FINANCIAL PARTNERS

Weekly Digest

Week ending **10 April 2016**

An Active Defence

The debate on whether active management is worth the cost has been raging for some time now, and it seems that investors are becoming somewhat disillusioned. The argument centres on the fact that an average active manger cannot beat their benchmark: the average active manager is, well, rather average. At the same time, passive investment shops are cutting costs at breakneck speed, and highlighting the benefits of index-investing. Why pay high fees for average performance, when a cheap alternative gets you your benchmark?

Indeed, the average active manager will, by definition, not outperform the index. A market-cap weighted index is made up of the aggregate positions of all active investors, making it impossible for the average manager to outperform. The average tree is not going to be taller than the forest. Moreover, when fees are subtracted, it becomes impossible for the average active manager to meet the performance of an index (which is costless).

Should we simply go passive then? A recent spread in the FT* exclaimed that 81% of US large-cap mutual funds underperformed the S&P 500 in the first quarter of 2016. It's a short period for comparison, but a damning indictment nonetheless. Not only does the average manager fail to outperform their benchmark, the majority of managers don't either! Are facts like this the final nail in the coffin of active management? I would argue the exact opposite: they illustrate the value of careful manager selection.

Consider flipping the FT's statistic on its head: 19% of active large-cap managers outperformed the average (the index) in the US. One in five gave you alpha last quarter. Not bad considering the challenging environment we are currently in. Moreover, the best managers will be in that top quintile over longer, more meaningful periods of time, may provide significant reductions in volatility, and could give you valuable micro insights – useful for informing asset-allocation and portfolio construction decisions. These attractive attributes are not captured by basic performance metrics.

Finding managers that will outperform, while also understanding that the majority of managers will not be able to, is therefore key. It means getting to know the managers and their processes thoroughly, and to be critical at all times. It requires looking past clever marketing and sales techniques, beyond the jargon and convoluted organisational structures. It means understanding that it is important for the manager to be nimble when buying and selling holdings and not be constrained by large assets under management. The importance of aligning interests between the portfolio managers and the end-investor is paramount. It also means paying a fee that may initially be significantly more than a passive product. But when alpha is generated on a consistent (and compounding) basis, it implicitly becomes expensive to go passive. Value, and not cost, should dictate the decision to invest.

This is not to say that passive investments have no place at all. They do, and can be a useful tool in implementing certain asset allocation decisions. But allocating passively means that you ride along with the decision making of all active managers (including those ones who aren't very good). Better to focus efforts on finding the best – and then sticking with them. Kiss a lot of frogs, and then marry the prince.

* "Worst performance in two decades delivers fresh blow to active funds", Financial Times, 5 April 2016

Source: Bloomberg. Returns in US dollars unless otherwise stated.

FP FINANCIAL PARTNERS

Weekly Digest — Week ending **10 April 2016**

The **Marketplace**

- Eurozone unemployment continues to fall
- 10-year Bund yield dip below 0.1%
- Q1 US GDP forecast downgraded
- Yen at 17-month high against the dollar
- Oil rallies by 8.5%

Market **Focus**

Europe

- At the start of the week (the 4th April 2016), the Eurozone unemployment rate printed 10.3% in February, down 0.1 percentage points from the revised January number. This was in line with expectations.
- On Tuesday (the 5th April 2016), the 10-year German Bund yield fell below 0.1% for the first time since April last year, finishing the week at 0.095%.
- The MSCI Europe Bank Index declined by 3.0% in euro terms, falling for the fourth consecutive week. Year-to-date, the index has lost 22.3% in euro terms.

USA

- A week of disappointing data out of the US was rounded off on Friday by the Wholesale Inventories number. Inventories fell by 0.5% month-on-month, compared to expectations for a smaller decline of 0.2%. The Wholesale Trade Sales number also declined, falling 0.2% (consensus forecasts were for a 0.2% rise).
- The Atlanta Federal Reserve downgraded its first quarter real GDP forecast from 0.4% growth to just +0.1%, following the trade and inventory numbers.

Japan

- The yen finished the week at its highest level versus the dollar since October 2014, rising to JPY 108.0. This represents an appreciation of circa 14% from the yen's 2015 trough of JPY 125.6, and a rise of circa 10% against the greenback year-to-date.

Commodities

- Oil rallied on Friday, with Brent crude reaching USD 41.9 per barrel, after a gain of 6.4% on the day. This added to Wednesday's (the 6th April 2016) 5.2% rally, and brought the weekly price rise to 8.5%.
- US crude inventory volumes declined by 4.9 million barrels last week, sparking the rally in oil. The market had expected a continued increase in inventories.

Scott Gordon & Jonathan Adamson

Source: Bloomberg. Returns in US dollars unless otherwise stated.

FP FINANCIAL PARTNERS

Asset Class/Region	Currency	Currency returns			
		Week ending 08 Apr. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	-1.2%	-0.5%	0.6%	-0.1%
United Kingdom	GBP	1.1%	0.5%	0.7%	-7.7%
Continental Europe	EUR	-0.3%	-1.5%	-8.5%	-16.1%
Japan	JPY	-1.1%	-4.4%	-15.9%	-17.2%
Asia Pacific (ex Japan)	USD	-1.1%	-2.6%	-0.8%	-16.9%
Australia	AUD	-1.2%	-2.8%	-5.5%	-13.2%
Global	USD	-0.4%	-0.9%	-1.2%	-5.8%
Emerging Market Equities					
Emerging Europe	USD	0.6%	-1.3%	12.8%	-12.2%
Emerging Asia	USD	-1.0%	-2.3%	-0.4%	-18.1%
Emerging Latin America	USD	-2.8%	-3.1%	15.4%	-17.5%
BRICs	USD	-0.7%	-1.7%	-0.4%	-23.0%
MENA countries	USD	0.5%	0.5%	-2.3%	-17.8%
South Africa	USD	-0.8%	-3.0%	10.4%	-23.5%
India	USD	-2.9%	-3.3%	-5.5%	-18.3%
Global emerging markets	USD	-1.1%	-2.3%	3.2%	-18.0%
Bonds					
US Treasuries	USD	0.5%	0.4%	3.8%	2.7%
US Treasuries (inflation protected)	USD	0.2%	0.1%	4.8%	0.7%
US Corporate (investment grade)	USD	0.4%	0.3%	4.3%	0.7%
US High Yield	USD	0.2%	0.2%	3.6%	-4.1%
UK Gilts	GBP	0.5%	0.4%	5.7%	3.9%
UK Corporate (investment grade)	GBP	0.6%	0.6%	3.6%	1.1%
Euro Government Bonds	EUR	-0.1%	0.0%	3.5%	0.8%
Euro Corporate (investment grade)	EUR	0.3%	0.4%	2.9%	0.7%
Euro High Yield	EUR	0.2%	0.3%	2.3%	-0.1%
Japanese Government	JPY	0.2%	0.8%	5.5%	7.3%
Australian Government	AUD	0.8%	0.5%	3.0%	2.2%
Global Government Bonds	USD	1.2%	1.1%	7.9%	6.7%
Global Bonds	USD	0.9%	0.8%	6.6%	5.1%
Global Convertible Bonds	USD	0.1%	-0.2%	-0.3%	-2.6%
Emerging Market Bonds	USD	-0.3%	-0.1%	5.8%	4.0%

Source: Bloomberg

FP FINANCIAL PARTNERS

Asset Class/Region	Currency	Currency returns			
		Week ending 08 Apr. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-0.6%	-0.7%	5.1%	1.9%
Australian Property Securities	AUD	1.5%	-0.4%	5.0%	2.8%
Asia Property Securities	USD	1.5%	-0.6%	0.3%	-6.9%
Global Property Securities	USD	0.5%	-0.2%	4.7%	-1.4%
Currencies					
Euro	USD	0.1%	0.1%	5.0%	5.7%
UK Pound Sterling	USD	-0.7%	-1.6%	-4.1%	-5.0%
Japanese Yen	USD	3.3%	4.2%	11.3%	11.5%
Australian Dollar	USD	-1.5%	-1.3%	3.7%	-1.7%
South African Rand	USD	-1.9%	-1.4%	3.3%	-21.1%
Swiss Franc	USD	0.5%	0.8%	5.1%	1.3%
Chinese Yuan	USD	0.2%	-0.3%	0.4%	-4.1%
Commodities & Alternatives					
Commodities	USD	2.2%	0.7%	-0.2%	-21.7%
Agricultural Commodities	USD	-0.3%	-0.1%	-0.4%	-8.7%
Oil	USD	8.5%	5.9%	12.5%	-24.5%
Gold	USD	1.4%	0.5%	16.8%	3.1%
Hedge funds	USD	-0.4%	-0.4%	-2.4%	-8.3%

Source: Bloomberg

FP FINANCIAL PARTNERS

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

Financial Partners Ltd.
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

Important notes

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.