Bank-run funds are poor performers

By Steve Johnson
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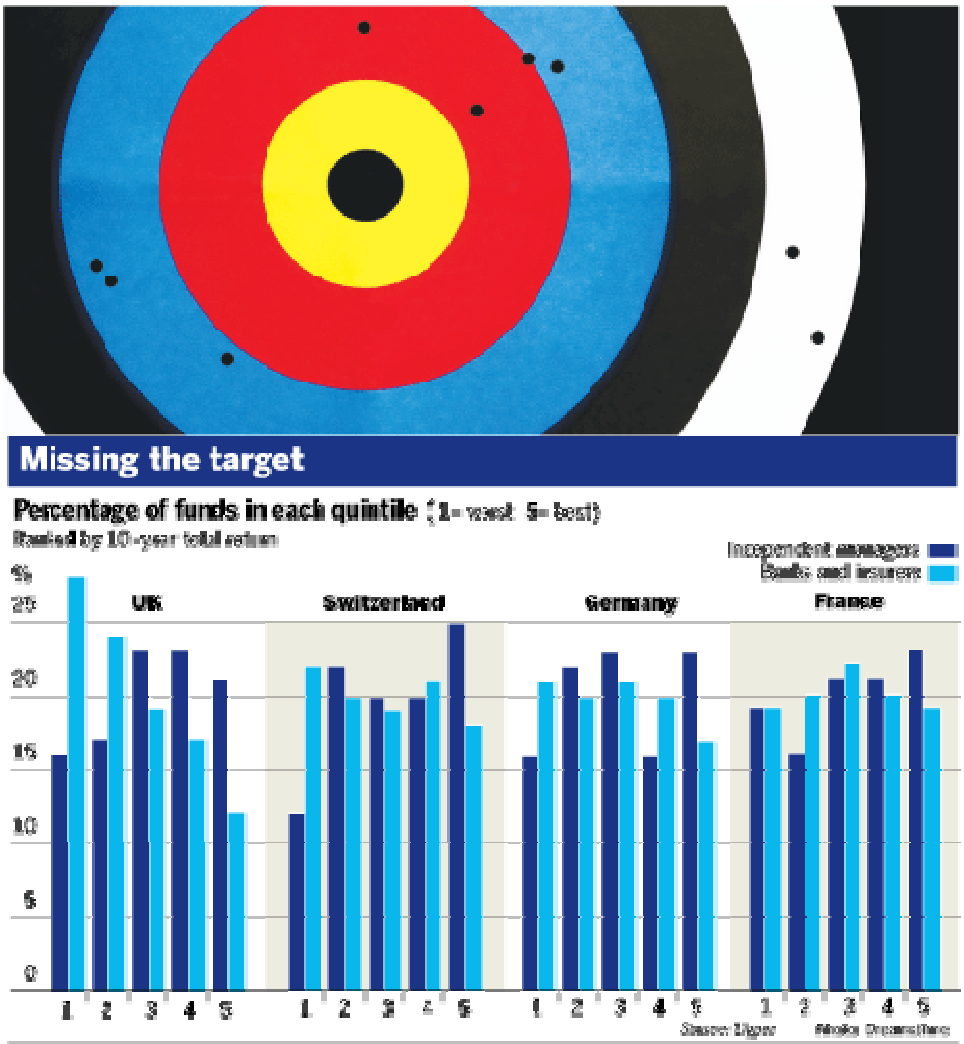
Investment funds managed by banks and insurance companies generally underperform those operated by independent asset managers across much of Europe, according to ground-breaking new research.

However, in some countries, such as France, pure asset managers are over-represented at both extremes of the performance scale, suggesting they are taking more risk than their banking and insurance rivals.



A 2001 study in the US, conducted by Melissa Frye of the University of Central Florida, similarly found better performance by non-bank than bank-run funds, but at the cost of higher risk.

Lipper's strongest finding was in the UK where, looking at total return during the past 10 years, 28 per cent of bank and insurance-run funds are in the bottom quintile, 24 per cent in the second-bottom quintile and just 12 per cent in the top quintile. In contrast independent houses are skewed towards the upper echelons.

"For banks and insurers there is the ugly sight of a steeply declining proportion of funds when moving from the worst to the best performance quintiles," said Ed Moisson, head of UK and cross-border research at Lipper.

In Switzerland 22 per cent of bank and insurance funds are in the bottom quintile, compared with just 12 per cent of those of independent houses, 25 per cent of which are in the top quintile.

Similarly in Germany bank and insurance funds are more common at the bottom of the performance table and those of pure asset managers over-represented at the top, although the picture in France is less clear-cut.

However, when Lipper recalibrated the data using "consistent return", a measure that incorporates risk as well as raw performance, the divergence was much smaller and funds run by independents were over-represented in the bottom, as well as the top, quintile.

The research came in the wake of comments made last year by Peter Hargreaves, founder of broker **Hargreaves Lansdown**, who said many funds run by banks, building societies and life companies were "seriously crap".

Mr Hargreaves attributed this to the bureaucracy inherent in larger organisations and independent houses' greater willingness to pay "big bucks" for fund managers and engender a sense of ownership by offering them meaningful stakes.

"I think it's complacency. If you are [independent] you live and die by your performance," added Mr Hargreaves. The more mixed picture in France and Germany, he argued, was due to those markets being dominated by large financial groups, who could afford to pay more than the smaller independent houses they were up against.

David Cumming, head of UK equities at Standard Life Investments, argued insurance companies needed to devolve power to their fund arms, in terms of strategy and incentives, in order to compete with independents. "We did not take off until we had a separate structure in 1998," he said.

However, John Flint, chief executive of HSBC Global Asset Management, argued the performance figures for independent houses reflected a degree of survivorship bias and, in an age of open architecture, dismissed arguments that banks could afford to coast because they had a captive audience.