



La gran gala del sector

En febrero de 2007, Morningstar adquirió la base de datos de fondos de inversión de Standard &

Poor's (S&P) en Europa, de manera que todos los premios basados en estos datos cuantitativos en

Una década de Premios

A Decade of Awards

Trading year such as 2008 is an unbeatable opportunity for reflection.



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Since the summer until now, at the beginning of 2009, we have dedicated many free hours to recapitulate and conduct a pragmatic analysis of Spanish funds throughout the last decade.

After all, in these ten years many things have happened, and the point of view adopted in this article, which is understanding which have been the most rewarded in each category according to a homogenous criterion, is a novel contribution, in the way in which it has not been published before. Also timely, given the current situation of the markets, we hope it will be liked by readers/investors.

It is true that the past is not the best predictor of the



future and that statistics have a bad reputation, even though they are necessary.

However, instead of resorting to sophisticated parametric, non-parametric, Bayesian and frequentist, we have resorted to simple newspaper library.

And we have been left to be guided by the awards granted by S&P and Morningstar to understand which funds have been the most awarded throughout this decade.

It is probable that within the current economic crisis, more than one is in agreement with the *black swan* by Taleb, a recommended reading for this crisis.

And it is true that there are unpredictable phenomena, but it is no less so that the way to deal with both euphoria and times of crisis helps to point to the skill of management

We think it is fair to point out that, throughout this year, some managers have demonstrated tangible abilities that should not be confused with fortune or chance. Beyond the determinism of arbitrariness, we think that the future, at a large extent, is written -we write- every day; at the end of accounts to the own thesis of Taleb is, in some way, an argument that is more in favor of human freedom.

And, why do they not apply their own norm in their own predictions? A black swan may come out from time to time and most of them may be white!

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The awards for investment funds in Spain sponsored by *Expansión* are adjusted by the criteria of Standard and Poor's from December of 1998 to December 2006. It is to say: utilize the S&P system of profitability relative to risk; exclude the funds with assets less than 20% (10% before 2004) from half the sector and with assets less than 6 million euros (3 M € before 2004), excluding the funds whose minimum required investment is 601.012 euros, and the funds which regularly maintain high positions in liquidity or have a continuous strategy of investment that is different of that of the brochure.

In February of 2007, Morningstar acquired the database of investment funds of Standard & Poor's (S&P) in Europe, in a way where all of the awards based on these quantitative figures in 2007 followed the grants under the name Standard & Poor's like always, but passing to the title Morningstar starting in 2008.

In this way, the Morningstar awards to the investment funds in Spain in 2008, sponsored by LA GACETA DE LOS NEGOCIOS, follow the norms of the previous. They demand solid profitability adjusted for risk in the last three and five years; excluding the funds with minimum assets less than six million euros. They also leave out the funds whose minimum investment is more than 60,000 euros, and also leaving the selection of calculation are some products which have not maintain in the past five years a policy of consistent investment with pertinence to the category.

Therefore, they have added the requirement to be available to the sale of the Spanish market, it is to say, accessible to national individuals.

The classifications

So, in the determination of the awards to the investment funds in Spain, criteria from both Morningstar and Standard & Poor's remain the permanent focus when awarding some products of investment which, more than having a good annual result, maintain good results in the long term. This filters the funds created specially to appear one year in the first spots of the ranking, or those created specially to win the awards of the sector.

It is to say, tries to award the products which have obtained solid profitability adjusted for risk in the last three and five years and which have naturally surpassed the average profitability in their category in at least three of the last five years.

In short, funds are awarded which have consistently shows the best Sharpe ratio.

The Sharpe ratio is a measurement of profitability-risk. It is calculated with data from the last 36 months divided by the excess profitability obtained by the fund, with respect to the assets without risk, between the standard deviation from this excess profitability.

When this ratio increases, the fund shows better behavior in the analyzed period. The Sharpe ratio, therefore, measures the excess profits per unit of risk.

The 'rating' of stars

The Morningstar Rating, which is known throughout the world as the rating of stars, is a quantitative measurement of the historical performance of the fund adjusted by a number of stars which go from one to five (see the attached chart).

The Morningstar Rating utilizes restricted comparison groups to measure the ability of the manager.

The funds are qualified and classified by function of the Morningstar Category system, which identifies the funds based on their current investment style, measured by the titles present in their portfolios.

Reference profits obtained between 1998 and 2007

As we mentioned, the Morningstar awards, which are distributed in all countries with this information provider, take into account the incurred risk and the consistency of the results in each category, for which the winners are not necessarily those which have obtained a large annual or total appreciation. We recognize that what we are talking about is excess profits, taking into account both the alpha and the beta, per unit of risk, not accumulated profits.

On one hand, the obtained profits by the leading funds in each category are logically related with the profits obtained by part of the general financial

market in which they are investing - the beta or sensibility of the profits of the market-, and are summarized in the evolution of the respective indices.

Profitable Rates

For the whole period which goes from December 1998 to December 2007, if they are considered to reinvest the dividends generated in the index itself, the rates of return would be:

- Fixed Income in short (countries of the euro): +34%
- Ibex 35 (Spain): +90%
- Eurostoxx 50 (euro): +66%
- FTSE-100 (United Kingdom): +47%
- SMI (Switzerland): +38%
- Eurostoxx 600 (euro): +55%
- S&P 500 (United States): +37%
- Nikkei 225 (Japan): +19%

What does the success of a manager depend on?

On the other hand, the level of success in the management -the alpha or added value- could be measured in relative terms as long as the section of the wealth of the specialized funds invested in each of the parts of the general market just mentioned, exceeding the percentage indicated respectively without considering the level of risk incurred.

So, for the mentioned period of 1998-2007, the funds of fixed income should surpass the reference index of 34%; those of equities which invest in Spain, 90%; those of global equities, +53%.

The award categories, their current number of components, the most awarded fund of each and its appreciation in the 1998-2007 period can be studied in the attached support.

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Some very illuminating conclusions of the winners

It is worth it to highlight that, in the majority of the cases the winning funds had won with increases in their respective reference profits, at least as far as equities are concerned.

Luck or ability? Due to the reiteration of the winners, we are inclined more for the second. And it is, after all, the added value of the existing manager. More than restarting the debate between active and passive managing, the truth is that these funds have won, by their trajectory, a vote of confidence. And due to the wide competition in this sector, we can suppose that many of the non-winning funds had obtained similar results.

On the other hand, the figured obtained probably spark a smirk from Benjamin Graham. It does not cease to surprise the high number of value-style funds in the first three position of every category (close to 40% in front of almost a 10% increase). Without

entering the debate of investment styles in active management, the truth is that time seems to give reason to the philosophy value that, although it gains less in eras of irrational exuberance, achieves great stability in its results, based on better performance when the stock market falls.

From the point of view of the investment value, the cycles of instability, such as the current, are an opportunity, since they are followed by another stabilization, reversal to the average, and this allows this difference to be maintained over time. It is true that the processes can be very long and full of doubts, but at the end of the day, it is not a question of following the trend of the market (value and contrarian investment usually go hand in hand) but of keeping the discipline in something indispensable and complex: A long-term vision of investment and a continuous recitation and adaptation of it.

The list of the most award-winning products

These are some of the most recognized investment funds in distinct categories of Morningstar throughout the last decade

1. In Fixed Income (FI), a category which counts 595 funds in total, Mutuafondo, with 7 awards is the most awarded. By subsections:
 - Money: investments in monetary assets of fixed income less than 18 months. Mutuafondo Dinero has 7 awards and 4 Morningstar stars.
 - Fixed income in Short: shares and bonds up to 3 years. Mutuafondo has 7 awards and 4 Morningstar stars.
 - Fixed Income Euro: shares, bonds, and securities of the eurozone. BBVA Duración has 3 awards and 4 stars.
 - Fixed Income Global: shares, bonds, and securities of all of the terms and currencies. Caixa Catalunya Fons Internacional has 2 awards and 4 stars.
2. Mixed Fixed Income: (MFI) category which counts 212 funds in total, Fondmusini III with 6 titles, is the most awarded. By subsections:
 - MFI Global: equities in the euro zone, United Kingdom, Switzerland, and Nordic countries, up to 30% of the rest should invest in fixed income. UBS (Lux) SF-Yield (EUR) Balanced, has 5 awards and 5 Morningstar stars
 - MFI Europe: Up to 30% of equities in all Europe. InverManresa II has 5 awards and 5 Morningstar stars.
 - MFI Spain: as the previous, but only in the Spanish stock market. FondMusini III has 6 awards and 5 Morningstar stars.
3. In Mixed Equities (ME), category which counts 223 funds, Patribond with 8 awards, is the most awarded. By subsections:

- ME Global: investment of up to 75% in any country and currency. Patribond has 8 awards (7 like ME Global and other like MFI Europe) and 5 Morningstar stars
 - ME Euro Zone: only in euros. Foncalcalá has 3 awards and 5 Morningstar stars
 - ME Europe: Investment in the European stock market. March Bolsa has 6 awards and 4 Morningstar stars
 - ME Spain: restricted to the Spanish market. Bestinver Mixto has 6 awards (4 like ME Spain and 2 like ME Zona Euro) and 5 Morningstar stars
4. In Equities (E), category which counts 1,021 funds in total, Fondcoyuntura, with 9 titles is the most awarded. By subsections:
- E Flexible Global: freely adapts to the expectations of the managers, could oscillate the level of investment between 150% and -50%. Fondcoyuntura has 9 awards and 5 Morningstar stars
 - E Global: These funds invest in any stock market in the world. Socgen International Sicav has 5 awards and 4 Morningstar stars
 - E Euro Zone: Only in the zone, United Kingdom, Nordic countries and Switzerland. Templeton Euro Market Growth A Acc has 3 awards and 3 Morningstar stars
 - E Europe: can have shares from any European market. Fidelity Funds European Growth, 5 awards, 5 stars
 - E Spain: only in the national market. Bestinver Bolsa, 6 awards, 5 stars
 - E USA: United States stock market. Franklin Mutual Beacon, 3 awards and 2 stars.
 - E Japan: Japanese stock market. BBVA Bolsa Japón Cubierto, 4 awards and 5 stars.