



Portfolio and Market Review January 2020

Note to Advisers

Please find enclosed your year-end review. We have written this document in a manner, to allow you to edit, amend and distribute the content as you see fit.

Kind Regards,

The Betafolio Team.

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Introduction

We couldn't agree more with Paul Samuelson that an investment portfolio should aim for steady growth rather than taking risks for the chance of making gains, however exciting or tempting that may be. 2019 saw a continued trend for the UK retail market to adopt the same approach, with net outflows from active funds of £3.1bn and net inflows to passive funds of £21.5bn for the year to date at the end of October¹.

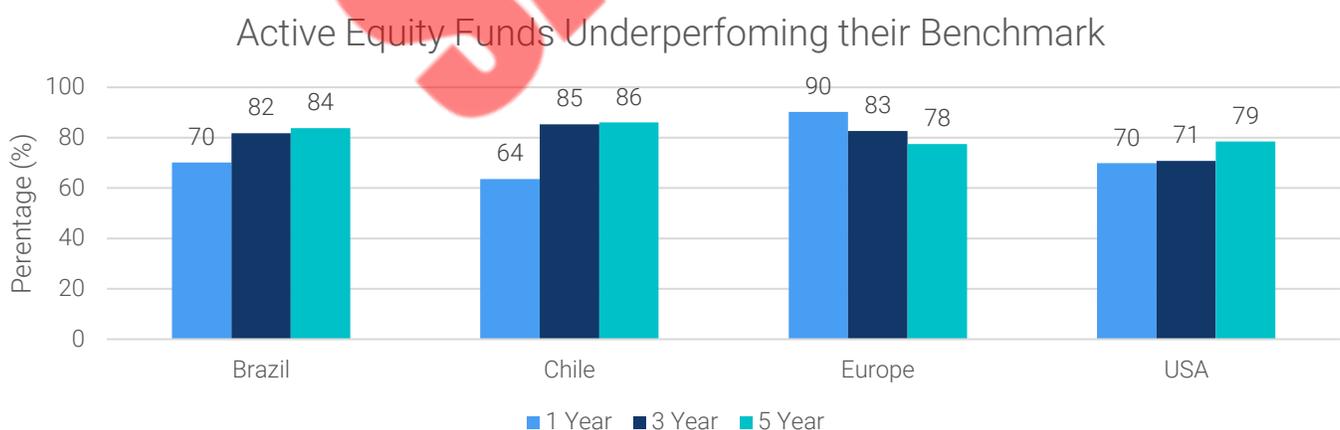
"I tell people investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas".

- Paul Samuelson, Economist and Nobel Prize Winner 1970

Over in the US, the size of passive assets has surpassed that of their active peers². The exodus of funds from active managers continued throughout the year and ended with an unwelcome early Christmas present for the active managers of the California Public Employees' Retirement System (CalPERS). In an unprecedented move, four of its five equity managers were fired, and the scheme cut its allocation to active funds from \$33.6 bn to \$5bn. CalPERS cited continued underperformance and will redistribute the funds to passive strategies³.

Both performance and pricing continue to drive this trend. Pricing competition in the UK remains strong, offering investors the opportunity to capture capital market gains at ever decreasing costs. Vanguard, the UK's largest provider of passive funds, cut fees on 36 ETFs and index funds in October 2019. The average OCF (Ongoing Charges Figure – the cost figure that all fund managers are required to publish for each fund) for a Vanguard index fund is now 0.2%, a third lower than it was 10 years ago.

Research evidences the failure of the stock picking masters of the universe to outperform the market on any consistent basis while charging fees, far in excess of their passively managed counterparts. 2019 was no exception, the chart below shows that poor performance remains prevalent in both developed and emerging markets.



Source: SPIVA 2019. Data as of June 2019 *Indexes: S&P Brazil BMI, S&P Chile BMI, S&P Europe 350, S&P 500.

¹ Simfund (2020)

² Bloomberg: End of Era: Passive Equity Funds Surpass Active in Epic Shift, <https://www.bloomberg.com/news/articles/2019-09-11/passive-u-s-equity-funds-eclipse-active-in-epic-industry-shift>

³The Chief Investment Officer, CalPERS Fires Most of Its Equity Managers, <https://www.ai-cio.com/news/exclusive-calpers-fires-equity-managers/>

When stating these facts in the past, we have often been presented with the question “*well yes, but what about Woodford?*”. We would dare say that this question has answered itself in 2019, but we are not smug, and this is not something to gloat about. Significant sums of money, real people’s savings, have been lost as a result of the collapse of Woodford’s funds. This serves to remind us how important it is to have a deep understanding of the investments that we make and to ensure they are appropriate for our investment profile. “*Watching paint dry*” is likely to be all that we need to reach our financial goals. And without doubt, the loss of the UK’s “Poster Child” for active management will certainly do nothing to stop the flow of funds towards passive investment.

Lastly, no review of 2019 would be complete without acknowledging the passing of the grandfather of passive investing, John C. Bogle, who created the first index fund in 1975. Bogle’s notion that trying to surpass the market is a fool’s errand, and that attempting to match the index is the most efficient way to deliver investment returns, was the acorn that in 2019 looks to have grown into an oak tree. As Warren Buffet noted on Bogle’s passing and his contribution to investors:

“If a statue is ever erected to honour the person who has done the most for investors, the hands-down choice should be Jack Bogle”.

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