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Patience is a virtue

I am an advocate of long-term investing. I believe patience is a virtue, but I have also been involved in the financial markets for over two decades and as I spend a LOT of time crunching numbers I have yet to find a fund, or fund manager that has delivered above average performance, consistently over every time period. I must admit to chuckling when I see an advert for a fund when there are a range of “1’s” associated with the performance, and those “1’s” are linked to 1 month, 3 months, 6 months, 12 months, 36 months and 60 months returns. Of course, those numbers are something to be proud of, but you don’t see this advert being pre-booked into the financial press for the long-run by the fund management company as the ability to deliver these numbers on a consistent basis is extremely difficult to achieve...

As previously mentioned (on many an occasion) we build our portfolios using third party funds – we don’t know (entirely) that if we are adding to “Fund A” for instance that other investors are actually taking more money out of the fund thus forcing the fund manager to change the shape of the fund. Fund managers can also change the shape of their funds outside of our control (they can increase the market cap, the number of holdings, the value / growth / momentum bias, increase or reduce the yield and so on) – this, obviously, makes our job a little more difficult, especially if we are short-term investors. But, as already explained, we are not short-term investors, so we focus our due diligence on the process the fund manager undertakes to achieve the returns they say they can achieve in the manner they say they can achieve it...

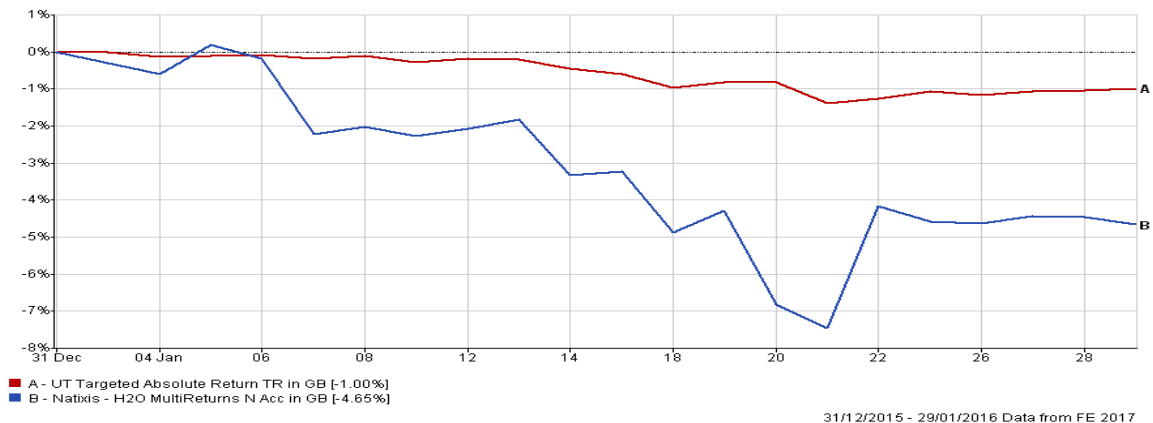
We expect different managers to achieve their returns over different time periods and give different fund managers different objectives, after all, we want to build balanced and blended portfolios. There is a definite reason, for instance, why Neil Woodford called his investment trust “Patient” Capital. If you have had the privilege to spend time with him, or have read (his many excellent) articles you will understand that for his process to work in this fund, then he really needs investor’s capital for a decade or so before being able to deliver the returns he expects to deliver.

This article is however all about another fund – the Natixis H20 MultiReturns fund – a fund in the Targeted Absolute Return Sector. Over the longer term, since the launch of the fund, the total return has been quite admirable as the chart below shows. Since inception in October 2013 to the end of 2016 the fund has delivered just under 40% compared to the peer group that has returned a little over 7.50% for the same time period.

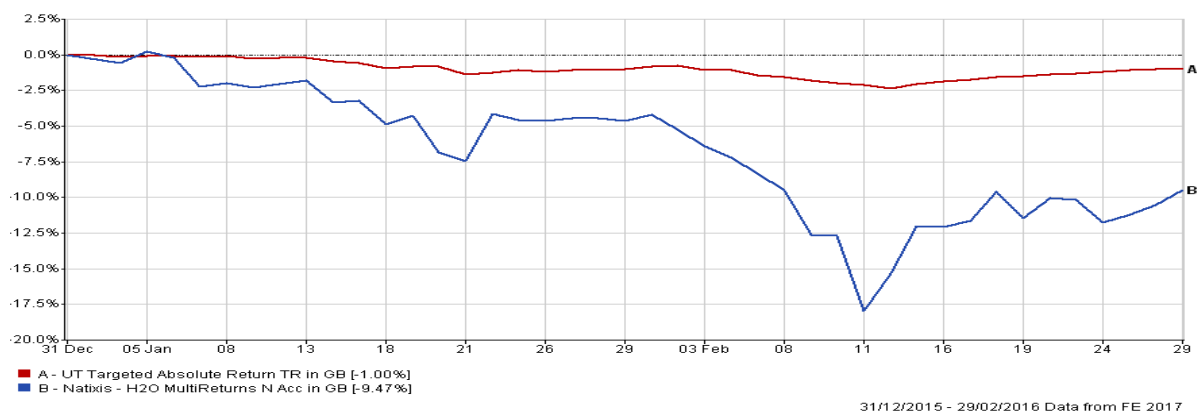


2016 was an “unusual” year for the fund. You could argue it was difficult. But, being as this article is titled “Patience Is a Virtue” it’s probably safe to say you know where this article is leading...

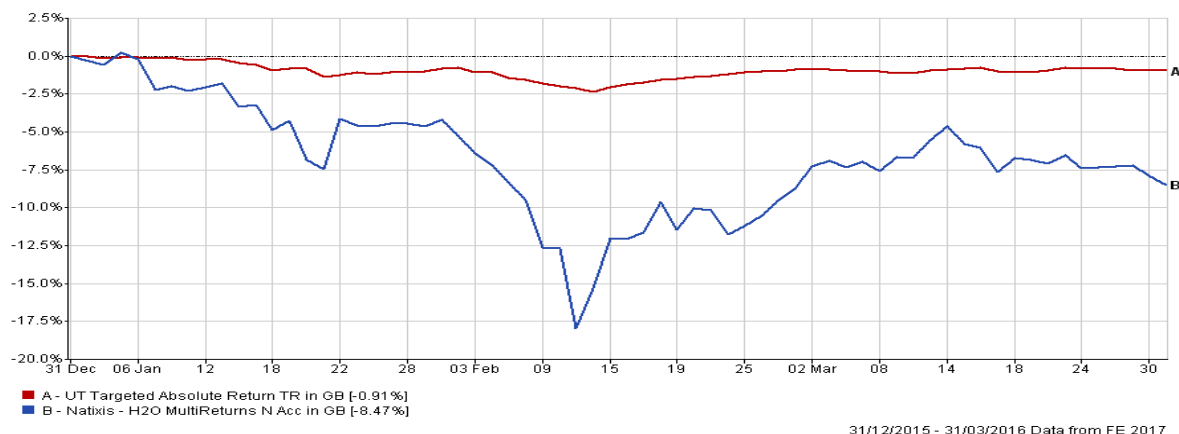
On a month by month basis the fund experienced some volatility to say the least. Below is the return for the month of January 2016. The peer group witnessed a 1% loss for the month. The fund itself suffered a 4.65% loss



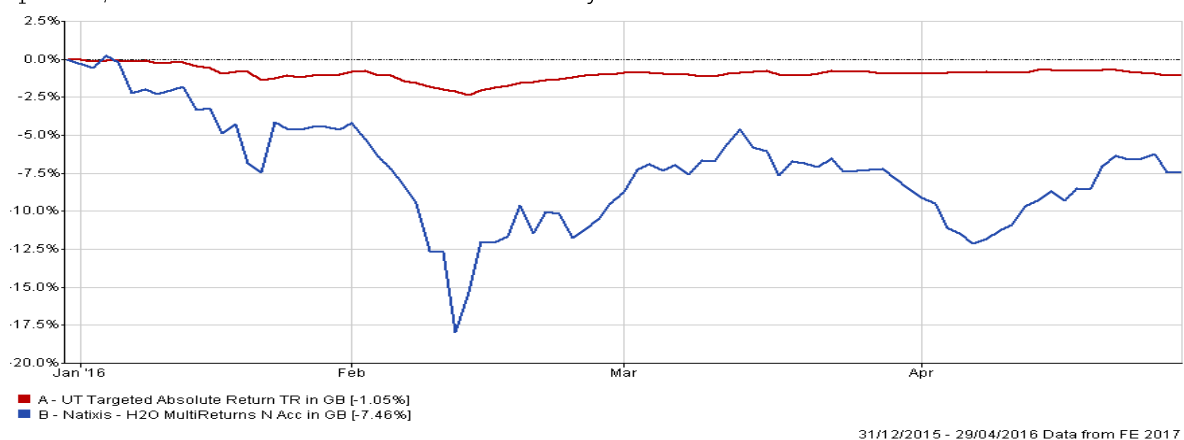
When adding February to the mix, the fund suffered yet more. For the two months to the end of February the fund was down almost 9.50% with the peer group remaining at -1.00%.



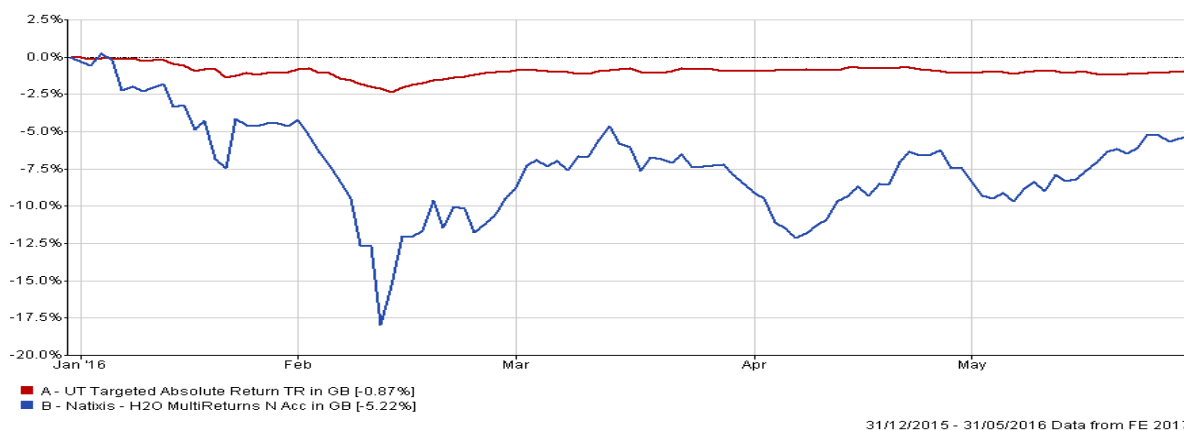
When you add March into the mix, the fund improved somewhat, but on a year to date basis was still underwater to the extent of almost 8.50%. The peer group loss for the first quarter came in at -0.91%.



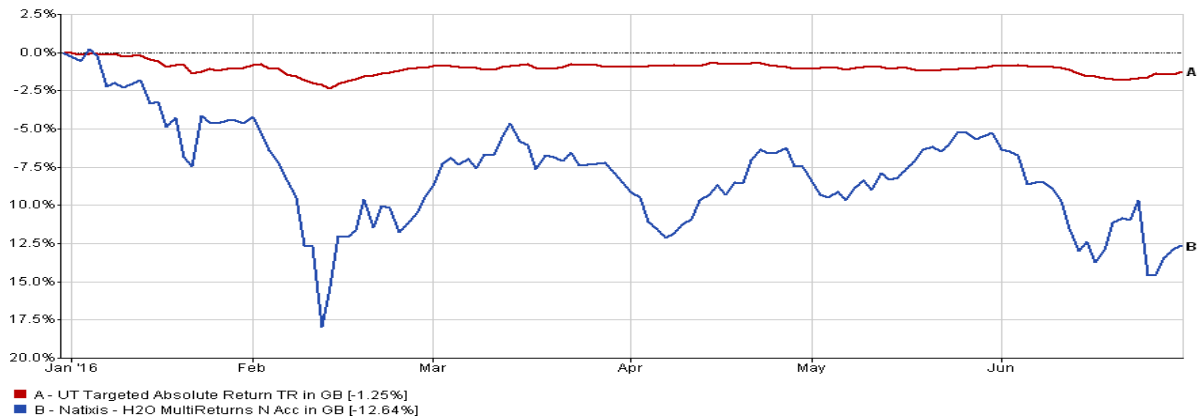
April saw the fund improve somewhat, but when you add the returns to the losses for the first quarter, the fund still was down 7.46% for the year.



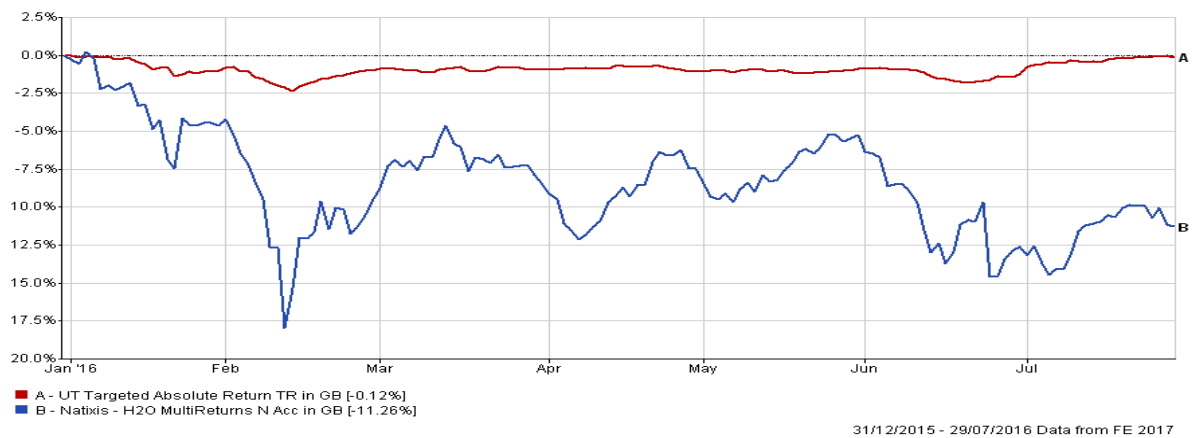
In May, the fund improved again, but still didn't make good compared to the year to date numbers. As at 31/05/2016 the fund was down 5.22%.



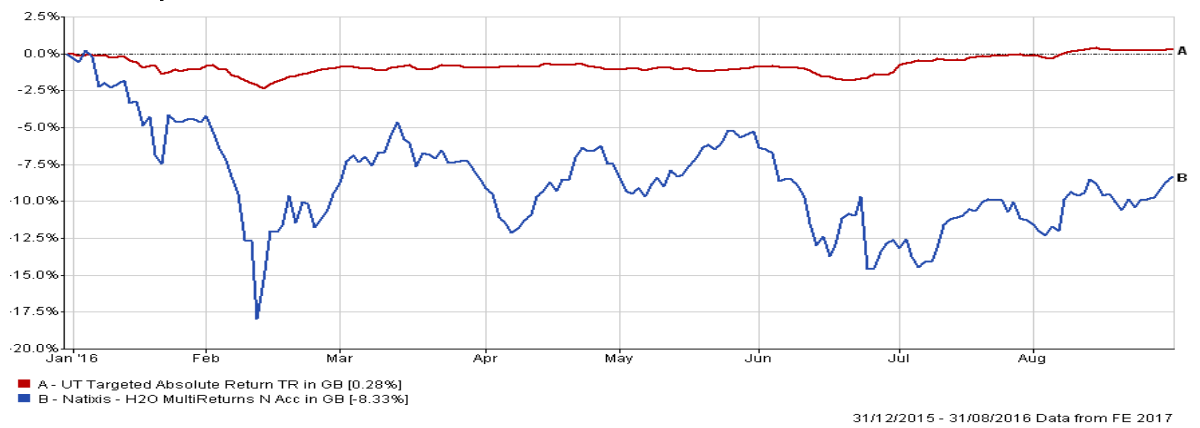
The half-year report card certainly wouldn't see the fund being given an "A". A terrible month in June meant the fund stood nursing a loss of over 12.50%. Compared to the Targeted Absolute Return Sector, the fund was over 11% behind as at 30 June as the chart below shows.



As the second-half of the year starts, the fund, and the universe, had a relatively strong month. On a year to date basis, the sector had lost 0.12%, and the H2O Multi Returns fund was down 11.26%.



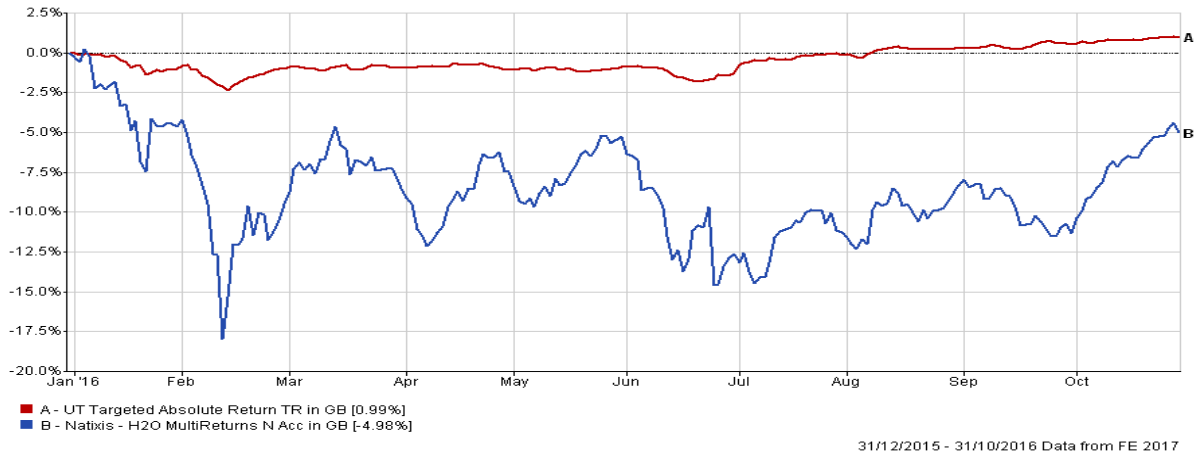
For the month of August the fund delivered a very strong month of returns. Now the fund was down a little over 8% for the year. The average fund in the universe registered its first positive cumulative year to date numbers.



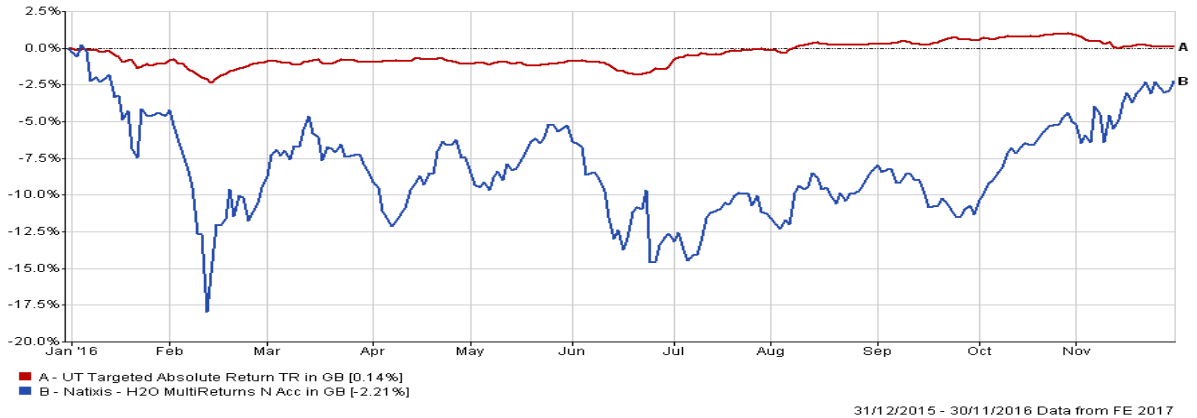
As the third quarter came to a close, the fund wasn't looking good. For the first 9 months of the year, it stood registering an 11.36% loss. The peer group on the other hand was up 0.52% for the year.



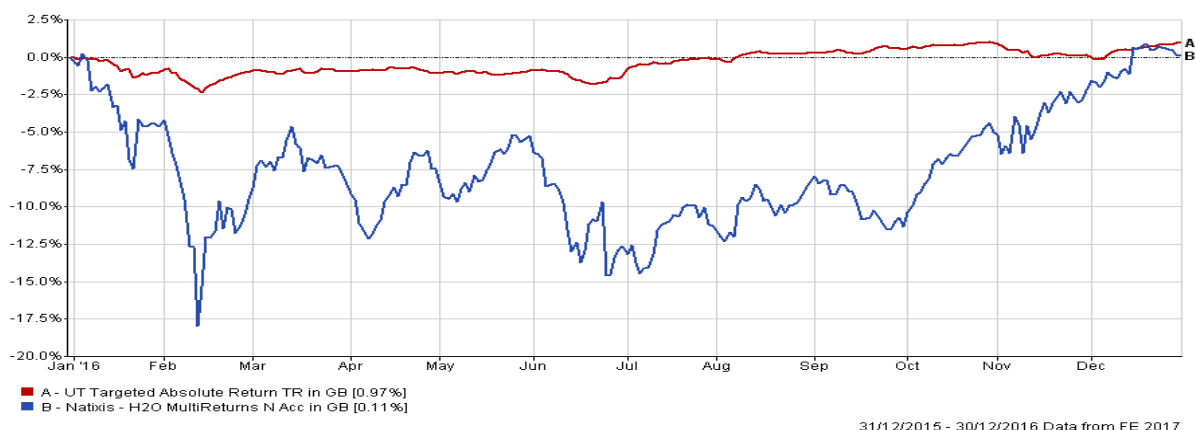
As at the end of October, the H20 fund had a good month, closing the gap to nearly 6%.



November was a good month too. The fund was strong, the peer group had a poor month. Between 31/12/2015 and the end of November 2016 the cap closed to less than 2.50%.



For the full year of 2016, the H20 MultiReturns fund ended the year in positive territory, although the sector outperformed. The gap between the two was 86bp...



It is safe to say the volatility of the fund is much greater than the average fund in the year we have just witnessed when looking at the returns on a month by month basis. It's also safe to say investing at the right (or wrong) time would have made (or lost) a great deal of money over the year. But, should the initial investment be made and then reviewed twelve months later, the perception of risk and reality of risk would be very different.

Looking back to the first chart, the H2O fund has delivered very well compared to the peer group (although the peer group probably isn't the best comparator) in a little over 3 years – regardless of the fact that 2016 wasn't exactly the best year in its (relatively short) history proving that if you know what you are buying and you can hold your nerve in the poor months, patience can be rewarded and it can be virtuous.

Market Snapshot (03.02.17 – 10.02.17)

Market Snapshot (03.02.17 – 10.02.17)			10 Year Bond Yields			Currency			Commodities		
FTSE 100	7258.75	↑0.98%	UK	1.26	↓7.35%	£/\$	1.2480	↓0.40%	Brent Crude	\$56.63	↓0.30%
S&P 500	2316.10	↑0.81%	US	2.41	↓1.23%	£/€	1.1750	↑1.29%	Gold	\$1228.30	↑1.08%
NIKKEI 225	19378.93	↑2.45%	Germany	0.32	↓23.81%	€/£	1.0620	↓1.76%			
DAX 30	11666.97	↑0.13%	Japan	0.08	↓20.00%	£/¥	141.7600	↑0.62%			
CAC 40	4828.32	↑0.06%									

Figures quoted are in local currency
Source: FE Analytics & Financial Times

Week Ahead

Monday –

Tuesday – China: PPI % y/y

Wednesday – US: Retail Sales (ex. Auto) % m/m

Thursday – Japan: BoJ Policy Statement and Governor Kuroda Press Conference

Friday – UK: Retail Sales (ex. Auto Fuel) % m/m

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