

# Equity Fund Analysis

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# Challenges to Equity Fund Investing

- ▶ Difficult to add alpha.
- ▶ Challenges from ETFs.
- ▶ **Lack of detailed information for fundamental analysis.**

# Equity Fund Analysis (Part 2)

*What should we do if we are able to perform fundamental analysis?*

▶ Process

▶ People

▶ Parent

# Process: BU or TD?

*Bottom-up or Top-down or a Blend of both?*

- ▶ Resources and Capabilities
- ▶ Track Record (Performance Attribution Analysis)

# Process: Flexibility?

*Is flexibility really good to investors?*

- ▶ Leverage (e.g. 150/50, 130/30)
- ▶ All-cap Approach
- ▶ Flexibility to Invest in Fixed Income Instruments

# Process: Innovation

*Is innovation always good for investors?*

- ▶ Hot Trends (e.g. IPO funds,  
Infrastructure equity funds)
- ▶ Alpha-beta Separation
- ▶ Multi-manager Approach

# People: Manager

*How does a great manager possess?*

- ▶ Credentials
- ▶ Experience
- ▶ Track Record
- ▶ Eagerness to Communicate

# People: Team

*How does a great team look like?*

- ▶ Coverage vs. Number of Analysts
- ▶ Average experience
- ▶ Structure
- ▶ Career Path
- ▶ Turnover



# Parent

*How does a great company look like?*

- ▶ Financial Strength
- ▶ Business Development
- ▶ Dedication to Asset Management
- ▶ Legal Issues

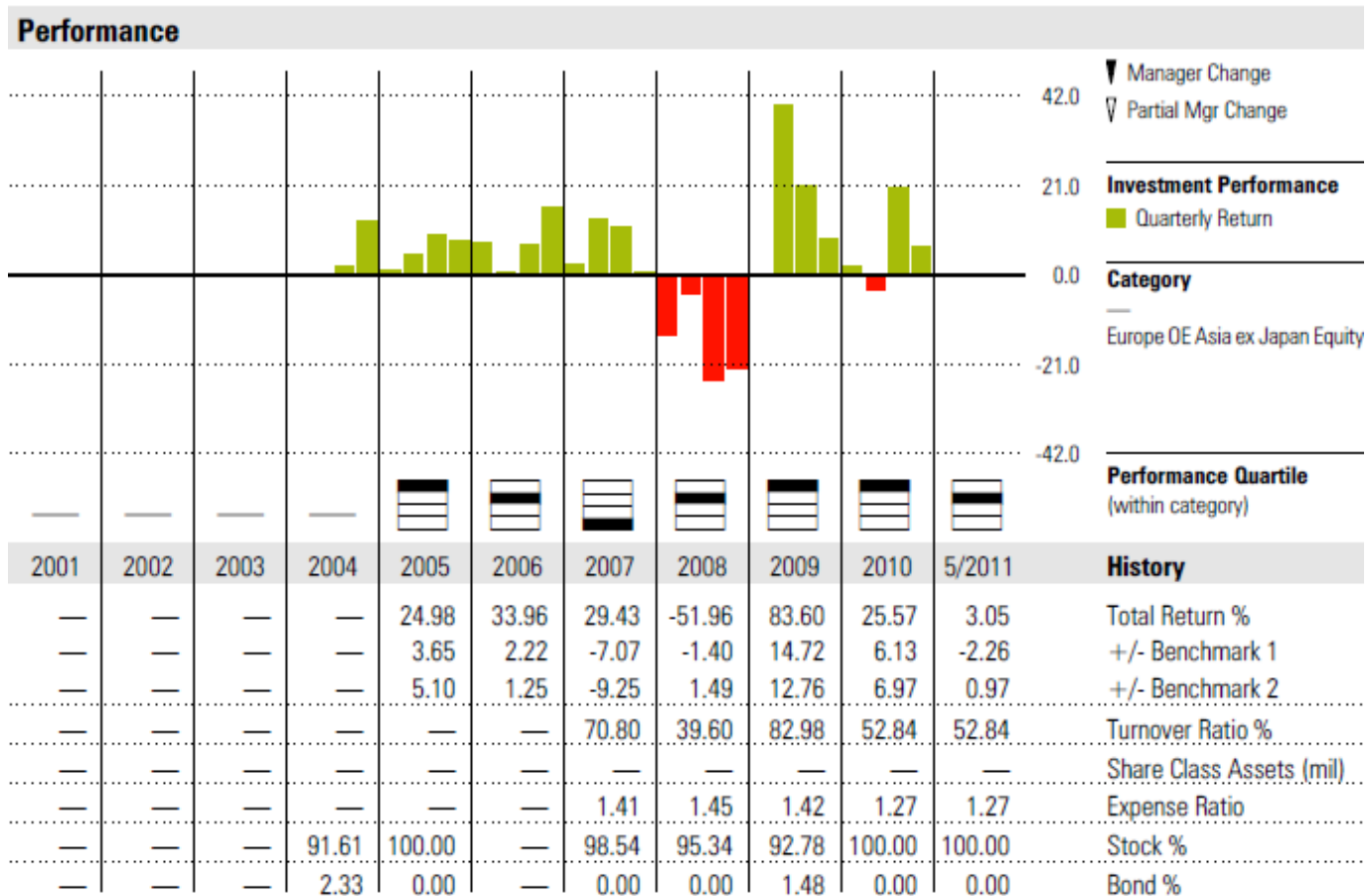
# New Fund Analysis

*How can investors evaluate a new fund  
with absence of track record, newness of  
investment ideas and uncontained  
enthusiasm?*

# CASE STUDY

# Background

## ▶ Subject: Asia ex-Japan Equity Fund



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## Return/Risk Analysis 6/1/2006 to 5/31/2011

	Inv	Bmark 1	Bmark 2
Cumulative Return	81.59	74.88	62.55
Standard Deviation	27.13	26.32	26.42
Sharpe Ratio	0.40	0.38	0.31
Sortino Ratio	0.59	0.55	0.46
Calmar Ratio	0.21	0.19	0.16
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Best Month	18.48	16.47	16.97
Worst Month	-24.47	-23.60	-23.75
Best Quarter	39.89	32.38	34.95
Worst Quarter	-24.86	-23.93	-24.97
% of Up Month	60.00	58.33	58.33
% of Down Month	40.00	41.67	41.67
Avg Monthly Gain	5.98	5.98	5.91
Avg Monthly Loss	-6.03	-5.73	-5.92
Gain Std Dev	16.43	15.06	14.87
Loss Std Dev	20.22	19.96	19.98

## Relative Performance 6/1/2006 to 5/31/2011

	Bmark 1	Bmark 2
Excess Return	0.85	2.47
Alpha	0.77	2.23
Beta	1.02	1.02
R-Squared	96.80	97.55
Tracking Error	4.87	4.27
Information Ratio	0.17	0.58
Treynor Ratio	10.60	10.60
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Up Capture Ratio	99.77	101.99
Down Capture Ratio	97.21	95.43
Up Number Ratio	0.91	0.94
Down Number Ratio	0.84	0.88
Up Percentage Ratio	0.54	0.51
Down Percentage Ratio	0.56	0.64

## People: Manager

- ▶ The manager took the top role in late 2007
- ▶ He has 18 years of investment experience, but this is  
the first portfolio he manages
- ▶ He is the Head of Research
- ▶ He also manages another Hong Kong equity mandate

# People: Investment Team

- ▶ Number of Analysts: 25 (13 yrs of exp. on average)
- ▶ Five investment specialists (16 yrs of exp. on average)
- ▶ Analysts are based in Hong Kong, Singapore, Taiwan and Sydney
- ▶ The team leverages ideas from the JV in Shanghai

# Process

- ▶ Initial Quantitative Screen: liquidity, size, corporate transparency
- ▶ Secondary Quantitative Screen:  $ROIC > WACC$
- ▶ Fundamental Analysis supplemented by company visits



# Parent

▶ History extends over 200 years and it is one of the

largest independent asset managers listed on the

## London Stock Exchange

▶ The compensation of managers and analysts is closely tied to fund performance versus competitors and benchmarks which help align their interests with investors.

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