Market Update

18th June 2020

SQUARE MILE
INVESTMENT SERVICES

Those who regularly monitor the performance of absolute return funds have become accustomed to them not meeting expectations and the first quarter of 2020 was no exception. There are 120 funds within the IA Targeted Absolute Return sector and of these, only 23 gave a positive return over that period. While this might seem disappointing, in 2018 when global equity indices fell around 7% only 16 funds managed to produce positive returns. The first three months of 2020, which saw markets lose 20% of their value, were extreme and it might have been unrealistic to expect absolute return funds to preserve their value. If we were to set the threshold for acceptable losses at 3%, a further 17 funds will not have disappointed investors. While this means that 40 funds out of a universe of 120 managed to meet that target, two thirds of all funds failed to do so. Further down the scale, 28 funds in the sector lost their investors more than 10%. This is not in line with what absolute return investing sets out to do. Investors in these strategies may be happy to forgo double digit returns when markets are rallying strongly but will have an equal expectation that their capital will be preserved when they fall heavily.

Not all absolute return funds have disappointed, although a number of the better funds are unfortunately closed to new investors. One strategy which merits singling out is the BlackRock European Absolute Alpha fund. This fund, which was launched in 2009 and is held across a number of Square Mile's portfolio, has an impressive track record of producing positive returns during periods of market duress. Over the first quarter of 2020, for instance, it was up around 4%, while in 2018 it produced returns of 4.8%. Looking at its longer-term track record, it has produced annualised returns of some 4.5% which have been negatively correlated with those of the European stock market at around minus 0.14. These returns might seem relatively modest, but the fund's performance has been very consistent with the exception of 2016, which led BlackRock to review the team managing the fund as well as its process, bringing it back in line with the way it had been managed historically.

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