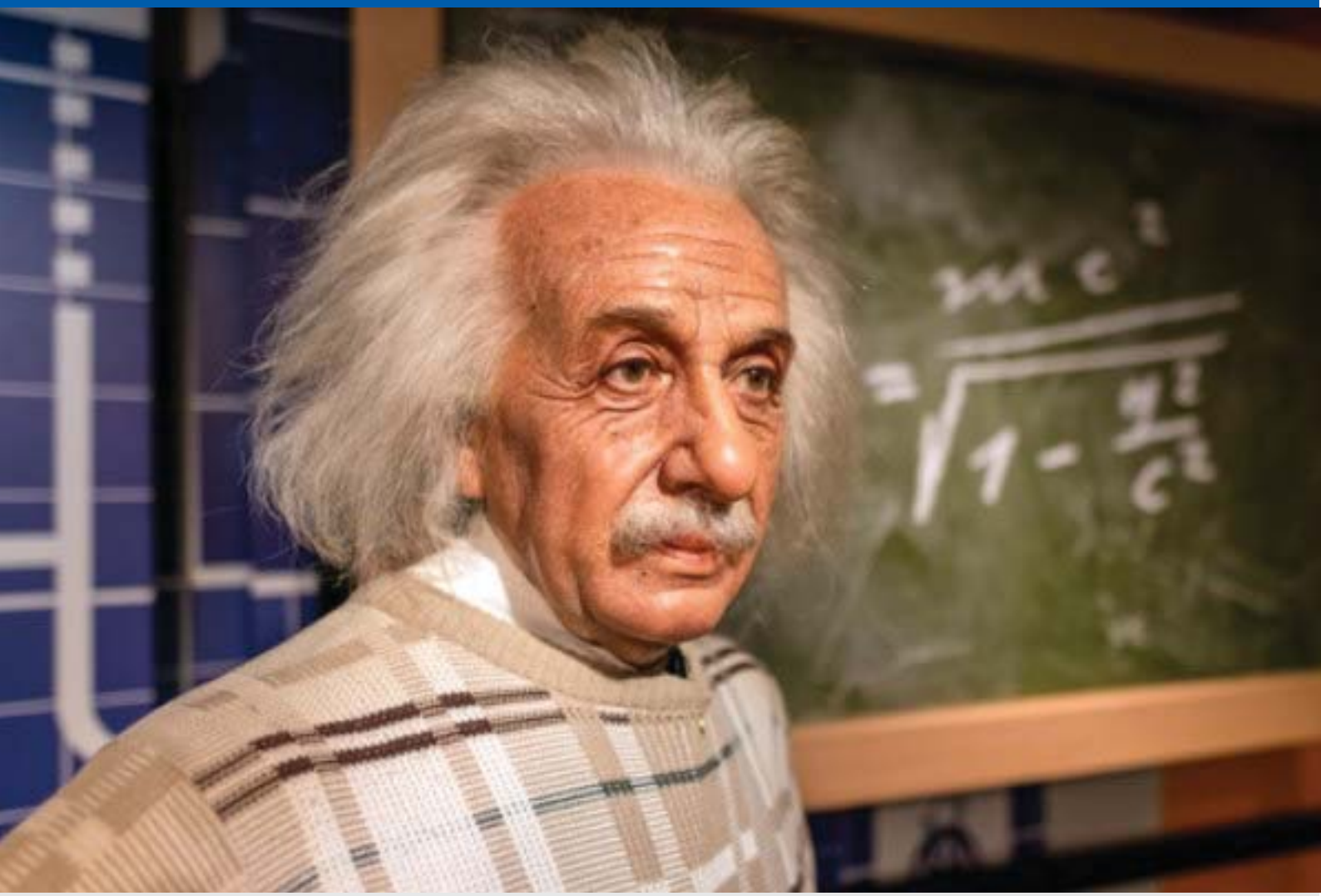
TAM INTERNATIONAL INVESTMENT NOTE



"When all think alike, no one thinks very much"

-Albert Einstein

With 2015 and 2016 leaving nowhere to hide for fund managers accused of being index trackers, and following on from my recent missive on the failures of index trackers in today's market environment, one hopes that clients are quickly wising up to what they are paying for, and what that service truly represents.

Index trackers have their place as I mused previously, but after the recent research on construction of portfolios was presented by Lang Cat Consultancy and CWC Research and featured in Investment Week last month, one might be forgiven for thinking that if you are not tracking the market, then you are tracking everyone else!

The research paper postulates that Discretionary Fund Managers all herd to the same funds, thus is there really any difference between one manager and another?

The comments and funds below were highlighted by Lang Cat Consultancy and CWC Research as being representative of DFM portfolios. They claim that DFM portfolios are becoming increasingly concentrated, with the most popular underlying funds used in 15%-20% of vehicles. Indeed they remarked, *"There are very few DFM portfolios across the sample which can claim to have a 'unique' or 'individual' proposition and keep a straight face".*

Most commonly used funds in DFM model portfolios

	Number of portfolios used in	Average weighting (%)
First State Asia Pacific Leaders	82	3.1
Threadneedle UK Equity Alpha Income	70	4.1
Vanguard US Equity Index	67	9.8
L&G UK Property Feeder	62	3.8
Threadneedle UK Property	62	3.5
J O Hambro UK Opportunities	57	2.6
Vanguard FTSE Developed Europe ex. UK Eq	55	5.6
Vanguard FTSE UK Eq Income Index	55	9.6
Jupiter UK Special Situations	54	2.3
Fidelity MoneyBuilder	52	3.3
JPM US Equity Income	52	3.9
Artemis Income	50	3.4
Neptune UK Mid Cap	50	3
Jupiter European	49	2.4
Jupiter Strategic Bond	49	4.9
Rathbone Income	49	3.6
Trojan Income	49	2.7
Vanguard Pacific ex Japan Stock Index	48	2.1
Invesco Perpetual Income	46	3.3
Vanguard Global Bond Index	45	8.4

As at February 2016. Source: the lang cat

TAM is pleased to dispel the myth that we are all alike and we can (sort of) keep a straight face! In our core portfolios, we do not have a single fund represented in this list, although our ethical and high income subsets do have one very small holding!

Bertrand Russell, aristocrat philosopher, once famously quoted, *"Collective fear stimulates a herd instinct and tends to produce ferocity toward those who are not regarded as members of the herd".* It's therefore no surprise to find that Discretionary Fund Managers, in times of market stress as witnessed recently (or even when no fear pertains?), seem to flock toward the same/similar funds. Why wouldn't they - they are the best!

How does this happen then? Regrettably, the availability of statistical and performance analysis (bearing in mind, fund managers tend to all use the same rating systems) is now so easily available to all, it's not surprising that 'free thinking' - within the confines of risk managing a portfolio - is not unanimously encouraged. After all, it's safer being with the herd… isn't it?

TAM's investment strategies are built for the client and, one hopes, not bound by constraints on free thinking. Finding the right mix of opportunity and adventure, along with safety, security and diversification - all within the confines of our clients' risk parameters - governs how we approach fund selection and our market allocations. It's not always just about the numbers.

It's this strategy that continues to use a strong core research capability with a free thinking override. This consideration of capital preservation, balanced with capital generation across diversified asset classes, has enabled TAM to perform well - relative to its risk-graded benchmarks and the market over the long term.

This is all without holding a SINGLE fund classified as being in the top 20 most held funds in its core DFM portfolios, according to the recent study by Lang Cat Consultancy and CWC research.

It is therefore possible, contrary to market expectation, to be alternative or 'different' in a space in investments where most think that alternative portfolio construction doesn't exist, or cannot perform if it did. That's not to say we would not find value in these funds highlighted herein, either now or in the future. One might deduce that TAM's investment team, who are on the street kicking tyres as much as they are desk-bound, are questioning the norms and bucking the fund trends. Otherwise, we would hold what everyone else seems to be holding, wouldn't we?

TAM's ability to break away from the herd in search of value, without losing sight of the risk-defined goals, makes our offering worthy of note in today's highly competitive market place.

This, I believe, highlights one area of what TAM is doing to add value to its investment offering. TAM are not the norm… No wildebeest here!

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