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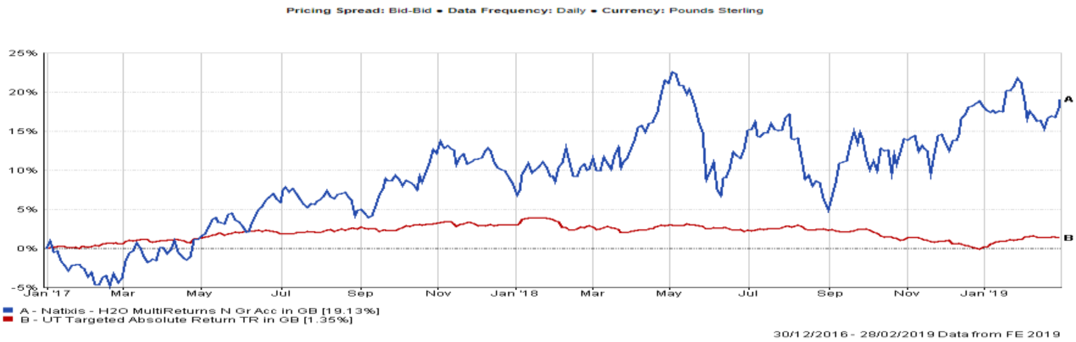
Patience “STILL” remains a virtue

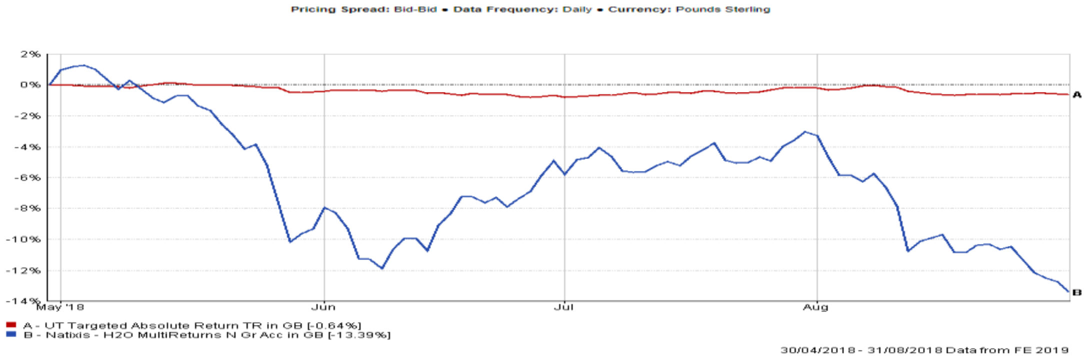
A little over two years ago (February 13 2007 to be exact), we wrote an article called “patience is a virtue” (to read it, click here) which was written to highlight the fact we don’t know on a month by month basis how well a fund will perform, but as long as we have faith in the investment process of the manager one of the worst things you can do is sell after a couple of months of poor performance. We highlighted the roller-coaster 2006 returns of the H20 MultiReturns fund. A fund we use in a number of our models and mandates. We know the fund will have a lot of volatility – after all, the manager invested heavily invest in Greek debt not too long after the Greek crisis. It was not afraid either to expose investors to the Italian sovereign debt market during the political machinations with the European powers that be whilst the country was trying to both form a government and get a budget passed that was outside of the guidelines. They are the type of manager that are getting off the plane in a warzone when everyone else is getting on it.

So, here we are, two years later. Was our patience rewarded? Do we still own the fund? The simple answer to both of the questions is a resounding YES. As the original article opined, we are long-term investors, and only likely to remove a fund if it no longer meets our expectations or its suitability changes. Obviously, we are not happy if a fund has an extended period of underperformance, but underperformance doesn’t necessarily mean the manager is bad. Without doing due diligence on a fund and just buying and selling it off the back of a 3, 6, or 12-month performance for instance could be a recipe for disaster. The original article had a performance chart for each month of 2016, but being as this is an update over two years later, I wouldn’t want to bore you with lots of charts… But I will provide a few and a table to keep in line with the title of this article that patience still remains a virtue.

Taking data from Financial Express, since the end of 2016 to the end of February 2019, the fund (with income reinvested) is up an admirable 19.13%, compared to the sector average (Targeted Absolute Return) which was up 1.35%. As we said over two years ago, the sector average probably is not a truly representative index, but in keeping things consistent, we continue to use it.



The fund remains a volatile one – as the peaks and troughs continue to show, and there have been a number of months during this time frame when returns have been enough for you to catch your breath. For example, the month of August 2018 saw the fund lose 10.70%, whereas the sector average only went down 0.50%. This followed the month of May when the fund lost 9.29% compared to the peers -0.45% - the chart from the beginning of May to the end of August does not look like we, as fund selectors, are not good at our jobs as the difference between the two is in excess of 12%!



On the other hand, there were some good months in the last couple of years – after the August 2018 loss, September saw a positive 6.14% (compared to the sector average 0.07%). December 2018 – a month when most financial assets saw very poor returns – had the fund up 4.08% (the sector average was down 0.82%).

From a calendar year perspective:

- 2017 – up 7.26% - the sector was up 2.99%
- 2018 – up 10.36% - the sector average delivered a loss of 2.74%

The table below shows the month by month, two calendar years, and the total return between since the end of 2016 to date.

	H20 MultiReturns	Targeted Absolute Return
Jan-17	-3.29%	0.18%
Feb-17	-0.30%	0.42%
Mar-17	3.99%	0.39%
Apr-17	1.15%	0.30%
May-17	1.67%	0.76%
Jun-17	2.89%	-0.19%
Jul-17	0.16%	0.15%
Aug-17	0.01%	0.63%
Sep-17	2.54%	-0.25%
Oct-17	3.15%	0.78%
Nov-17	-0.09%	-0.08%
Dec-17	-4.50%	-0.14%
Jan-18	1.41%	0.53%
Feb-18	2.83%	-0.65%
Mar-18	1.41%	-0.67%
Apr-18	6.99%	0.83%
May-18	-9.29%	-0.45%
Jun-18	4.82%	-0.20%
Jul-18	2.01%	0.51%
Aug-18	-10.70%	-0.50%
Sep-18	6.14%	0.07%
Oct-18	2.01%	-1.09%
Nov-18	-0.08%	-0.32%
Dec-18	4.08%	-0.82%
Jan-19	0.54%	1.26%
Feb-19	0.30%	-0.06%
2017	7.26%	2.99%
2018	10.36%	-2.74%
31/12/2016 to 28/02/2019	19.37%	1.37%

This year, the fund sits a little behind the sector average, even though both months have seen positive returns, whereas the average has only delivered one positive month. But we are not unduly concerned.

I think it's safe to say the returns continue to remain volatile and in our ongoing due diligence we continue to have faith in the way the fund has been run. The fund size has grown, steadily, and now sits at a little over £400m – a size that is still manageable without having to change processes and a factor we continue to monitor closely.

We had owned the fund for a good while before writing the initial article. If we still own the fund in two more years, we might revisit the fund again, but we take pride in knowing we have owned this fund in a number of our portfolios for a long time – commensurate with our buy and hold approach. We also take comfort in knowing that we do not make knee-jerk reactions when a fund undergoes a period of underperformance (whether that be a sharp drawdown, or a drawdown over a number of periods). If this were a fund where we didn't expect such volatility, we wouldn't own it. If this were a fund where management styles had changed, we wouldn't own it. But we are aware of the characteristics of the fund and because of them, we position our unit sizes accordingly.

You cannot get returns without taking risks, but you can diversify risks and reduce the overall portfolio risk. This fund is not suitable for all of our models and clients, and this article certainly isn't meant to be a piece to advocate or promote the use of the H20 MultiReturns at all. It is nice to return to a previous article and feel slightly vindicated as the fund remains consistent in its approach, it remains volatile and without patience and understanding of the investment philosophy a client experience of this fund is likely to be very different to ours over the years.

Market Snapshot 10.05.19 – 17.05.19)

Market Snapshot (10.05.19 – 17.05.19)			10 Year Bond Yields			Currency			Commodities		
FTSE 100	7348.62	↑2.02%	UK	1.04	↓8.53%	£/$	1.2720	↓2.15%	Brent Crude	$72.17	↑1.85%
S&P 500	2859.53	↓0.76%	US	2.40	↓2.95%	£/€	1.1400	↓1.47%	Gold	$1280.00	↓0.51%
NIKKEI 225	21250.09	↓0.44%	Germany	-0.10		€/$	1.1158	↓0.69%			
DAX 30	12238.94	↑1.49%	Japan	-0.05		£/¥	104.04	↓27.21%			
CAC 40	5438.23	↑2.08%									

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

Week Ahead

Monday –
Tuesday – Japan: Core Machine orders % y/y
Wednesday – United Kingdom: CPI % m/m
Thursday – Germany: Composite PMI index

Friday – United Kingdom: Retail Sales (ex Auto Fuel) % m/m

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