

**MULTI-MANAGER** New Star Asset Management's head of multi-manager Mark Harris talks about benefiting from taking a multi-levelled approach to multi-manager funds

# Finding a strategy that works and sticking to it

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**T**he managers and analysts on the New Star multi-manager funds, under the stewardship of Mark Harris, are a tightly-knit team. With five global and three regional portfolios managed by five investment professionals, it is part of the process that ideas are shared and many of the underlying funds appear across portfolios, albeit with different weightings.

The strategy that unites all of the global funds, and which is developed and implemented by Mr Harris, is currently based on his belief in the future potential in a number of emerging markets' continued growth and the impact that will have in a range of commodity markets, albeit in the face of current volatility.

"We raised a lot of cash at the beginning of the year when we became worried about the potential for a market correction," Mr Harris says. "We retained the cash and this helped performance through the market falls in January and March. We started adding in risk gradually around the lows in January and March. Consequently, we lost a bit of ground when the emerging markets had a further sell-off. However, we are now participating in those markets."

## Market opportunities

Mr Harris concedes it is difficult to make market calls at the moment, but sees opportunities presenting themselves across the markets as a result of the indiscriminate and widespread sell off, irrespective of fundamentals.

He also believes the Bear Stearns bailout orchestrated by the US Federal Reserve marked a significant low in sentiment.

The team meets formally once a week to go through their portfolios, a range of quantitative research for the funds they hold and any funds of interest. They also debate the results of their analytical work

and any recent manager meetings.

"We assess the probability of continued outperformance for any of the existing managers and the drivers of our recent performance," Mr Harris explains. "The main aim of the fund research is to offer an explanation of the drivers of fund performance so we can determine when and why a fund may out or underperform."

"We need to build a book of evidence to support our conclusions and increase our conviction in a fund. We consider five main characteristics when analysing funds: skill, process, construction, strategy and style."

For skill, the team looks at the past performance of the fund and decides whether the manager in question has any persistence in alpha production over their fund management career.

The process component is assessed in terms of whether the firm has a coherent, robust, but adaptive, capability in its investment decision making.

The manager should also demonstrate a good grasp of portfolio construction techniques, and show that "house" and "manager" views contained in the portfolio

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lio are one and the same. Finally, the fund is assessed on whether the actual overall style is consistent with the processes: is the fund doing what it claims to do?

While each fund of funds draws on the same central strategy, there are key differences in how they are constructed, with the £104m Tactical Portfolio<sup>†</sup>, which sits in the IMA Global Growth sector, given the most freedom and having higher risk.

Historically this risk has paid off, with the concentrated best ideas portfolio producing top-quartile returns over one, three and five years\*.

The fund currently has 17 holdings – substantially higher than in the past, when it has ranged down to as low as eight or nine underlying funds – with 45.6 per cent in Asia Pacific excluding Japan, 9.7 per cent in Latin America and 9 per cent in North America<sup>†</sup>.

One of the more interesting holdings is S&P Homebuilders SPDR, which was included to tap into the recovery story in this area. "In the US some housebuilders experienced a peak to trough drop of more than 70 per cent\*\*". At this level the stocks were pricing in most of the bad news and offered great potential. Despite all the adverse news they have rebounded nearly 60 per cent\*\*\* from the January lows this year," Mr Harris says.

The Active fund has also proved to be successful since launch, enjoying first quartile performance. It returned 5.02 per cent over one year, 48.84 per cent over three years, 140.38 per cent over five years and 215.32 per cent since it launched in June 1996\*.

A fund that has helped drive the performance of the Active, Managed, Balanced and Tactical portfolios has been Algebra-Alpha MENA, a Middle Eastern fund that plays into many of Mr Harris' current favoured themes. "This fund benefits from the oil revenues in the region, as well as the big current account surpluses. It also benefits from the demographics of the region, with a young workforce," Mr Harris says.

In spite of some funds featuring across all of the portfolios, Mr Harris insists he does not have favourites, stating that all of the funds are subject to ongoing analysis and can be sold at any time should their investment case become less compelling, or if a better option appears.

## Turnover

Overall, turnover across all of the funds has been high over the first quarter of this year, with market turbulence filtering down to portfolio construction decisions.

Mr Harris says: "There has been a massive shift in asset markets and we have taken a lot of action recently. I anticipate further violent action in the markets during the rest of the year and this may necessitate further changing the shape and disposition of the portfolios."

For Mr Harris it is the capacity to keep on top of changing circumstances, making use of a team of analysts and reams of both quantitative and qualitative data that puts multi-managers in a position of strength. He feels the case for choosing a fund of funds is stronger now than it has ever been.

"It is my job to keep an eye on what styles are working and to see if there are any changes in the market conditions and change the funds accordingly," he says. "If IFAs can do this – great. However, if they do not feel they can, they should hand it over to someone they feel is capable."

"We try to protect money in downmarkets as best as we can and try to make as much as we can in rising markets. We are trying to do the best for advisers and for their clients."

The funds of funds each contain the vision of the multi-manager team, and their central themes. It is noticeable that has resulted in a solid track record across the range since 2002.

The exposure to each idea is ratcheted up or down dependent on the risk profile of the fund, allowing investors with different needs to find a suitable home from one of the funds on offer.

Overall, it is the multi-levelled approach combining qualitative and quantitative elements in an iterative process that sets the New Star multi-manager offering apart.

As markets get tougher, the broad universe of multi-manager funds will be tested, but Mr Harris and his team are sure their offering is up to the test.

Past performance is not necessarily a guide to future performance.

<sup>†</sup>at 29.02.08

\*Source: Lipper mid to mid net income reinvested at 29.02.08

\*\*Source: Lipper from 20.07.05 to 10.01.08

\*\*\*Source: Lipper from 15.01.08 to 01.02.08

Note: The opinions expressed here represent the views of the fund manager at the time of preparation and should not be interpreted as investment advice

## Fund footprint

### New Star Tactical Portfolio Acc A

Launch date: 12/00

Fund size: £104m

Benchmark: n/a

Information ratio: 0.21

Sharpe ratio: -0.06

Tracking error: 2.95

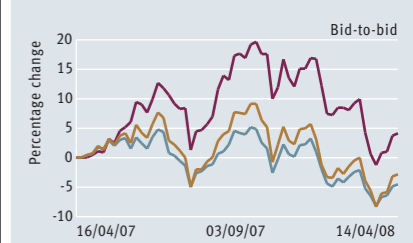
Volatility: 5.54

Note: Data as at 16/04/08

Source: Morningstar

### Three-year cumulative performance

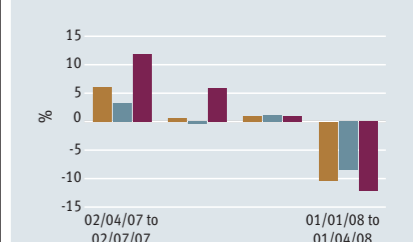
■ New Star Active Pftl Acc A (UT) -2.83  
■ New Star Balanced Pftl Acc A (UT) -4.52  
■ New Star Tactical Pftl Acc A (UT) 4.14



Source: Morningstar

### Discrete quarterly performance

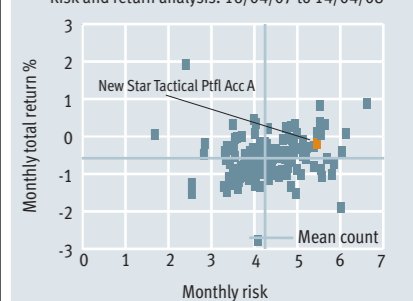
■ New Star Active Pftl Acc A  
■ New Star Balanced Pftl Acc A  
■ New Star Tactical Pftl Acc A



Source: Morningstar

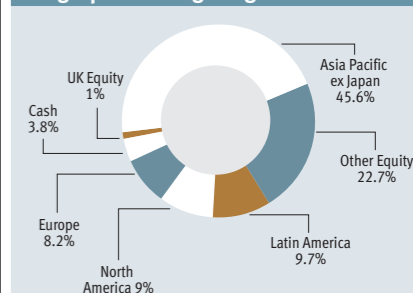
### Volatility v return profile of Tactical Pftl

Risk and return analysis: 16/04/07 to 14/04/08



Source: Morningstar

### Geographical weightings of Tactical Pftl



Note: Data as at 29/02/08

Source: New Star Asset Management

