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Absolute return funds under fire again

FE report shows half of absolute funds failed to beat inflation in the past year

By Jenna Voigt

Absolute return funds came under heavy fire last week when a report from FE Analytics showed that half the funds have failed to even beat inflation during the past year.

In the last 12 months to June 30, only 24 of the 56 funds with a one-year track record outperformed both Consumer Prices index (CPI) and Retail Prices index (RPI) inflation, according to a report from data group FE.

The report said only 43 per cent of the funds delivered a positive return in real terms over the period. It said for investors opting for the absolute return sector in an effort to preserve capital and avoid losses, fund selection would have been paramount.

The group said three funds did beat CPI inflation, which was 4.2 per cent in the year to June, but failed to keep pace with RPI inflation, which was 5 per cent.

A further 11 funds failed to deliver a positive return at all, ending the period in negative territory. But in spite of the fact a large proportion of the funds are failing, 13 new funds were launched within the past year.

FE added that its performance figures do not even include the negative effect of funds' fees on performance, meaning in reality even fewer than 24 funds actually beat inflation.

The best performing funds over the year were the £205.3m CF Odey UK Absolute Return fund, up 38.72 per cent, and the £59.8m GLG Emerging Markets Equity fund, up 29.79 per cent.

L&G Investment Management had the best track record with all three of its absolute return funds comfortably ahead of inflation.

Standard Life Investments' (SLI) David Millar said: "The sector is very diverse. You have to look at the individual objectives of the fund. People must lift the bonnet and look at what's in the engine instead of looking at the car. There are different objectives and mandates for each fund in the sector."

But Mr Millar said the "extremely unusual" economic circumstances make the single year view only a snapshot of the overall objectives of the sector. He said, looking over a three or five-year period "the differential will re-narrow" between cash and inflation.

He added: “We’ve had unusually high inflation and rising oil prices are one of the biggest factors.”

The IMA is reviewing its Absolute Return fund sector after the funds have been criticised for lacking clarity in their investment objectives.

Adviser views

Q: Has the absolute return fund concept failed?

Fiona Sharp, senior adviser at Almary Green investments:

“A one-year term is too short to measure any investment against inflation when inflation has changed quite a bit in the last 12 months anyway. We have so many underlying factors affecting the economy in terms of investments so it’s difficult over such a short term with so much outside of our control.”