



## Hold or fold? Frontier Capital Management's Conservative fund

By Daniel Grote | 00:01:00 | 26 March 2009

**Frontier's long-term investment philosophy convinces our panel to favour its Conservative fund despite the losses it made last year.**

### What Citywire says

Frontier Capital Management's Conservative fund has built up a following in the *New Model Adviser*® community despite its long-time offshore status.

This year's *New Model Adviser*® award winners Paradigm Norton Financial Planning, Marlene Shalton at Bluefin Wealth Management and Brook-Dobson Brear Wealth Management all use Frontier, as do David Jones Financial Planning and Trinity Wealth Management.

The fund invests across eight asset classes, with exposure to each provided by indices set by Frontier. Weightings in each class are decided in a three-stage process.

### Fund research

Frontier researches the composition of US university endowment funds, adjusting for the fact they invest in private equity and Frontier does not and that, with a 100-year time horizon, endowment funds are likely to have a bigger risk tolerance. It then looks at historical data for the eight asset classes, and its asset allocation committee will use the two sets of findings to settle on an allocation that will remain stable for at least a year.

The asset allocation is reviewed on a strategic basis, but tactical changes do not figure in the management of the fund.

This level of analysis is aimed at placing the fund at the turning point on a graph of the efficient frontier, where returns are greatest given the amount of risk taken.

### Competitive philosophy

Frontier claims the fund's investment philosophy will beat 90% of fund managers in the long term.

The fund delivered a 21% loss in 2008, after gains of 7% in 2007, 9% in 2006 and 11% in 2005.

A version of the conservative fund, renamed the balanced fund, is now available onshore.

### What the advisers say

Jon Cobb





### **Director, Trinity Wealth Management**

Jon Cobb started using the fund at the beginning of the year and has not been put off by the loss it registered in 2008.

'I was fully aware of the performance,' he said, but argued the firm had a convincing long-term investment philosophy. 'I've always joked and mocked about the cult of Dimensional, but I'm becoming very passionate about Frontier and those same arguments,' he said.

Cobb said he liked the thinking that went into the fund's asset allocation, and that the fund was giving access to asset classes that advisers would find difficult to access passively on their own, and so was giving greater diversification.

'As yet I don't think you would be able to replicate all those asset classes like managed futures,' he said. 'And you are getting the asset allocation of far greater minds than ours.'

He argued that fund performance was to be viewed over 10 years, during which it is likely to deliver a performance in line with its 'conservative' badge.

'It is conservative over 10 years. Compared with equities it would probably not give as high a return, but the risk reward would be better through diversification,' he said.

Criticising asset class decisions on a short-term basis ignores the fund's long-term strategy, he said.

'They are not making the big calls. When you look at the changes they do make, they are more rebalancing type things than big asset calls,' he said.

### **Verdict: HOLD**

Hugh Doxat-Pratt



### **Director, Alpha Financial Consultants**

'There are eight different asset classes and they put a percentage in each based on the strategy of endowment funds, like Harvard, Yale, and other organisations, and use passives to provide the performance of that asset allocation,' said Hugh Doxat-Pratt.

'It's a very fixed investment strategy. Once they've decided, they go that route and it doesn't matter what happens – it's a long-term strategy. The problem is if the strategy proves to be wrong you won't know it's broken until it's too late.'

Doxat-Pratt is keen on the fund's multi-asset approach and believes it offers exposure to a greater variety of assets than other multi-asset funds.

'Everything I've done in the way of research shows me that non-correlated assets work better,' he said.

'Long term you get less volatile returns from a multi-asset strategy than by a strategy that is fixed in one or two classes.'

Despite the losses the fund has experienced over the past year, Doxat-Pratt still believes that long term its approach is right.

'It's called a conservative fund, and in normal market conditions I think that's true. The problem they have is we've not had normal market conditions,' he said. 'I still believe despite the last months that a multi-asset strategy is a good idea.'

But he said a raft of multi-asset launches would cause him to look around at some of the active-managed options that are able to take tactical decisions.

**Verdict: HOLD**

### Twist

Investors seeking an actively-managed multi-asset approach can look to Citywire A-rated David Jane's M&G Cautious Multi-Asset fund, which limited losses to 7.21% in the year to the end of February.

“ I still believe despite the last months that a multi-asset strategy is a good idea”

*Hugh Doxatt Pratt, Alpha Financial Consultants*

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