for the shareholders."

Private equity well placed to shake off economic woes, says Mair

With the economic outlook still far from certain, F&C Private Equity Trust (FCPET) manager Hamish Mair says unquoted companies could provide an interesting area of opportunity. "There are many industries and companies that can achieve profits growth and therefore build the value of their companies even without overall economic growth," said Mair. "These businesses are disproportionately found in the private equity arena."
Although significant challenges remain, Mair, speaking on the £155m investment trust's annual results for the year ended 31 December 2009, said private equity gives as good a chance as any business model of delivering strong returns in future.
While many private equity investors in 2009 were concerned about the effects of the drawdown of commitments to further investment, FCPET saw realisations from its portfolio significantly outweigh drawdowns. During the year £20.9m was drawn by investee companies while total realisations amounted to £34.8m. A successful £30m zero dividend preference share issue in December means the company is well placed to meet future commitments.
F&C Private Equity Trust holds an internationally diversified portfolio of private equity funds and co-investments with a strong emphasis on the mid-market European buyout and mezzanine sectors, and a bias towards 'emerging' managers.

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