FUND MANAGER FOCUS

JOHANNESBURG: I often receive emails from people asking me for more information on a fund or fund manager that I have mentioned in a previous article. Most recently, many readers have been asking for more information about the Foord International Trust (FIT) after I mentioned Foord and their excellent investment track record. This is the first fund manager focus that I am doing and the idea is to ask fund managers to tell us about some of their reasons for success. Incidentally, I am a big fan of Foord but I do not invest in the FIT nor do we allocate client money to the fund, so this is not a glorified marketing pitch.

GREAT INTERNATIONAL SUCCESS

The FIT was launched in March 1997 and since that time has generated an annualised return of 7.7% per year in USD. Over the last 10 years, the fund has generated 7.6% per year compared to 3.5% p.a. for the S&P 500 and 3% per year for the MSCI World Index. This difference in performance is remarkable when compared to the large international equity indices. You could argue that it is not fair to compare an asset allocation fund to the equity market however FIT compares just as well to the very best international funds too. US News ranked Sextant International as its best international mutual fund in 2010. The fund has generated 6.9% per year over the last 10 years which is still below FIT's 7.6% over the same period. This is truly remarkable for a comparatively small investment house based in Cape Town.

HOW DO THEY DO IT?

I asked Bruce Ackerman, the co-manager of the FIT, how they have managed to achieve this performance. Bruce's reply, *"we have an unusually long time horizon for investing, thereby avoiding many pitfalls. We have not deviated from our strategy imposed when the unit trust was started in 1997 of focusing on a very concentrated but adequately diversified portfolio of high quality assets, the merits of which were not in our estimation reflected in market values."*

"Long term investment themes are identified and then the best means of implementing them are used, typically favouring large, best of breed companies but obviously valuation dependent. We emphasize a low risk approach to investment, having no derivatives or gearing at any time."

"Being based away from a major financial centre would have been a severe hindrance in terms of information flows only a few decades ago. Now distance can allow a manager to focus on relevant information rather than 'noise' of which there is an abundance."

WHAT ABOUT 2011?

I wanted to know what they were anticipating for the year ahead, especially their view on international equities. *"We are optimistic about prospective returns from equity markets this year which is why we have raised our equities to nearer to the top end of our normal maximum range, bearing in mind that as an asset allocation fund, some diversification should be preserved. Equities should continue to benefit from continued nominal interest rates and low bond yields as governments seek to promote economic growth and facilitate the servicing of their burgeoning debts. Major companies typically are in rude* *health, with strong cash flow, profits growth and balance sheets as they have focused on cost control and reduced dependence on bank finance since the recession. Valuations therefore do not appear excessive despite the market rises seen in the past 2 years."*

"The underlying imbalances in the world economy have not magically disappeared however, in that the US budget deficit appears unsustainable and is dangerously reliant on foreign buying of its debt. Europe and Japan appear condemned to slow growth if only for demographic and debt burden reasons. Emerging economies will be the source of the bulk of economic growth despite facing a more bracing monetary environment to combat inflation. Longer dated bonds offer inadequate yields to compensate for the eventual normalization of interest rates and inflationary risks past this year."

YOU HAVE SOME INTERESTING POSITIONS IN ETF'S

"Physical commodities have distinct attractions (at times) in a resource short world, but are unlikely to exceed 10% of our portfolio given their volatility and lack of income stream. Exchange Traded Funds [ETFs] are a means of gaining direct exposure to commodity [and baskets of commodities] prices without having to take delivery of the commodity or be exposed to the corporate risks of commodity producer companies. In the case of gold, the ETF we use is backed by actual gold held by a custodian. In the case of the grains one [corn, wheat and soya beans], it is a synthetic instrument the price of which reflects the underlying commodity [forward] price basket."

ASSET ALLOCATION OR MARKET TIMING?

One of my major concerns about asset allocation funds is that they could rely on market timing. I strongly feel that it is almost impossible to do this over the long term. *"Admittedly it is very difficult to time markets. So we employ common sense by evaluating the cheapness or dearness in both absolute and relative terms of the major asset classes and markets and then determining to what degree we should deviate from our neutral asset allocation percentage. This neutral position is a function of the returns expected over the long term in different asset classes and their volatility /riskiness. This neutral position would only be resorted to in the highly unlikely event all asset classes [including cash/currencies] seemed fairly valued against each other. Our record however has shown that we have gained our performance advantage by our judicious stock selection [e.g. avoiding much exposure to the financial sector prior to the recession, identifying major investment themes timeously and buying into major well run companies when they were out of fashion] as well as asset allocation."*

For any serious investor, it is always fascinating to get the views of successful investors who have a long term, repeatable track record as we may be able to learn from them. This does not mean that you will always follow these views but at least you have a real source of information and not an ill-considered sound bite.