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Advisers stick with sterling despite performance hit

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By Hysni Kaso

Advisers plan to continue mainly recommending products denominated in sterling despite the rising local currency causing an overwhelming majority of global funds to perform poorly this year.

US and Japanese funds have particularly struggled, with 90% of US and Japanese funds underperforming their respective benchmarks indices this year, as UK managers' struggle to deliver on the soaring sterling.

With the pound up almost 13% against the dollar and nearly 20% higher on the yen so far this year, just seven out of 76 UK-domiciled funds in sterling terms are outperforming the US benchmark S&P 500 in dollar terms this year. Meanwhile, just four funds from 56 are beating Japan's Topix index in yen. Both indices are returning about 4.2% year-to-date. Sterling hit a year-high of 1.1704 against the euro today.

While most tracker funds are still vulnerable to currency movements, canny investors who purchased ETFs in the base currency would have seen vastly improved performance recently.

Over the six months to 5 June, the iShares S&P 500 in dollars was up 8.7%, while the same ETF in sterling had fallen 2.3%.

Despite this, advisers plan to simply recommend sterling investments to their clients.

"Currency never used to be a major factor, but it is on our radar now," Premier Wealth Management managing director Adrian Shandley says.

"We had a few clients in dollars which changed back into sterling in about September or October last year, and the losses weren't too bad.

"However, our philosophy this year is to stay at home, keep everything basic and simple. Currency is just another risk I can do without at the moment."

CBK Colchester IFA Peter Chadborn agrees, saying currency movements do tend to even out over time.

"Most advisers will stick with the British pound. While currency has fluctuated widely recently, it all depends on your timescale, is it of major importance on a five-year view," he says.

"At the very least, any investor in overseas fund, or managed funds investing overseas should be made aware to the currency risk."

Investec Asset Management UK distribution managing director David Aird says wild currency movement does have the ability to mask poor manager performance.

"To the average man on the street, I am not sure whether they would know they are taking currency, as well as the equity risks investing in these markets," he says.

"But there are definite currency risks. In times of local currency weakness, which boosts global returns, poor underlying performance is potentially hidden."

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