

## Study Questions Top Managers' Returns Reporting

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An in-depth study of fees versus returns for a selection of the largest U.K. asset managers has criticised the methods used for representing performance numbers against selected timeframes and benchmarks, claiming that most fees aren't worth the actual performance. "They call it marketing. I call it highly selective, disingenuous and in any other industry may well be considered probably fraudulent," [Insch Capital Management](#) CEO [Christopher Cruden](#) told *// News*. The firm studied 108 funds over a five-year time frame—92 over a 10 year period and 74 since Jan. 2000—focused on long-only stock and bonds funds—unit trusts or OEICs—worth more than GBP100 million in investor capital.

In the report, research arm [Insch Quantrend](#) particularly focused on the published numbers from six asset managers—[Schroders](#), [Henderson Group](#), [Jupiter Fund Management](#), [St James's Place](#), [Aberdeen Asset Management](#) and [F&C Asset Management](#)—without regard for time-frame selection typically used in such reports. It claimed that since Jan. 1, 2000, 36.5% of the 74 funds that were active or had data on returns for the period failed to achieve annual returns of more than 2% per annum and 60.8% made more in fees for the asset manager than they did for the investors with a one year investment horizon.

A spokesman for St James's Place said that company officials were puzzled by the contents of the report and did not find the data credible. Officials from both F&C and Aberdeen declined to comment. Schroders officials questioned a number of points made in the report, pointing out that the time periods used in advertising are mandated by Conduct of Business rules and saying that the report is confusing absolute and relative return concepts.

Associate Director at Insch Quantrend [Purnur Schneider](#) countered by stating that for returns the researcher used total returns—which add back the dividends—downloaded from *Bloomberg* for all funds and time frames. In response to Schroders, she told *// News* that she was not aware of the time period rule for advertising, but didn't think that was an issue. "We used basically absolute returns and drawdowns to describe past performance, and we divided these absolute returns by the management fee just to see which of these was higher," she added. "We did not calculate returns relative to risk or to benchmarks."

All six firms are listed on the [London Stock Exchange](#) and were chosen for being specialist bond and equity asset managers. The average annual management fee of all the funds viewed in the report was 1.4%, while the average sales charge stood at 4.8%, and while Cruden accepted that institutional fees tend to be slightly lower—often with no sales charge—he believes the point still stands.

The report looks at more than 100 measures, including fund performance since inception, worst drawdown, sales charges and cumulative management fees, as well as subjecting the funds and asset managers to a number of variable stress-test scenarios. According to Schneider, none of the scenarios modelled were extreme and all have happened in the last decade and could happen again. "Investors should know that in the event of stock market declines or interest rate rises, they may be exposed to additional risks from their asset manager. In some cases, that risk may include the ability of the manager to stay in business," she pointed out. On a risk-to-revenue basis, and at reasonable assumptions regarding overheads, a drop of just 35% in equity markets could reduce asset manager revenues to zero, she said.

Cruden is most critical of the findings that inflows and outflows of managed assets follow market performance, with the effect that investors bear the brunt of "buying high and selling low". The report states that the action on asset flows takes place with a lag of between nine months to almost two years, in which time asset managers should be hedging the uncertainty of the net asset management revenues. "Long-only buy-and-hold hasn't worked, certainly not over the last 11 years or so—before that rising markets disguised what was really taking place. When markets are tough, as they have been over the last decade, then investors lose but the asset managers continue to win," said Cruden. He suggests that investors would have been better served by funds that were able to go short, but traditional funds have instead been exposed to the recent market drawdowns. "Therefore, the poor old investor is stuck with long-only buy-and-hold—the exact strategy that has not worked over the recent past and will not work in future."

The study highlights the migration from active equities into passive equity funds, exchange traded funds and hedge funds. "At one time U.K. pensions had 90% or more in equities, so where's it going? Either to things that perform better or perform as well but at a lower cost," Cruden suggests.