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Does Interviewing Fund Managers Add Value?

As discretionary fund managers, our job is to build the most appropriate portfolio that meets the objectives that are set. As fund of fund managers, our tool of choice is to use collective investments. Depending on the client and constraints, we have the ability to use onshore and offshore funds, investment companies, active funds, passive funds, Exchange Traded Funds – in essence, tens of thousands of funds fall under our investment universe. All funds are measured on their merit. They are measured on their suitability – not only as a standalone investment, but also as part of the total portfolio. This second point – as part of the total portfolio is incredibly important to us and this is why, as a business, we do not rely on fund ratings agencies to make investment decisions.

Don't get me wrong, the analysis put forward by research agencies is not bad. But, to give a fund a AAA rating, or 5 Crowns, or 5 Stars is only part of the process. Our belief is that that the score given by a ratings agency looks at the fund in isolation, not as part of a portfolio. Unfortunately, we don't build portfolios with one holding... Ratings agencies will do both quantitative (i.e. number crunching) as well as qualitative (i.e. fundamental research) on a fund and arrive at a decision. I know many of the analysts in these teams and they are educated, experienced people who I regularly see whilst out at conferences or asking questions on conference calls and the like. They certainly put the legwork in.... But, back to the title of this piece – “Does interviewing fund managers add value?” To pre-empt the next couple of paragraphs, we DO interview fund managers when it comes to our due diligence, so obviously the answer from us is likely to be “yes”, but why do we believe it is so?

Due to the advent of technology and by subscription to databases, we can slice and dice lots of statistics on all the funds in our universe to see if they meet with our selection criteria. We have the ability to create shortlists at a moment's notice – for example we can seek how many funds in the UK Equity Income universe that are at least £300m in size with 5 years track record, a 4.5% or greater yield and 1st quartile performance over the last 3 years. Surely that should be enough? Maybe, and we do use screening extensively in our research, but we like to offset that with the softer skills – the qualitative research.

Qualitative research allows us to understand how a fund manager operates and how those returns have been achieved. We can talk to the fund manager to understand the client distribution profile – one investor could account for £100m of the £300m for example and this can influence our decision. How much of the yield is accounted for by the largest 10 yield providers? How long has the fund manager been running the fund – are they accountable for the most recent three year track record? How much activity is there in the analyst pool? If we ran the same numbers from 1 or 3 months ago, would the statistics still

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

Week Ahead

Monday – United States: Retail Sales % m/m

Tuesday – United Kingdom: GDP % m/m

Wednesday –

Thursday – Germany: CPI % m/m

Friday – Eurozone: HICP – Core % y/y

We look forward to receiving your comments. You can now follow us on twitter .



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