The Telegraph

Should I pay more to fund managers to try and beat the market?'

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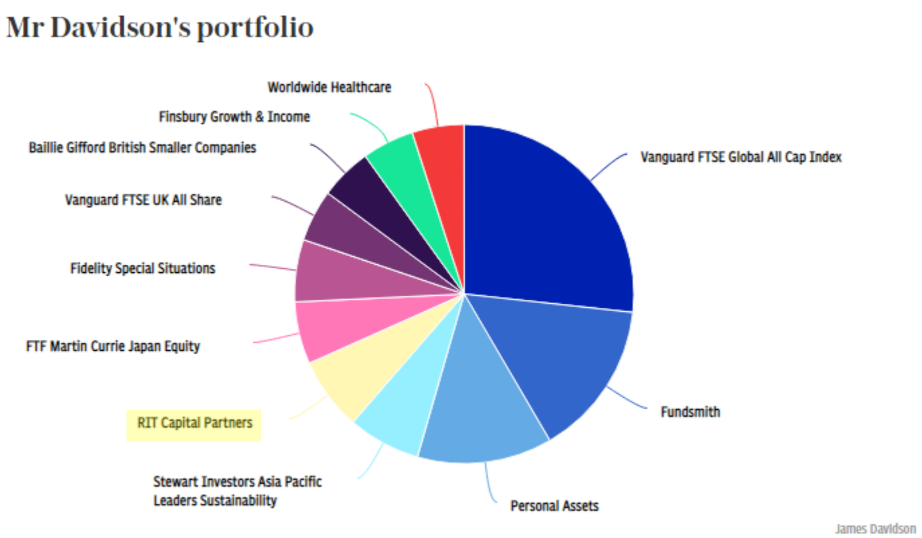
By Lauren Almeida

The simple idea of tracking the performance of the stock market, rather than trying to beat it, has been a lucrative one for savers. Investors in the FTSE Global All Cap index, which tracks companies all over the world, have posted gains of 65pc in the past five years alone. This has been a successful investment strategy for James Davidson*, a 61-year-old pensioner from Sussex, who opened an investment account with AJ Bell in the summer of 2020, after he grew fed up with high fees from his wealth manager. So far Mr Davidson has grown his portfolio by 18pc, thanks mostly to this passive approach.

"Now I want to focus on beating the market," he said. "I've got smaller holdings in active funds that I would like to help the portfolio beat the market. I'm not concerned about income as I have a company pension that is sufficient – I just want to focus on growth."

Last January he added £20,000 to his portfolio to plough into UK-focused funds, with Fidelity Special Situations performing well. "I don't mind paying high fees to fund managers, so long as they have an excellent track record and have proven that they are worth the money," he added.



Rob Burgeman, investment manager at Brewin Dolphin, said:

The portfolio is completely invested in stocks, so Mr Davidson can expect a fair amount of volatility along the way.

Otherwise, it has a very nice balance. The largest holding – the Vanguard FTSE Global All Cap – offers a cost-effective exposure to global markets. It is partnered very well with Fundsmith Equity, a more actively managed option, which has delivered returns of 66pc in the past three years.

The Baillie Gifford British Smaller Companies fund has struggled somewhat over the last year. An alternative might be the ASI UK Smaller Companies fund. Run by Harry Nimmo since 1997. It has an excellent track record, gaining 106pc in the past five years.

The investment in Martin Currie Japan Equity is also worth reviewing. The fund is growth-focused and has lagged markets quite severely over the last year. JP Morgan Japanese Investment Trust is a possible alternative here.

There are a couple of gaps within the portfolio that I would address. Europe is home to some truly world- class companies – think of the French luxury goods company LVMH and the Dutch semiconductor maker ASML. Comgest Growth Europe ex-UK would be a good way to get exposure to this region; it has delivered 103pc in five years.

Mr Davidson's holdings in RIT Capital Partners and Personal Assets – which together represent a fifth of the portfolio – provide some ballast in the event of market turbulence. But I would also look to add something like the JP Morgan Global Macro Opportunities Fund.

Jason Hollands, managing director at Bestinvest, said:

On the surface Mr Davidson's portfolio looks quite adventurous. But Personal Assets and RIT Capital Partners are defensive strategies with a strong emphasis on capital preservation, rather than trying to shoot the lights out.

There is a sizable exposure to US stocks, from both the Vanguard FTSE Global All Cap and Fundsmith Equity, which are respectively 60pc and 73pc invested in America. These two funds make up nearly 42pc of the portfolio, which he might consider paring back a little. The US market has done fantastically well, powered to a considerable degree by big technology and online stocks – but stocks in this region now look very expensive.

It was a sensible move to add some exposure to the UK in January last year. It has an abundance of financials, energy and commodities companies, which can prove more resilient when inflation and interest rates tick up. Fidelity Special Situations was a good choice – it's a fund I own myself – and has comfortably outpaced the market over the last year.

Fund picks

Fund name	Price	Fund size (£m)	Charge (%)	One-year return (%)	Three-year return (%)
ASI UK Smaller Companies	200p	2,192	0.99	17	68
JP Morgan Japanese	613p	959	0.75	-16	64
Comgest Europe Ex-UK	£27.26	322	0.93	17	75
JP Morgan Global Macro Opportunities	176p	2,269	0.65	2	20
Tellworth UK Smaller Companies	160p	489	1.08	24	57
Artemis UK Select	816p	1,467	0.9	18	61

FE Fundinfo

One of his other UK choices however, Baillie Gifford British Smaller Companies, has languished at the bottom of its sector. It's done well in the past, though it has been erratic. Mr Davidson might consider the Tellworth UK Smaller Companies instead.

He might also want to add a UK-focused fund that can invest in companies of all sizes, such as the Artemis UK Select fund.