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Press Brief

## Financial Express Fund Report: Home or Away in Light of the Adviser Fund Index Rebalancing

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### Introduction

The rebalancing of the Adviser Fund Index (AFI) took place on the 1<sup>st</sup> May 2006. As each index is heavily invested in UK equities, this research was devised to determine whether investing in the UK involves missed opportunities. Should there be more focus on international equities? The research looked at the top performing funds, over three years, in four IMA sectors: UK All Companies, Asia Pacific including Japan, European excluding UK, North America. The data was compared to the fund selections made by the Panellists who contribute to the Adviser Fund Index, providing an aggregate view of advisers' attitudes to UK and international equities. The data is derived from Financial Express Analytics.

### The Findings

#### TOP PERFORMING EQUITY SECTORS IN THE STUDY

- The data illustrates that the top performing funds overall are from the Japan sector, but that there are some very highly rated UK funds
- Japan funds have very high volatility, combined with good returns, whereas UK funds tend to have lower volatility and similarly good returns

#### Adviser Fund Index

- In all three AFI indices, UK equities are the dominant equity asset allocation
- in the AFI Aggressive index there is a high proportion of UK funds suggesting that advisers believe good returns are possible from UK companies
- As the portfolios become more cautious the concentration in UK remains high but weighting in Asia Pacific, Europe and North American equities decreases

#### BOTTOM PERFORMING SECTOR IN THE STUDY

- Analytics data shows that the North America sector is the worst performing sector in the study, and in fact the bottom five funds in the study overall are all invested in North America.

#### Adviser Fund Index

- All three AFI indices have low weightings in North America and the AFI Panellists have decreased their reliance on North America in the latest rebalancing of the indices.

- This reflects the Panellists' knowledge of the market, onshore and overseas, and the potential risk of low returns from North America funds.

#### **EUROPE EXCLUDING UK**

- Europe excluding UK sector produces a good level of return for an average level of risk

#### **Adviser Fund Index**

- Europe excluding UK is still quite popular in the Cautious portfolio, showing that advisers recognise that this area can produce good returns with moderate risk.

#### **FURTHER ANALYSIS OF THE UK ALL COMPANIES SECTOR PERFORMANCE**

- The top performing UK funds offer low R-squared ratios, suggesting that superior stockpicking enables the fund managers to go against the sector trend and produce good returns.
- These funds also offer high Information Ratios, showing that their deviations from the benchmark are in fact paying off.

#### **Adviser Fund Index**

- The AFI Panellists are clearly experienced at fund selection and this expertise is has its own rewards in the good returns.
- More importantly, these good returns are outperforming the major equity indices.
- The UK All Companies sector is a good sector to invest in, providing the choice of funds is appropriate, and the AFI Panellists demonstrate this skill well.

#### **CONCLUSIONS**

If funds are chosen carefully, more value can be gained by investing in the UK: the superior performance of funds investing in UK equities is reliant on the expertise of the fund manager, however this would involve a degree of confidence in manager's track record and abilities. For the more aggressive investor, who is less concerned with the actual fund they are investing in, the Japan sector offers the prospect of good returns albeit at a higher level of risk.

The latest rebalancing of the Adviser Fund Index shows that the AFI Panellists are capable of selecting high performance UK funds, optimising return whilst minimising risk. The AFI shows that UK equities are by far the most popular source of equities for advisers to be recommending, irrespective of the portfolio objectives. Advisers are able to take advantage of certain fund managers' expertise, selecting relatively safe funds which have a history of producing excellent returns.

*Source: Financial Express Analytics – data tables of the above illustrations are available upon request.*



ADVISER FUND INDEX  
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The Adviser Fund Index is made up of the recommended portfolios from a panel of leading investment advisers (eg Bates Investment Services, AWD Chase de Vere, Bestinvest, Christows, Charles Stanley, Chartwell, Towry Law - for a full list of Panellists, see Notes to Editors). This is the first time an index has been created for funds, and that is based on financial adviser recommendations. Each index has consistently outperformed its APCIMS equivalent in the last year, and in the case of the AFI Aggressive, the panel has outperformed the FTSE All Share. The AFI represents real fund recommendations made by real advisers on behalf of real clients.

Adviser Fund Index daily performance, constituents and methodology is available at [www.trustnet.com/general/afi.asp](http://www.trustnet.com/general/afi.asp). Factsheets summarising the major changes in the Adviser Fund Index are also available for each index.

#### ENDS

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