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BRIEFING NOTE – FOR IMMEDIATE RELEASE

Fidelity and the Stock-Pickers

Fidelity is imminently to announce the manager who will succeed Anthony Bolton in running the group's UK-mandated Special Situations fund. Depending on who this is to be, we could see a repeat of last year's events, when the fund was split and Bolton's retirement was announced: a significant exodus of investors from the fund.

One of the beneficiaries of this move was the then Merrill Lynch's UK Special Situations fund.

The Bolton legend and the move to Merrill can be seen in context from Table 1 below. Neither fund features in our list of the top 10 performers over the past 3 years.

| Table 1: IMA UK All Companies Sector | | | |
|--|-----------------|-----------------|----------------------------|
| Top 10 Funds by 3 Year Performance | | | |
| Fund Provider – Fund Name | 1yr TR % | 3yr TR % | Total Expense Ratio |
| Old Mutual - UK Select Mid Cap | 21.8 | 113.0 | 1.54 |
| Rensburg - UK Mid Cap Growth Trust | 28.0 | 112.0 | 1.57 |
| Standard Life Inv - UK Opportunities | 24.9 | 99.9 | 1.70 |
| Schroder - UK Mid250 | 22.0 | 98.4 | 1.69 |
| Allianz Global Investors UK - RCM UK Mid Cap | 19.3 | 96.6 | 1.80 |
| Baring - UK Equity Mid Cap I | 21.4 | 96.0 | 3.58 |
| Aberdeen - UK Mid Cap | 20.0 | 93.3 | 1.58 |
| CIS - Sustainable Leaders Trust | 26.6 | 91.5 | 1.49 |
| HSBC Investments (UK) - FTSE 250 Index | 19.3 | 91.3 | 0.89 |
| SVM - UK Opportunities | 16.6 | 91.1 | 1.77 |

Raw performance isn't everything, of course. Alpha is a broad measure of how much better than its benchmark a fund is performing. In our next table, we list the top 10 funds by Alpha.

| Table 2: Top 10 Funds by Annualised Alpha | | | |
|--|-------------------|------------|----------------------------|
| Fund Provider – Fund Name | Ann. Alpha | r 2 | Total Expense Ratio |
| Invesco Perpetual - Childrens | 7.26 | 0.69 | 1.70 |
| Capita - EPIC UK Equity | 6.43 | 0.84 | 1.43 |
| CIS - Sustainable Leaders Trust | 6.34 | 0.77 | 1.49 |
| Aberdeen - UK Mid Cap | 6.02 | 0.77 | 1.58 |
| Jupiter - Environmental Income | 5.97 | 0.76 | 1.77 |
| Rensburg - UK Select Growth Trust | 5.65 | 0.94 | 1.54 |
| Credit Suisse - UK Equity Alpha | 5.57 | 0.85 | |
| Rensburg - UK Mid Cap Growth Trust | 5.52 | 0.81 | 1.57 |
| BlackRock ML - UK Special Situations | 5.33 | 0.89 | 1.59 |
| Credit Suisse - Core UK Equity | 4.98 | 0.87 | |

While the BlackRock successor to the ML fund makes it into the top 10, we see no sign of Fidelity.

The Total Expense Ratio (TER) is a total of all the costs to the funds' investors. This is not just the Annual Management Charge, but includes other costs and charges to the fund which are usually buried in its Manager's Report & Accounts. BlackRock is one of the more expensive funds.

Alpha is a little rough and ready as a measure of how much value a manager's skill is adding to a fund's returns. The acid test for stockpickers is Information Ratio (IR). This takes the fund's return and deducts what could have been achieved relatively effortlessly: the risk-free rate that could have been earned on a cash deposit, and the return generated by the fund's benchmark.

This leaves the return that must have been due to the manager's market activity. This excess return is then divided by the volatility of that return, and we arrive at the amount earned for each unit of risk that the manager took on. Table 3 ranks the top 10 funds for IR.

| Table 3: Top 10 Funds by Information Ratio | | | | |
|---|------------|------|-----------------|---------------------|
| Fund Provider – Fund Name | Info Ratio | r 2 | Ann. Volatility | Total Expense Ratio |
| Rensburg Fund Mgmt - UK Select Growth Trust | 2.57 | 0.94 | 8.32 | 1.54 |
| BlackRock ML Mgrs - UK Special Situations | 1.98 | 0.89 | 8.99 | 1.59 |
| Old Mutual Fund Managers (UT) - UK Select Mid Cap | 1.83 | 0.85 | 12.16 | 1.54 |
| Rensburg Fund Mgmt - UK Mid Cap Growth Trust | 1.78 | 0.81 | 11.72 | 1.57 |
| Standard Life Inv - UK Opportunities | 1.65 | 0.82 | 10.70 | 1.70 |
| Allianz Global Investors UK - RCM UK Mid Cap | 1.61 | 0.86 | 10.82 | 1.80 |
| Standard Life Inv - Growth & Income | 1.60 | 0.90 | 10.54 | 1.35 |
| AEGON Asset Mgmt UK Plc - Ethical Equity | 1.54 | 0.89 | 10.07 | 1.62 |
| Aberdeen UT Mgrs - UK Mid Cap | 1.42 | 0.77 | 9.74 | 1.58 |
| CIS UT Mgrs - Sustainable Leaders Trust | 1.41 | 0.77 | 9.35 | 1.49 |

While Fidelity again fails to make an appearance, BlackRock's investors can feel justified by an excellent IR of 1.98 (a value of 0.5 is considered good). But there are other contenders for the crown here.

BlackRock's combination of high IR and failure to appear in the performance table suggests that it is making progress more through bets away from the benchmark, while missing out on the gains that were produced by the benchmark itself.

THE VERDICT

The funds that ring the right bells here – at a marginally lower cost in TER – are:

Old Mutual UK Select Mid Cap
Rensburg UK Mid Cap Growth

The two highest performances over 3 years translate into Information Ratios that qualify for the badge of excellence, at a marginally reduced cost in TER.

Source: All data and analysis sourced from Financial Express Analytics as at 30th April 2007. Performance: Total Return, bid-to-bid, income re-invested. The ratio benchmark is the UK All Companies sector average.

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