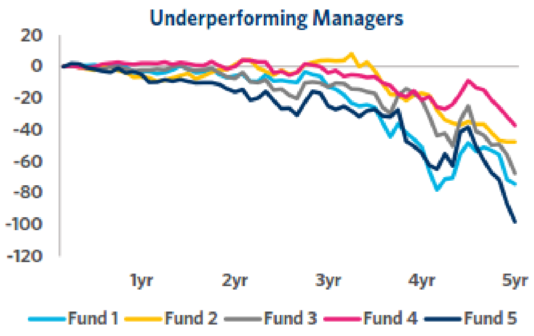
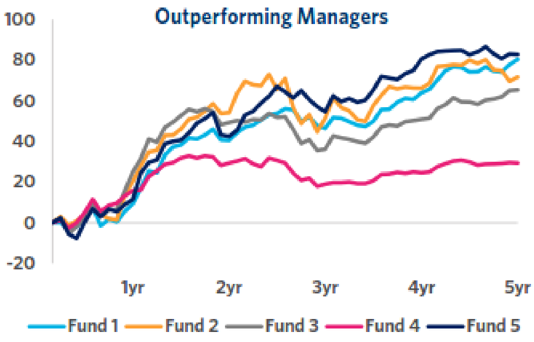
Global Matters Weekly

5 July 2021

Past performance is not indicative of future results – by Gary Moglione

"Past performance is not indicative of future results" is a compliance warning on most investment oriented material that everyone knows but not many people seem to actually implement into their decision making. A Fund Managers performance can dictate whether they become a hero or villain in the eyes of the public and the press. This then influences investment flows and ultimately determines whether the fund thrives or is liquidated. The charts below highlight the relative performance of two groups of US Equity funds versus the S&P 500 index. One group is amongst the worst performers with average underperformance of 64.9% over 5 years whereas the other group have posted almost a mirror image of 65.9% outperformance.





Source: Bloomberg Finance L.P., Momentum Global Investment Management

That's a huge 130% difference in returns between the averages of the two groups. Are there any key differences in the structure or processes that would help identify good managers and bad managers? As you may have guessed, the answer is no because there are no differences. Both charts show the same 5 US Equity value managers but in two subsequent five-year periods (Dec 94 to Dec 99 and Dec 99 to Dec 04). By the end of 1999 the underperformance of value managers was so severe that value managers were being sacked, replaced and retiring as they struggled with falling assets under management and the press questioned whether value investing worked in this new technology led environment.

They were struggling to attract inflows as investors preferred the spectacular returns delivered by the world changing technology companies that growth managers had invested in. Sounds very familiar doesn't it? The next few months saw the bursting of the tech bubble followed by seven years of strong performance from value strategies. If you step back and look through history there have been constant, sometimes violent, swings between styles. The recent success of growth stocks has been one of the strongest and longest in history. It has been so great that investors under the age of 35 have really only seen one type of market throughout their career. Due to the longevity of this growth cycle, investing in yesterday's winners has been a profitable strategy for a long period but this will come to an end at some point. Inflection points can be so painful for investors that fail to appreciate the effect of a change in environment and sentiment. The market's strongest performers tend to change every decade and we have seen Nifty Fifty in the 1960s (Growth), Commodities in the 70s (Value), Technology in the 90s (Growth), Banks and Commodities (Value) in the early 2000s and then the FAANGs (Growth) in the 2010s. As with the swing in style preference there then are changes in the personalities perceived as investment gurus who then grow assets considerably based on a tailwind of style fuelled performance. We can see this in the past couple of decades with the rise and fall of value investors Neil Woodford and Mark Barnett (although they may have heightened their fall by holding illiquid assets when investing into a severe style headwind) only to be replaced in the last decade by growth investors such as Baillie Gifford and Fundsmith. History suggests the outcomes for these two high profile companies could be very different over the next decade compared to the previous one if their strong growth tilt persists.

The examples in the charts above are extremes in that I have chosen managers with a strong style bias and the performance periods straddle a significant inflection point this time around but the message is clear. Historic performance is worth looking at but can be misleading, take a longer-term view and take into account the type of environment the fund has been operating in. However, with inflation expectations rising there is the potential that the inflection point has already passed but we still need to be positioned for the next few years of a new cycle. Investors should be looking at their portfolio with a critical eye to see if they have been blinkered by the success of growth over the past decade and left with a strong, potentially unintended, style bias.

Global Matters Weekly

5 July 2021

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

Belvest 研富