

HOLD OR FOLD?

Resolution Global Growth vs Invesco Perpetual International Growth

The two funds in the spotlight this week have inevitably been shaken by volatile markets but our panel find other reservations to undermine their confidence further. Tim Cooper reports.

Resolution Global Growth

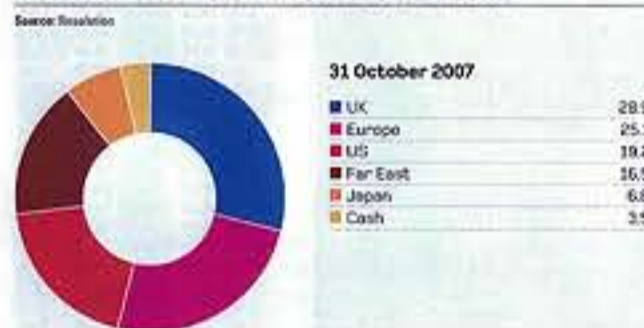
What New Model Adviser[®] says:

This fund aims to take advantage of globalisation by selecting the best growth opportunities around the world based on the manager's sector model. It aims to control risk by holding between 45 and 75 stocks and by investing across sector and geographic boundaries. This fund was launched in May 1987 and has assets of £55 million. It has had reasonably stable performance over the last five years but suffered in the recent market downturn.

What Resolution says:

'Seeking significantly undervalued companies requires a belief in mean reversion and a willingness to be patient while holding out-of-favour positions,' says James Smith, chief investment officer specialist funds, Resolution Asset Management. 'We are overweight in large caps such as telecoms, pharmaceuticals, energy and, perhaps most contentious of all, financials (excluding real estate). We have avoided some of the liquidity-fuelled Asian and emerging markets to our cost, because we believe them to be vulnerable to any reversal of hot money flows. History suggests that a consistently applied value strategy should deliver superior total returns over time. So we are sticking to our tried and tested process.'

RESOLUTION GLOBAL GROWTH PORTFOLIO BREAKDOWN



Each company Smith has worked for has been taken over by another organisation. **Nicola Downs**

What the advisers say:

Tim Ames
Director
Cathedral Financial Management

This fund has suffered against its peer group during the market downturn in February and to a greater degree since September. Previously the fund had been a relatively stable performer, but recent market events have punished managers who made unfortunate sector calls. This fund selects sectors based on internal research and picks stocks using a barbell approach. Large, established companies provide stable prospects and market share, while smaller companies with growth potential make up a satellite intended to provide superior returns in the long run. Resolution's risk budget has been put to better use than Invesco Perpetual's, but there is still a negative risk-adjusted alpha figure over three years. It will be interesting to see whether this fund recovers its recently lost ground. As there have been some strong returns elsewhere in this sector over the last few years, it is difficult to justify waiting to find out. So I fold.

Nicola Downs
Director
Trentham Invest

The fund aims to achieve maximum capital growth investing in securities of global quoted companies which are considered to be undervalued and select the best growth opportunities from across the globe. The stated investment model is used to help the asset allocation decisions, which the commentary states is highly effective. While the performance of this fund was very impressive around 1999-2000, it has gone downhill since. It has consistently underperformed the MSCI world index, and as a result the alpha is negative. Each company Smith has worked for has been taken over by another organisation. I am therefore not convinced of his ability to turn a fund around. He started at Resolution in 2003 and the corresponding three-year alpha is negative. That is another reason why I am not convinced. Something or someone waiting to find out. So I fold.

Peter Heckingbottom
Deputy managing director
Pearson Jones

This fund has a disappointing record, having tracked the sector average for two years in the last five. In a further two years, performance has been substantially below average. In certain cases, this would not be a significant problem. However, one of these periods was the most recent period in the statistics (between September 2006 and September 2007) and this is clearly concerning. The fund is managed in a way that fails to impress the independent rating agencies. I would prefer to recommend a fund that is well rated, with a strong pedigree and well managed. Resolution established joint venture investment management solutions with some strong niche market managers in areas such as European Growth, property and the Far East. It is a shame they have not yet ventured into a global mandate which would be an attractive solution for investors in this funds. So this is a definite fold for me.

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HOLD OR FOLD?

Invesco Perpetual International Growth

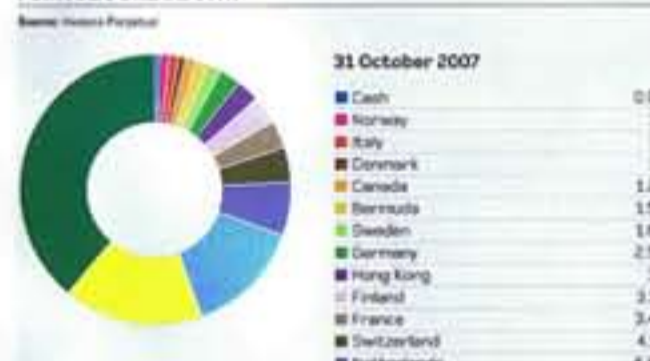
What New Model Adviser[®] says:

This fund was launched in May 1976 and is managed by Erik Granade. It aims to achieve long-term capital growth through investment in securities but has underperformed against the IMA Global Growth index since 2002.

What Invesco Perpetual says:

'Our fund strategy is to employ a three-step investment process to gather fundamental economic and investment information,' says Granade. 'This is transformed into specific views as to the relative attractiveness of each market and asset class. We determine whether competing investment alternatives are cheap or expensive relative to their underlying fundamentals. The probabilities are tailored to fit the portfolio, taking account of risk parameters. Investments include transferable securities, money market instruments, warrants, collective investment schemes, deposits and other permitted investments.'

INVESCO PERPETUAL INTERNATIONAL GROWTH PORTFOLIO BREAKDOWN



What the advisers say:

Tim Ames
Director
Cathedral Financial Management

This fund is fourth quartile in the IMA Global Growth sector over one, three, five and 10 years. The management team combines a strategic view on countries and industry sectors with a price to intrinsic value stock picking model. But they often seem to produce nothing more than current market trends in their portfolio. As such, the fund's largest sector play recently has been financials and the fund's largest country play has been the US. This combination has inevitably hurt performance in recent months, but the fund has underperformed at key inflection points for some time. It has a three-year Sharpe ratio of less than 0.5 and a negative alpha figure, despite claiming to be actively managed and relatively unconstrained. The only real positive is that it is comparatively less volatile than some funds in the sector. However, there are other funds with similar volatility which have avoided the pitfalls of this fund and provided far superior returns over three years or more. This is a fold.

Nicola Downs
Director
Trentham Invest

The fund launched almost 32 years ago but only has £86 million under management. This is very low and I would expect a much greater sized fund over this period of time. Accrual rate (excluding growth) is only £2.58 million a year. Some of my IFA contemporaries have more assets under management! The natural benchmark would be the MSCI World index and the fund has performed well below the index since 1998. The fund is exposed to 21% financials and 40% in US, so it has high exposure to the US debt problem. There is a three-step investment process to gather economic and investment information, quantitative modeling and profitability mapping. Despite this process, the fund performance is well below the sector average - 11% below in one year, 23% in three years and 35% in five years. The fund gets a two star Morningstar rating and is not rated by Standard & Poor's. Consequently, it is a fold.

Peter Heckingbottom
Deputy managing director
Pearson Jones

The magnitude of underperformance is particularly surprising as Invesco Perpetual has a very strong team in the areas of UK equity income and UK corporate bonds. These teams also combine to provide a strong partnership in distribution style funds. Global equity management involves different skills and expertise. Nevertheless, Invesco Perpetual's quant systems should be able to assist a good manager to deliver strong returns in any geographical market. It should then be relatively simple to overlay these with a good macro strategy to ensure a fund such as this delivers more positive returns. It is hard to understand why Invesco Perpetual tarnishes its reputation with such a lacklustre fund. It should consider selling the £86 million in this fund to a company that manages global equity money better. This would be a great example of treating customers fairly in practice. In the meantime, clients should fold this fund.

It is hard to understand why the firm tarnishes its reputation with such a fund. **Peter Heckingbottom**

New Model Adviser's[®] verdict

Resolution Global Growth

This fund has been a stable performer but suffered due to recent events. Our advisers unanimously rejected it.

FOLD

Invesco Perpetual International Growth

This fund's over-exposure to US debt problems and poor long-term performance make it a definite loser.

FOLD



The Aberdeen World Equity fund outperformed the benchmark by 6.8% in 2007, 3.6% in 2006, 6% in 2005, and 2.7% in 2004. Over three years it has had 25 positive periods compared to 11 negative ones. The fund size is a much healthier £142 million with positive alpha since 2002.

BOTH FUNDS ARE LAGGING THE BENCHMARK

