Fund management

Hasenstab suffers largest outflow among bond managers in 2020

Emerging markets specialist's run of underperformance continued last year as assets shrank

Michael Hasenstab's belief that long-dated bonds are not reflecting the threat of inflation led him to a disastrous bet against US Treasuries © Bloomberg

Michael Mackenzie in New York JANUARY 14 2021

Michael Hasenstab, the manager who runs the Templeton Global Bond fund, suffered the largest outflow among US fixed-income funds in 2020 as he lost money in a disastrous bet that bond prices would fall.

The client exodus slashed the assets in his flagship fund by another two-fifths last year to below $15bn, far from a peak above $70bn at the height of his success in 2014.

The fund experienced $10.5bn in net outflows to the end of December, according to Morningstar. It registered a return of minus 4.2 per cent over the 12 months and has returned just 1.6 per cent in the past five years.

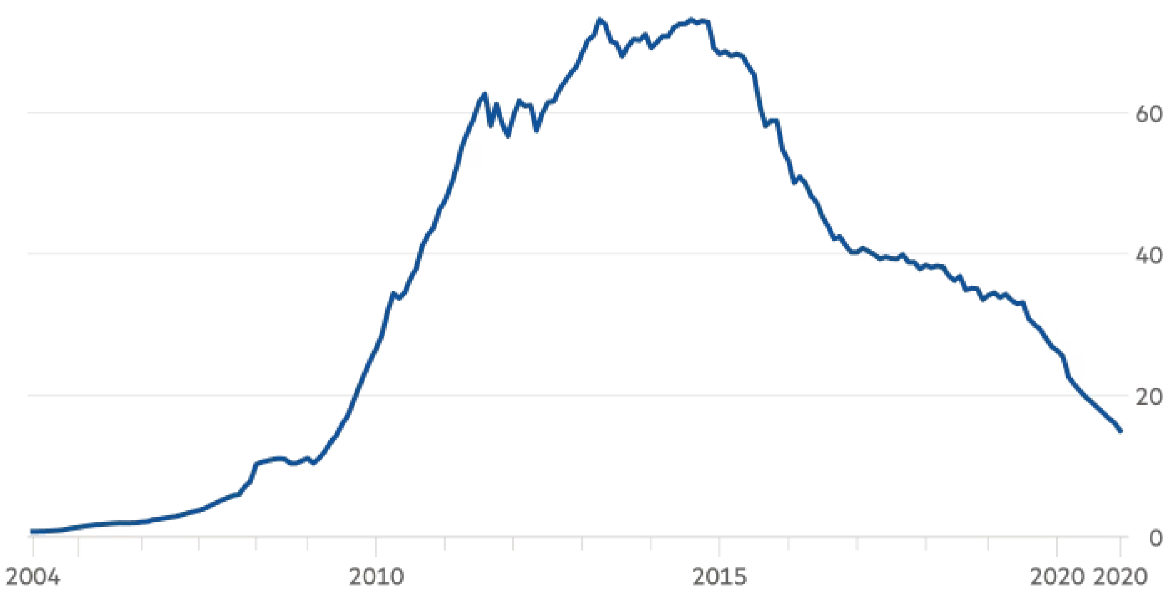
The fund's benchmark, the FTSE World Government Bond index, gained 10 per cent in 2020, according to Bloomberg.

Mr Hasenstab has managed the fund since 2001 and gained renown for large and well-timed bets on a number of emerging market economies bouncing back from deep recessions and financial turmoil.

But that playbook has failed to work recently for the fund manager, most notably in 2019 when Mr Hasenstab had significant exposure to Argentina's government debt as it headed towards default.

Michael Hasenstab's flagship has lost 80% of its assets since peak

Templeton Global Bond Fund assets ($bn)



Source: Bloomberg

In another misjudgement, Mr Hasenstab's belief that long-dated bonds are not reflecting the threat of inflation and rising levels of government spending, led him to a disastrous bet against US Treasuries. That backfired when yields declined steadily in 2019 and then plunged to record lows just above zero as the coronavirus pandemic intensified last year.

Morningstar recently noted that a shift towards owning the Japanese yen as a hedge against market turmoil in 2019, "didn't do as well during the early 2020 sell-off as the team had hoped".

Mr Hasenstab and Franklin Resources, the asset management group which runs the fund, did not provide a comment for this article.

The persistent outflows from the Templeton fund are a reminder that investing can be an unforgiving profession, as other fallen star managers such as Bill Gross and Neil Woodford can attest*.

“One of the attributes of the investment industry is that you can become a victim of your own success,” said Robert Lee, analyst at KBW. “You almost always run into situations where managers are good for a long time and then they run into headwinds that hinder performance.”

Arresting an underperforming fund is challenging, Mr Lee added. “You find that an upturn in performance usually moderates redemptions, rather than encouraging new money into the fund. Better performance does not flip things towards inflows. Even at the best of times there are redemptions.”

The share price of Franklin Resources, where Mr Hasenstab grew to be the single most important fund manager at the height of his success, has rebounded from its low in March and is up 4 per cent on the past year, but the stock currently trades at half of its value from 2015.

The company has experienced persistent outflows in recent years aside from the Templeton Global Bond fund, including heavy redemptions from its Indian mutual funds in the wake of the pandemic last April.

Redemption pressure has continued after it acquired Legg Mason last year, which more than doubled its assets under management to $1.4tn and brought with it Legg Mason’s affiliate Western Asset Management, a fixed-income specialist.

Mr Hasenstab — who has managed the Templeton Global Bond fund jointly with Calvin Ho since 2018 — is far from being the only star fixed income investor to have suffered outflows in the past year.

The DoubleLine Total Return fund managed by Jeffrey Gundlach had $5.4bn of net outflows as it generated a total return of 4.1 per cent last year.

The Pimco Income fund, which is managed by Daniel Ivascyn and Alfred Murata, shrank by a net $7.5bn. The fund has recorded a total return of 5.5 per cent last year, lagging a 7.5 per cent gain in its benchmark, the Bloomberg Barclays US Aggregate Index.

**This article has been amended since original publication to reflect that Neil Woodford was an equity investor.*