CITYWIRE NEW MODEL ADVISER

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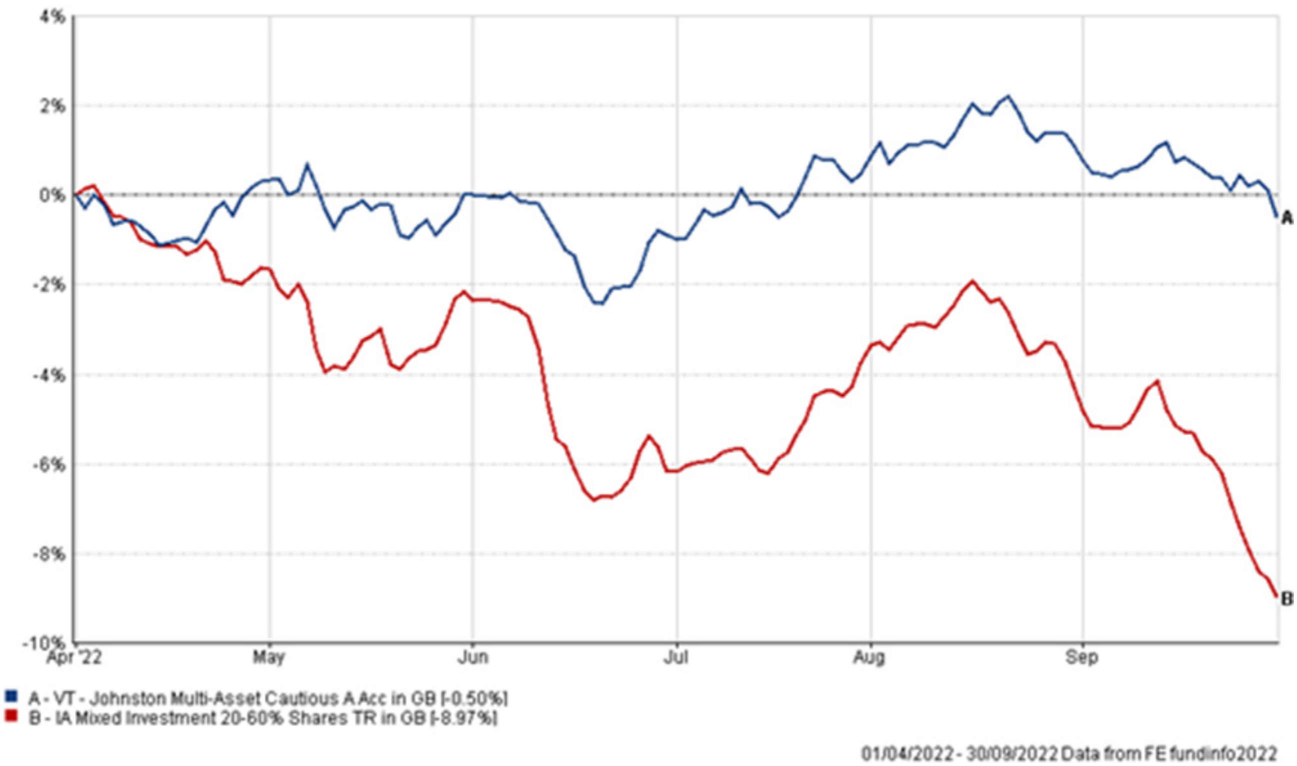
Simon Evan-Cook: The funds that made my new portfolio lineup

After a short stint preaching from the sidelines, our fund-of-funds insider is once again walking the walk.

BY **SIMON EVAN-COOK**

I am back investing clients' money and have been since the start of April. After my short stint preaching from the sidelines, I thought I'd walk you through my starting portfolio: was it just preaching or am I walking my talk?

Performance of the VT Johnston Multi-Asset Cautious fund since Simon Evan-Cook became its investment adviser in April



Firstly, note that I am back with funds of funds, not model portfolio services (MPSs) or discretionary fund management services (DFMs). If you want to run top-performing portfolios of funds, which I do, funds of funds are the best vehicles.

This is partly because they do not have the tax and administrative complications of MPSs and DFMs, which leaves managers freer to concentrate on purely investment matters.

Then there's the flexibility: the decade's biggest winners will likely be found among today's smaller, newer funds (Fundsmith was a petite £25m when it launched in 2010, now it's £21bn).

As a manager, I do not want to miss their sweet spot while I wait for them to list on a specific platform (I buy direct from the manufacturer), or to grow to a certain size before they are viable for my whole client base. This is a handicap for many non-unitised fund portfolios.

The transparency of a daily-priced fund of funds keeps me honest too: its holders can easily compare my portfolios' performance with anything they like, over any period they like. This is an all but impossible task for most MPS and DFM offerings, making due diligence difficult.

This fresh air and sunlight keep me focused on how the portfolios will perform going forward. I'm buying these funds for how they will perform tomorrow, not for how they look on a client's coffee table today. It also incentivizes me to act differently to the herd (when warranted), and not to hide in it.

With that flexibility, I have picked what I think will be some of the best funds of the next 10 years (not the last). My bet is you won't find many of these in the industry's heavyweight MPS offerings.

On the equity side of the portfolio, here's how they lined up on Day One:

Global Equity

- BNY Mellon Global Infrastructure Income
- Evenlode Global Equity
- Lazard Global Equity Franchise
- LF Havelock Global Select
- S&W Kennox Strategic Value
- Vanguard Global Sustainable Equity

UK Equity

- Allianz UK Listed Opportunities
- TB Whitman UK Small Cap Growth
- VT Cape Wrath Focus
- VT Castlebay UK Equity

Asia & Emerging Market

- Aikya Global Emerging Markets
- Coupland Cardiff Indian Subcontinent
- IUP Zennor Japan
- Sephira GEMs Long-Only

European Ex-UK Equity

- Berenberg Europe ex UK Focus
- LF Lightman European
- LF Montanaro European Income
- Stewart Investors European Sustainability

North American Equity

- HC Snyder US All Cap Equity

There are plenty of reasons why I made this selection. Here are five of the big ones.

Highly active

My portfolios invest in lots of companies, making them well diversified. But, because they are all selected by talented, experienced, diligent humans (yes, even the Vanguard fund is active), I am assured that every stock I own has been thought about deeply, and not bought as filler.

So there are no equity trackers. This is the logic: if you are confident you can pick funds that, after charges, will beat the market, why would you waste even 1% of your portfolio on a tracker? If you're not confident you can do that, then picking active funds is no more than a punt. So 100% of your portfolio should be in trackers.

If you're running a mix of both, what does that say? That you're not sure you can pick winning active funds but are having a crack at it anyway? That you're using passives to closet-track the herd? Or that you're cynically diluting future performance to optically reduce charges? I don't get it.

Reasonably sized

All other things being equal, small funds are easier to manage than large funds. If they're good, managers of smaller funds will make better returns as they have more freedom to move positions and can take decent stakes in smaller companies if that's where the best opportunities are.

So why do some fund portfolio services dismiss any fund less than £500m?

No good reason, that's for sure, which is why I only hold right-sized funds. My largest is just shy of the £500m needed to get some fund selectors out of bed, while the average is a Goldilockean £133m.

Reasonably priced

Another advantage of smaller, newer funds is that they're keen to do business. So, despite whale funds' supposed economies of scale, the real bargains swim with the minnows.

This means that, while my equity portfolio is stewarded entirely by first-class managers, my holders aren't paying through the nose for it.

Split between global and regional specialists

Half of my equity portfolio is invested with global managers. This reflects the uncomfortable truth that allocating from the top down by region is basically a fantasy, Most markets' largest stocks are multinationals, driven by global conditions, not local ones, which is one reason why believing you can time markets using macro-analysis is like believing you have 'the force'.

Instead, my global managers act like a hive brain: they dictate their collective regional exposure from the bottom up, based on where they're finding the best ideas. Think about it: centralised, top-down control doesn't work well for economies, and there's no reason to think it does for investing either.

I do, however, still favour buying and holding regional specialists to dig into corners of markets that global managers might miss. So, in this half of my equity book you'll find more exposure to small- and mid-caps, where great active managers can really crank up the alpha.

The trees are focused, the forest is balanced

Each of these fund picks has a particular edge they can work repeatedly. This often means they have a particular style, such as, crudely, value or growth. This focus is what will drive market-trashing returns for them over the next decade.

However, as we've seen with high-growth funds this year, they won't come in a straight line. So, the blend above represents a mix of styles, held to iron out extreme waves of relative performance. Timing entry and exit from these styles is like timing regional markets – basically impossible – which is why this balance is a permanent feature.

Finally, the non-equity part. This is even simpler: no funky alternatives, hedge funds or structured products. In fact, it's just developed market cash or government bonds.

Here, in keeping with what I said above, it's all passives. I don't believe I can find government bond fund managers who can beat their market, so why would I pay extra for them?

I favour government bonds because, usually, they can be relied on to rise when equity markets are panicking. But it was important to retain cash as an option, as there will be times, such as earlier this year, when longer duration bonds become too risky.

As April began, my non-equity portfolio was simply an even split of dollars and pounds; an insurance policy I've now largely cashed in given the extraordinary moves of the last six months. There was plenty of bang in those bucks, but markets have moved on.

That's all added up to a satisfactory start in unusually challenging conditions. With this set of managers stewarding my holders' capital, I am confident about what comes next – whatever that may be.

Simon Evan-Cook is a fund manager at Downing Fund Managers. Before that he was a Citywire AAA-rated fund-of-funds manager at Premier Miton. He blogs at nevermindthesilverbullets.com.

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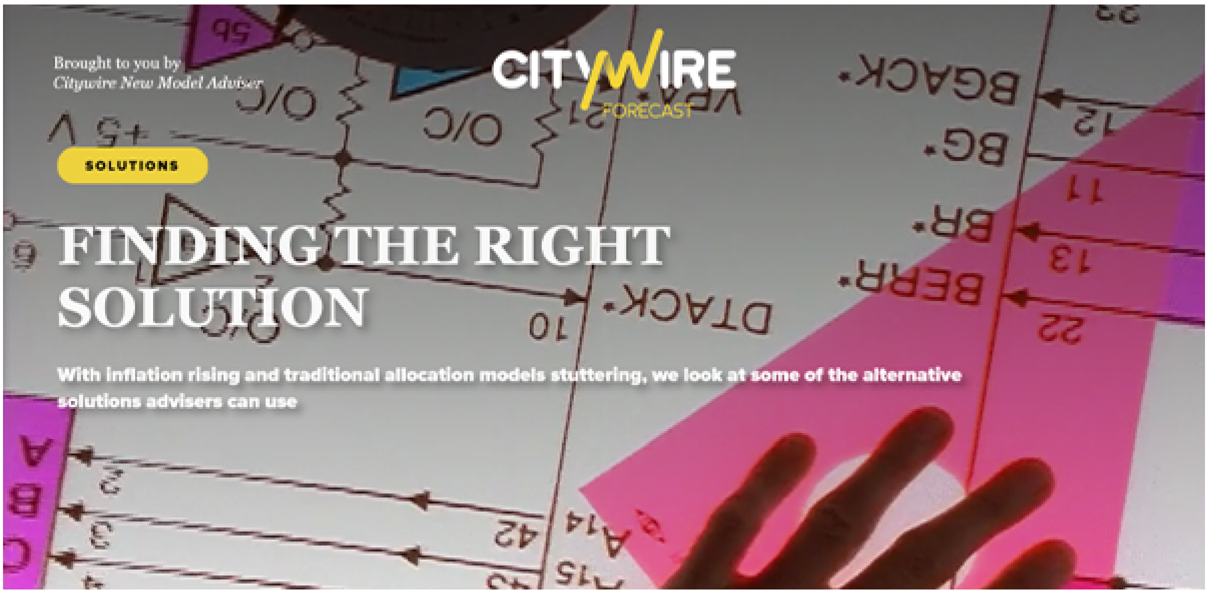

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