FINANCIAL POST

Slicing and dicing balanced fund performance

Tue Oct 16 2012
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Slicing and dicing is a favourite sport of many analysts. It's also a game in which, depending on the analysis, everybody can - and does - end up a winner.

Our slicing and dicing was applied to the performance for the country's balanced funds during the third quarter. The underlying numbers were compiled by API Asset Performance Inc., a pension consulting firm, which measures the results of the 88 funds included in its survey. API then ranks those gross returns, meaning fees haven't been deducted, according to quartiles. The numbers are preliminary and represent only those funds for which data was received prior to the cut-off date.

And more analysis is possible, given that API also publishes the performance for the same group of funds over four other periods: the year to date, one year, two years and four years. (If the fund hasn't been around for that length of time, then it's excluded for our slicing and dicing. Only four of the funds included in API's survey don't have a four-year track record.)

The goal was to find funds which have been in the first quartile for the five time periods. A first quartile ranking means that the fund has posted a return that is better than three-quarters of the funds being measured.

Guess what? It's an exclusive club with just two members: Bissett Canadian Balanced Fund (which has posted a four-year return of 7.9%) and the CC&L High Income Fund (which has posted a four-year return of 12.8%.) Maybe there's something about being a manager from the West. The median return over the five time periods runs this way: 3.6% (last three months); 6.5% (year to date); 10.5% (one year); 5.3% (two years); 6% (four years.)

There is another club: those funds that haven't posted a first quartile performance for any of API's five time periods. And that club is considerably less exclusive: 36 funds haven't posted a high enough return over the five time periods to be ranked in the top 25% of managers. Given that 84 funds were measured, the numbers mean that almost half the funds were a constant among the 75% crowd. And the 36 funds include some big name managers: BMO; Fiera Capital; Great-West Life; London-Life and MFS.

API also generates a return based on a so-called passive index, the result that flows from no active management by the manager. That calculated return emerges after a number of indexes including the S&P/TSX, S&P500, DEX Universe Bond and S&P EPAC largecap are combined with the actual asset allocation of institutional investors.

Over the five periods, passive investing has never generated a top 25% performance. The best result occurred over the past three months when the strategy posted a second quartile performance. The worst result occurred over the past twelve months: a 9.2% return and a fourth quartile performance.

So what do the numbers mean?

For pension fund trustees, while the short term numbers are interesting, the focus is meant to be on the consistency of performance over longer term, which is at least four years. In other words, the trustees want managers to generate above median performance on a regular basis. They also want to ensure the manager is adhering to the investment thesis.

But, the consultants argue, the trustees should also be looking at the manager's performance in both down and up markets - particularly the former. The managers's goal is to maintain the fund's capital base because underperformance often requires contributions from the plan sponsor.

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