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Hold or Fold?: Gartmore and Fidelity line up their European funds

By Tim Cooper | 07:00:00 | 07 May 2008

Our panel are spoilt for choice this week with two impressive contenders with the management talent and track record to attract a comprehensive thumbs up.

Gartmore European Selected Opportunities

What Citywire says:

Gartmore European Selected Opportunities Acc was launched in September 1984 and is managed by Roger Guy and Guillaume Rambourg. It aims to achieve a long-term return in excess of that achieved from European equity markets. Assets total £1,994 million.

What Gartmore says:

‘This fund outperformed its sector average in March,’ says Guy. ‘Volatility continues to be the prevailing theme for Europe’s equity markets. The market continues to be influenced by economic news, from poor US data to banks and funds going under. Against this uncertain backdrop, we look to large caps with robust balance sheets and visible earnings to drive the fund’s performance.

'For example, ArcelorMittal is an attractive investment, given its international exposure, particularly to emerging markets. Strong fundamentals underpin the industry and we have held an overweight position in ArcelorMittal since last year.

‘We are also keen on defensive companies that generate decent cash flows and offer good visibility on future earnings. Telefonica’s successful wireless business in Latin America – a region with a lot of growth potential – is an added attraction. Telefonica trades at a discount relative to its peers on most market metrics, including price to earnings.

‘We believe there is room for guarded optimism but would caution against calling the end of the financial turmoil. Maintaining a long-term perspective will be key to riding out the volatility.’

What the advisers say:

Nick Lincoln, director, Wilson Dean Financial Services

There was some concern about Guy spreading himself too thinly when he ran hedge funds as well as this fund, but those concerns were overstated. This fund is a whopper in its sector, although this has not impaired its performance.

In many aspects, it is similar to the Fidelity fund. It has a go-anywhere cap range to invest in, its main sector exposures are financials, consumer goods and industrials, and the total expense ratio is 1.7%.

Displaying generally strong performance more correlated to its sector, the fund is less volatile than Fidelity's. It has a large-cap bias with a blended value/growth style.

Performance was a concern a few years ago, but this has been addressed. For clients seeking European exposure, strong returns with perhaps a little less risk in terms of unit-price volatility, this fund would be ideal.

It is available on most platforms and is a strong **hold**.

Peter Chadborn, principal, CBK

Many European fund managers have been able to deliver positive returns over the past 12 months, so investors with exposure to this sector should be relatively pleased.

Joint managers Guy and Rambourg are both A-rated by Citywire and have been at the helm for 15 and 12 years respectively. They manage a fund that has performed very well over the short, medium and long term. It has been top quartile over one, three and 10 years and second quartile over five years with an annualised alpha of 0.23. It has a 12-month return of 3.1% to the end of March.

The geographical breakdown offers no real surprises. Half of the fund is spread fairly evenly between France, Germany and Switzerland.

Due to the nature of 'opportunities' type funds, it would perhaps be better suited to investors who require a more specialist fund to complement existing European exposure. If so, there are few better opportunities within this peer group. This fund is a **hold**.

Calum Cameron, **c**hief executive officer, Willow Financial Management

This fund has had a solid overall return over both three and five years. It focuses on achieving a long-term return that beats European equity markets. Income yield is not a primary consideration.

Guy began his career as an analyst at Eagle Star, moving to Gartmore in 1993. Rambourg worked at Union Europe before joining Gartmore in 1993. Supporting analysts at Gartmore have an increasing role in making decisions about the fund.

The managers have an active stock-driven approach. They work within a broad macroeconomic framework, focusing on the high alpha end of the investment spectrum. The fund aims to seek alpha return through sector stock selection in the core of the portfolio and actively trades special situations. The fund has a current net yield of 0.24%, with volatility of 3.91%.

Excellent performance over the past 12 months within its sector and the strength of the management team make this fund a **hold**.

Fidelity European Opportunities

What Citywire says:

Fidelity European Opportunities was launched in September 1988 and is managed by Colin Stone. It aims to achieve long-term capital growth from a portfolio primarily made up of the shares of continental European companies. Assets total £802 million.

What Fidelity says:

'The macroeconomic outlook has deteriorated in Europe and other regional markets in recent months,' says Stone. 'Credit tightening and liquidity issues have come to the fore. Many European companies are still reporting healthy earnings, and valuations seem attractive by most measures. But the uncertainty is slowly taking its toll with companies and sectors gradually being downgraded. I expect to see further downward revisions to forecasts during 2008.

'However, companies that do manage to produce long-term growth should find favour among investors. I believe I can add value through secular growth stock selection in this environment. I have therefore shifted the portfolio in favour of relatively defensive growth stocks at the expense of cyclical growth stocks because investors will focus more on stability of earnings.

'Due to the continued lack of clarity about earnings, I remain cautious about the financials sector. Recently I purchased selected stable and cash-generating financial stocks, with a preference for the insurance segment. I am also concerned about the knock-on effects of the US consumer slowdown on Europe, and am reducing holdings exposed to consumer demand.'

What the advisers say:

Nick Lincoln, director, Wilson Dean Financial Services

Stone has a mandate to roam anywhere in Europe over the cap range in a bid to deliver performance. And he has succeeded.

On performance terms alone this fund has been exceptional, being top decile in the sector over most periods. This is remarkable, especially at a time when open season appears to have been declared on Fidelity's equity performance. The group should be proud of this fund.

It has a large-cap, growth bias with geographical allocation skewed toward Germany, France and Switzerland. Relative to its peers, it displays above-average volatility and little correlation to its sector, which is not a bad thing. A strong alpha return demonstrates its superior performance. All returns are via capital gains as the fund has a nil yield.

Charges expressed as TER total about 1.71%, which is in line with other funds in the sector. If any of our clients asked for such a specific investment, this would be our choice in the sector. It is available on most platforms and is a definite **hold**.

Peter Chadborn, principal, CBK

Stone has managed this well-established fund since 2003 and in that time it has remained in the top quartile of its sector. The same performance has been achieved by the fund over 10 years and even since launch 20 years ago. The last 12-month return of 9.3% puts the fund in third place in the European sector, against a sector average of 2.1% and an index of 4.2%. When measured against the benchmark index over the longer term, the fund has only failed to outperform once in the past 10 years and that was prior to the current manager's tenure.

In the current climate, the 19% weighting in financials may concern some investors. However, Stone's all-round track record means confidence should not be dented.

This fund may not be appropriate for more cautious investors. But it would be attractive for those who are looking for long-term exposure to Europe via a fund that has few investment restrictions. It is therefore a **hold**.

Calum Cameron**, c**hief executive officer, Willow Financial Management

This fund is run with a strong growth orientation and a blend of investments in larger, medium and smaller-sized companies. Its primary focus is on companies that are under-researched or not understood and therefore undervalued. It is not restricted in choice by company size or geographical location. Stone has the option to hold up to 20% in emerging European stocks. He likes to identify leaders in niche markets with a strong competitive advantage.

Absolute return performance over three years was 57%, and over five years 172% – with 4.07% volatility.

Stone has a masters in engineering from Cambridge and was a petroleum engineer at Britoil before joining Fidelity as an analyst in 1987. He became a portfolio manager three years later.

The total returns and management of risk achieved over a range of different investment periods combined with the experience and track record of the fund manager make this a definite **hold**.

Citywire's verdict

Gartmore European Selected Opportunities

All three planners commend this fund's consistent outperformance. **Hold**

Fidelity European Opportunities

Expertise and a strong track record mean our experts hail Stone's fund as a stormer. **Hold**

Twist

Jupiter European Special Situations fund has consistent, first or second quartile performance, despite having a relatively concentrated stock holding.

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