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EuroPerformance - EDHEC European rankings

# AlphaLeagueTable

OCTOBER 2006 - SPECIAL EDITION

STYLE RATING EUROPERFORMANCE-EDHEC NEWSLETTER N°20

## The reference rankings in Europe

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**E**uroPerformance and EDHEC have set up the first European rankings for asset management companies based on the intensity of alpha: the Alpha League Table. Finance professionals have shown considerable interest in this new alpha-based performance measure, developed using the EuroPerformance-EDHEC Style Ratings. Cutting-edge techniques provide a true measure of risk-adjusted performance (alpha), while taking into account extreme risk and persistence of outperformance.

As an absolute arithmetic magnitude that does not depend on any category, alpha levels are easily comparable. The Alpha League Table provides a comparison of asset management companies based on their ability to provide positive alpha, with the top ranks being held by the best alpha providers, i.e. those that provide a good compromise between the value and frequency of the alphas produced.

Following earlier studies of asset management in France, Italy, Spain and Switzerland, this publication focuses on the United Kingdom.

These asset management rankings represent the biggest names from London's financial community. The top spot is held by AXA Framlington, with another subsidiary of an insurance company in second place — M&G Group — and a specialist institution, Aberdeen Asset Management, taking third place. Of the top 25 companies, 9 are insurance subsidiaries, 2 of which made it to the podium. Six independent asset managers made

it to the top 10 (Aberdeen, Artemis, Taube Hodson Stonex, Rensberg Sheppards, Investec and Schroders), something that only one banking subsidiary (Old Mutual Asset Managers) managed to achieve. The rankings are dominated by the country's leading fund collectors; as such the top positions hold no surprise and confirm the supremacy of companies like Schroders, Fidelity, Invesco and even M&G Group. Overall, UK asset management in terms of alpha produced by equity funds far exceeds the results obtained in earlier analyses carried out in France, Italy, Spain and Switzerland. With a percentage of alpha-producing funds at more than 43% and an average alpha of 2.95%, British investment managers are the leading players in terms of active management today.

The Alpha League is a label that enables the 25 British companies selected to promote their investment acumen.

Our ambition is for this detailed summary to become the reference for ranking asset management companies.

Wishing you a pleasant read,

*Frédéric Picard,*  
CEO, EuroPerformance (Fininfo Group)

*Noël Amenc,*  
PhD, Professor of Finance, Director of the EDHEC Risk and Asset Management Research Centre

**The Alpha League Table is the first European ranking of asset management firms based on an accurate measure of risk-adjusted performance.**

The Alpha League Table, which is applied in turn to each European country and then followed by an overall rankings list, evaluates all asset management firms in the country being studied in terms of their EQUITY MANAGEMENT and their ability to deliver ALPHA. For its fourth edition, which reaches a very large number of asset management professionals in Europe, the Alpha League Table has focused on the United Kingdom.

	Alpha Frequency	Average Alpha	Final Score
UK	43.39%	2.95%	1.33%
Europe	35.44%	2.62%	0.97%

Source : Style Analytics - data as at 30 June 2006.

### The true Alpha of investment management

The Alpha League Table is based on the Europerformance-EDHEC Style Rating methodology, which enables the risks to which the funds have been exposed over a period of three years to be taken into account for each of the funds included in the asset management companies' average alpha and alpha frequency scores.

An ex-post statistical analysis allows the funds' true benchmark to be reconstituted by regressing their returns onto a set of indices that is consistent with their investment universe (Return-Based Style Analysis method promoted by the Nobel Prize winner William Sharpe).

Using the indices that make up the fund-specific benchmark, an unconstrained multi-index regression is carried out to extract the fund's alpha. The Alpha therefore represents the additional performance obtained by the manager in comparison with the "normal" returns that correspond to the fund's exposures (betas) to each of the major risks in the equity universe: market risks and style risks (Growth, Value, Small Cap and Large Cap).

Ranking	Group	Company	Alpha Frequency	Average Alpha	Final Score
1	AXA GROUP	AXA Framlington	64.91%	7.09%	4.64%
2	PRUDENTIAL CORPORATION	M&G Group	62.14%	4.52%	2.83%
3	ABERDEEN ASSET MANAGEMENT	Aberdeen Asset Management	65.66%	4.32%	2.78%
4	ARTEMIS INVESTMENT MANAGEMENT	Artemis Investment Management	79.17%	3.45%	2.74%
5	THSP LTD	Taube Hodson Stonex Partners Unit Trust Management Company	50.00%	5.22%	2.61%
6	AXA GROUP	AXA Rosenberg	60.71%	4.23%	2.58%
7	OLD MUTUAL PLC	Old Mutual Asset Managers	60.99%	3.84%	2.32%
8	RENSBURG SHEPPARDS PLC	Rensburg Sheppards	79.17%	2.92%	2.27%
9	INVESTEC	Investec Asset Management	49.98%	4.26%	2.10%
10	SCHRODERS	Schroders	53.93%	2.94%	1.64%
11	AMVESCAP	Invesco Perpetual	48.15%	3.31%	1.60%
12	COMMERZBANK AG	Jupiter Asset Management	48.75%	3.22%	1.57%
13	JULIUS BAER GROUP	GAM	72.34%	2.09%	1.57%
14	LAZARD LTD	Lazard Asset Management	54.06%	2.83%	1.52%
15	BLACKROCK INC	Merrill Lynch Investment Managers**	53.11%	2.69%	1.46%
16	PRUDENTIAL CORPORATION	Prudential	39.58%	3.86%	1.39%
17	MELLON FINANCIAL CORPORATION	Newton Investment Management Limited	42.59%	2.87%	1.28%
18	FRIENDS PROVIDENT	F&C Asset Management	33.50%	3.57%	1.23%
19	COMMONWEALTH BANK OF AUSTRALIA	First State Investments UK	49.58%	2.28%	1.18%
20	FIDELITY INTERNATIONAL	Fidelity Investments International Limited	47.21%	2.37%	1.17%
21	ECCLESIASTICAL INSURANCE GROUP	Allchurches Investment Management Services Ltd	33.33%	3.69%	1.13%
22	H&F AND GARTMORE MANAGEMENT	Gartmore Investment Management	37.33%	2.99%	1.12%
23	HENDERSON GROUP	Henderson Global Investors	33.73%	2.70%	1.01%
24	ALLIANZ GROUP	Allianz Global Investors UK	42.50%	2.49%	0.99%
25	AVIVA PLC	Aviva Funds, Morley Fund Management	23.93%	4.11%	0.96%

\*\* Merrill Lynch Investment Managers has become BlackRock as at 29 September 2006. The company information provided here refers to BlackRock.

Source : EuroPerformance / EDHEC Alpha League Table

Company	Year established	Managing Director or Administrator	Chief Investment Officer, Equities	Equity assets under management (AUM in £m)	Ranking
AXA Framlington	1969	Robert Kyprianou	N/A	6 800	1
M&G Group	1931	William Nott	David Jane	64 783	2
Aberdeen Asset Management	1983	Martin Gilbert	Anne Richards, CIO Hugh Young, Equities	27 083	3
Artemis Investment Management	1997	Richard Turpin	Mark Tyndall	9 799	4
Taube Hodson Stonex Partners Unit Trust Management Company	1994	John Hodson	Nils Taube, John Hodson, Cato Stonex, Mark Evans, Simon Edelsten	8 400	5
AXA Rosenberg	1985	Stéphane Prunet	Kenneth Reid	54	6
Old Mutual Asset Managers	1985	Peter Baxter	Eoin Murray	2 551	7
Rensburg Sheppards	1988	Mike Burns	N/A	13 100	8
Investec Asset Management	1991	Hendrik du Toit	N/A	15 349	9
Schroders	1804	Michael Dobson	Alan Brown	84 400	10
Invesco Perpetual	1973	Bob Yerbury	Bob Yerbury	24 250	11
Jupiter Asset Management	1985	Jonathan Carey & Edward Bonham Carter	Edward Bonham Carter	16 300	12
GAM	1983	William Norris	N/A	N/A	13
Lazard Asset Management	1848	Ashish Bhutani	N/A	37 325	14
Merrill Lynch Investment Managers**	1988	Charles Prideaux	Quintin Price	173 000	15
Prudential	1848	William Nott	David Jane	N/A	16
Newton Investment Management Limited	1978	Helena Morrissey	Jeff Munroe	15 729	17
F&C Asset Management	2004	Alain Grisay	Richard Wilson	40 000	18
First State Investments UK	1988	Warwick Negus	N/A	8 381	19
Fidelity Investments International Limited	1969	Barry Bateman	Michael Gordon	149 100	20
Allchurches Investment Management Services Ltd	1988	Graham Doswell	Sue Round	1 000	21
Gartmore Investment Management	1969	Les Aitkenhead	Jeff Meyer	21 900	22
Henderson Global Investors	1934	Roger Yates	Andrew Formica	25 200	23
Allianz Global Investors UK	1997	Michael Hooper	Andreas Utermann	5 250	24
Aviva Funds, Morley Fund Management	1998	Keith Jones	Katherine Garrett-Cox	54 905	25

## The final score ('alpha intensity')

The Alpha League Table is a ranking system based on a measure of alpha intensity (performance measure that has been adjusted for the risks actually taken) for all active equity management in the selected asset management companies. These companies must be registered with the regulatory authorities and have at least 4 equity funds analysed, marketed and managed in the country studied. We identify the alpha-producing funds using the EuroPerformance-EDHEC Style Ratings.

The alpha intensity is calculated every month using two indicators:

**The average alpha**, which corresponds to the average of the positive alphas for the 4 or 5 star funds in the Style Ratings.

**The frequency of alpha**, which is expressed by the number of funds with a strictly positive alpha (4 and 5 stars in the Style Ratings) out of all the funds rated.

**The final score, or alpha intensity, is the average of the 12 monthly scores.**

**Only companies that have participated in the 12 monthly rankings are retained for the final rankings.**

## The best active managers

**T**he fourth edition of the Alpha League Table looks at asset management companies in the UK.

Of the 66 entities eligible for analysis, only the 25 leading companies are singled out; this selection is based on the number of funds available for analysis and the regularity of the alpha they produce.

Two factors distinguish UK asset managers from their counterparts in mainland Europe, who were the subject of earlier analysis: the average level of alpha produced, which places them at the top of the European rankings, and the number of asset management companies producing alpha.

Compared to the results obtained by leading asset managers in France (Financière de l'Echiquier — 4%), Italy (Anima — 1.5%) and Spain (Gesbankinter — 3%), the figures from the UK are truly remarkable, with the top five companies obtaining a score of at least 2.5%.

**AXA Framlington** takes the top spot with a score of 4.64%. With more than 10 funds, the average level of alpha produced is 7.09% and the percentage of alpha-producing funds within the company's active management range is nearly 65%. Framlington, which is a former HSBC subsidiary, was purchased by the AXA Investment Managers Group at the end of 2005. AXA Framlington is now a leading franchise specialising in equity investments. Its investment process is active, using a GARP approach.

**M&G Group** takes second place with a score of 2.83%, average alpha levels of 4.52% and 62.14% in terms of its alpha-producing funds. It is fully owned by Britain's leading insurance company, Prudential, and is ranked sixth in terms of assets under management. As part of the **Prudential Group**, M&G has a staff of more than 200 and serves to spearhead the company's expansion beyond the UK.

Behind the two insurance subsidiaries is **Aberdeen Asset Management**, with a score of 2.78%. Again, this company shows a high level of alpha creation, with 65.66% of the selected funds having positive alpha. Its average alpha level is 4.32%. This Scottish company divides its operational management between Aberdeen, where it has its head office, and Glasgow. Since 2003, it has enjoyed steady growth and is now among the first quartile of companies in terms of assets.

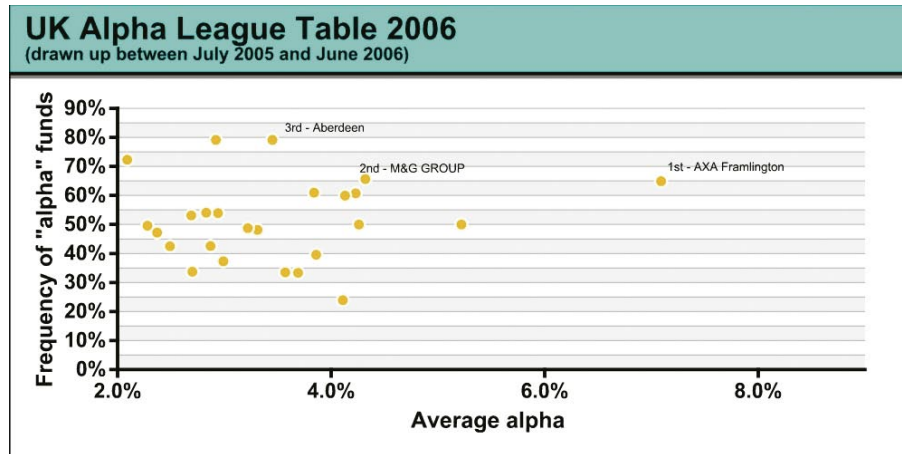
The rankings of the top 25 companies are made up of asset management companies that are subsidiaries of insurance companies (9), independent asset managers (9) and companies that belong to banking groups (7). Average alpha for the entire list is 3.11%, with this figure being slightly higher among the insurance companies (3.62%) and asset managers (3.22%). The banking subsidiaries post average alpha of 2.61%.

Independent asset management companies occupy 5 of the top 10 spots: **Artemis Investment Management** (4th); **Taube Hodson Stonex**

(5th); **Rensburg Sheppards** (8th); **Investec Asset Management** (9th); **Schroders** (10th); and **Invesco** (11th). Farther down the list are **Fidelity Investment Management** (20th) and **Henderson Global Investors** (23rd).

**AXA** holds two places in the rankings, with **AXA Framlington** at the top and **AXA Rosenberg** in 6th place. The insurance subsidiaries occupy the ranks beyond 20th place, with the exception of **Prudential Unit Trust**, which is ranked 16th and **F&C Asset Management** (18th). **Allchurches Investment Management** is ranked 21st, followed by **Gartmore Investment Management** (22nd), **Allianz Global Investors** (24th) and, finally, **Aviva** (25th).

The banking subsidiaries are placed in the second half of the rankings, with the exception of **Old Mutual Asset Managers** (7th), a subsidiary of Old Mutual, one of South Africa's leading financial services groups. 12th place is held by **Jupiter Asset Management**, a subsidiary of one of Germany's largest banks — Commerzbank AG. The subsidiary of Julius Baer Group, **GAM** (Global Asset Management) is ranked 13th, followed by **Lazard Asset Management** (14th) and **Merrill Lynch Investment Managers** (15th). The Mellon Group subsidiary, **Newton Investment Management** takes 17th place, while **First State Investment**, a subsidiary of the Commonwealth Bank of Australia, also makes it into the top 25, in 19th place.



Source : Style Analytics - Data as at 30 June 2006 (www.styleanalytics.com)

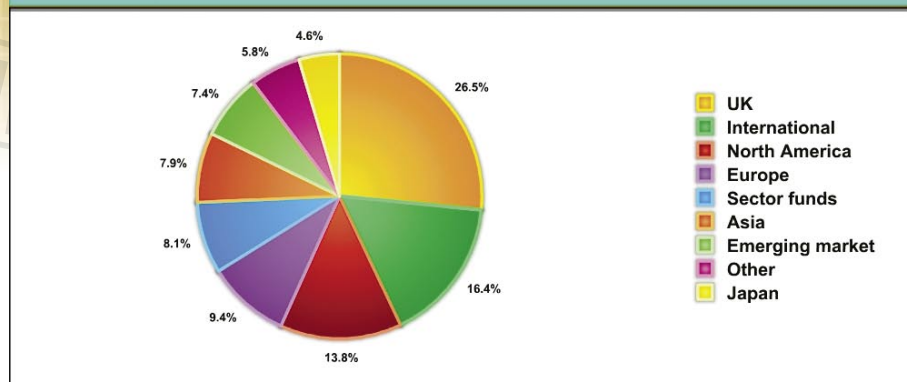
	Alpha Frequency	Average Alpha	Final Score
UK	43.39%	2.95%	1.33%
Spain	35.32%	2.73%	1.04%
France	33.79%	2.62%	0.89%
Switzerland	31.50%	2.61%	0.79%
Italy	23.15%	1.71%	0.41%
	35.44%	2.62%	0.97%

Source : Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

# The best active managers

## Breakdown of 4 and 5 star funds by investment zone

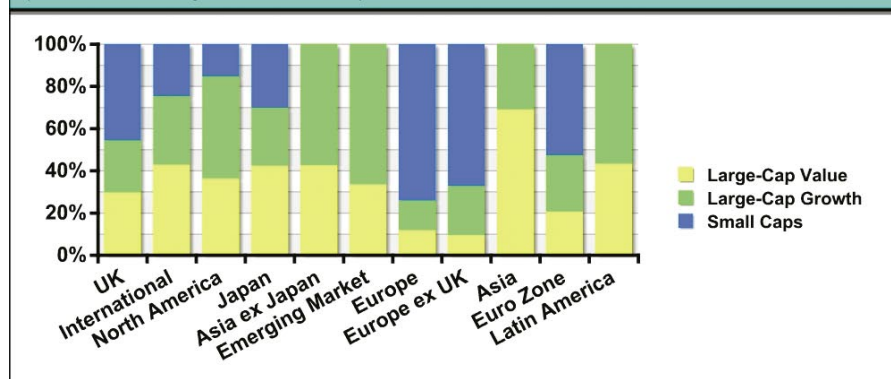
Data at June 30, 2006



Source : Style Analytics - Data as at 30 June 2006 ([www.styleanalytics.com](http://www.styleanalytics.com))

## Management style of the 4 and 5-star funds

(evaluation of the style at June 30, 2006)



Source : Style Analytics - Data as at 30 June 2006 ([www.styleanalytics.com](http://www.styleanalytics.com))

Unlike the analysis of previously-studied countries, here the role of foreign companies is significant. Our rankings show 10 British companies among the top 25 alpha performers, with 7 American companies, 2 apiece from Germany and Australia and one each from South Africa, France, Switzerland and the Netherlands.

Of the 898 funds in the United Kingdom that are actively managed and for which historical data is available over a three-year period, 43.4% produce significant and persistent alpha. But how can we characterise the management techniques of these successful funds?

A breakdown of the alpha funds by investment zone reveals a majority of UK funds (26.5%). Those invested internationally represent 16.4% of the 4 and 5 star funds, while funds invested in North America are also a major source of alpha (13.8%). Europe is in 4th place with 9.4%, ahead of sector funds (8.1%). Asia and Japan follow, with shares of 7.9% and 4.6% respectively, while emerging markets (European emerging markets + emerging markets) represent 7.4%. All the major investment zones are included: USA, Asia, Japan and Europe. However, investment in the Euro zone countries is not particularly strong.

Average levels of alpha are high in all of the investment zones. Asia and the sector funds provide the highest levels, with figures of almost 5%, while funds invested internationally, with

### The selected population

#### • Scope of the funds :

The scope of the funds analysed is that of authorised funds domiciled in the United Kingdom and collective investment schemes domiciled outside the United Kingdom and recognised by the FSA. According to the terminology used in the FTfm guide, this includes Authorised Investment Funds, OEICs and FSA-recognised funds. It excludes Property & Other UK Unit Trusts, Regulated Funds, International Insurance Funds, Other International Funds and Property Unit Trusts.

#### • Fund selection :

Under the Alpha League Table methodology, in order to participate in the rankings an asset management company must have at least four rated funds that participate in the monthly calculations of the analysis period.

To receive a score, funds must be **actively managed equity funds** and must have been **subject to analysis** from July 2002 to June 2006.

.../...

# The best active managers

average alpha of 3.5%, reflect the high quality of asset management in the UK, where a large number of funds are managed. Europe, the emerging markets and Japan also post alpha levels of between 3% and 3.5%. By contrast, funds that invest in UK securities show alpha of less than 3%.

On average, the alpha funds favour large cap stocks, with the proportion of small caps making up just 30% of portfolios. This average is the result of markets with a heavy emphasis on style. In emerging markets or in Asia (ex Japan), the notion of small caps arouses no interest and style approaches focus solely on a valuation of the company's securities (growth vs. value). On European markets, because fund managers have more refined and reliable knowledge of the economic environment, the proportion of small caps in portfolios tends to be higher. This is the case for 'Europe' portfolios, in which small and mid caps exceed 50%. In more geographically diverse funds, however, this proportion is at less than 20%, as in international funds.

To conclude, let us consider the earlier country rankings, which were revised on 30 June 2006, so as to compare the different sets of results. 9,000 actively managed funds are given a score each week in our database, based on the alpha they produce. This considerable source of information allows us to monitor asset management in Europe<sup>1</sup> and establish rankings based on an objective criterion (alpha), while adequately accounting for a portfolio's risks. The United Kingdom comes out easily on top, both in terms of the percentage of funds producing alpha (43.4%) and the average level of alpha produced (2.95%). On a market that is very much international and is dominated at a European level by major institutions, Spain takes second place. France and Switzerland show similar performances, with a frequency of alpha-producing funds of around 33% and an average alpha level of 2.6%, while Italy takes 5th place on these European rankings. On average, among the main European countries in terms of active asset management, slightly over a third of funds produce an average alpha of 2.6% (as at 30 June 2006).

1. Neither German companies nor funds governed by German law are included in these rankings.

.../...

Furthermore, in order for a style analysis to be applied, funds must have at least one price per week.

The geographic characteristics of the fund are also taken into account. Funds that are marketed and managed by a company outside of the United Kingdom, or managed by a different company, are not eligible for analysis. Priority is given to retail funds. If no retail fund is available or if it does not have sufficient available market data, an institutional fund will be given priority. Balanced, Managed and Portfolio funds are considered to be equity funds if their long-term equity allocation persistently exceeds 80%.

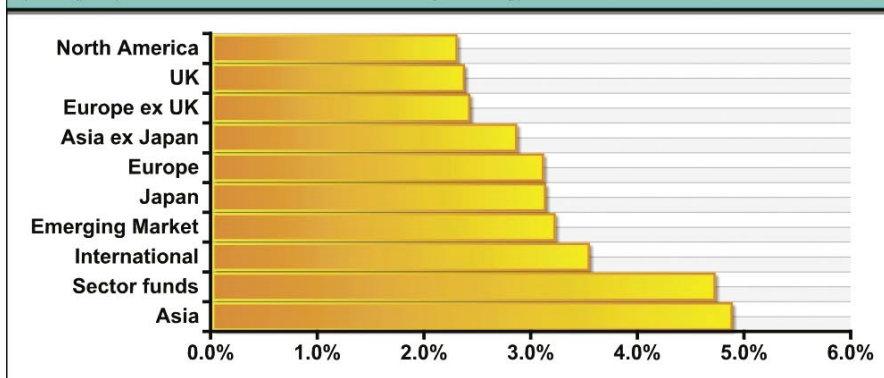
- Selection results :

Of the 107 declared companies in the UK (source: IMA report 2005) offering asset management services in the equity class, 66 were selected as having met the active management criteria (as at 30 June 2006 - date of calculation). Together they control over 898 actively managed equity funds. The study focuses on the top 25 in terms of alpha creation. Of the main companies considered, just one chose not to provide us with the information needed for the analysis.

- On this basis :

885 funds are analysed in the Style Ratings ;  
755 funds are awarded 1 to 5 stars as part of the Style Ratings.

**Average alpha by investment zone**  
(average alpha of the 4 and 5-star funds in the Style Rating)



Source : Style Analytics - Data as at 30 June 2006 ([www.styleanalytics.com](http://www.styleanalytics.com))

Robert Kyprianou,  
Managing Director of AXA Framlington

**AXA**  
**Framlington**  
**1st**



Robert Kyprianou,  
Managing Director of AXA Framlington

## Interview

### Strategic Orientation

#### **What strategic orientations do you favour for stock selection?**

At AXA Framlington our investment approach is to find growth at a reasonable price, or GARP. Our investment style is based on bottom-up stock picking that aims to seek the best performing companies globally.

#### **Are these strategic orientations representative of your company's approach to investment management (large caps, small caps, sector, etc.)?**

This strategy is representative of the company's approach to investment and therefore leads the managers to naturally favour mid and small cap stocks where they tend to find more investment opportunities to exploit.

#### **Do these orientations correspond to a source of alpha that you favour?**

Yes, we look to invest in companies with good business models where we can take advantage of future prospects today. Our managers are dedicated to the pursuit of alpha whether it is to outperform their respective benchmark, an index or the IMA sector.

#### **Do you have rules regarding sector exposure, capitalisation or style?**

There are no specific rules or guidelines in this regard. At AXA Framlington our managers have the freedom to manage portfolios the way that they want to.

#### **Is your management more bottom-up or top-down?**

Bottom-up.

### Alpha Generation

#### **Do you carry out stock picking?**

Stock picking is at the heart of our investment process. We are active managers and seek to add value through stock selection.

#### **Do you seek to take advantage of market momentum?**

No. However, whenever we are researching a company we always aim to understand the sector that the company is competing in and the challenges/opportunities that the company is faced with.

#### **Do you use tactical allocation?**

Yes, on global portfolios such as our Managed Growth and Managed Income funds. One of our strengths is that we have geographic and sector specialists who are able to contribute to our overall asset allocation as experts in their various disciplines.

### Risk Measurement and Risk Management

#### **Do you have specific tools at your disposal?**

The risk system that AXA Framlington uses for its long only equity products is Style Research where analysis breaks risk down into currency, market, sector, style and stock specific elements. This model ensures that we are aware of any biases, so that we can deal with them as necessary. Portfolios are run through the system both on a formal monthly and ad-hoc basis when required.

Another integral part of our risk process is the dynamic appraisal of risk themes in the market. We seek to highlight key trends in risk factors, for example we regularly look at the performance and risk of style factors.

#### **Do you track the potential extreme losses of your portfolios?**

We also use Style Research for VaR analysis, which quantifies the potential losses that a portfolio might be faced with, at an associated probability level, over a specified time horizon. This measures the loss a fund may be expected to make in, for example, its worst day's performance in one hundred days- which is not so much of a worst case scenario, but more of the loss that might accrue on a typically bad day.

#### **Do you have specific techniques for managing your risks, such as limiting the number of positions in your portfolios?**

We have neither hard nor soft limits around risk parameters. We carefully monitor fund risk exposures regularly and if this reveals inefficiencies or incongruences with a manager's views and beliefs, we will discuss with them. ■



## AXA Framlington 1st

## EuroPerformance Analysis

**A**XA Framlington tops the Alpha League Table in the United Kingdom with an average alpha of 7.09% for 10 equity funds: Japan Fund, American Growth Fund, Emerging Markets Fund, Equity Income Fund, Financial Fund, Global Technology Fund, Managed Growth Fund, Monthly Income Fund, Framlington International Portfolios NASDAQ Fund and Framlington International Portfolios NETnet Fund.

For the period analysed, the proportion of 4 or 5 star funds for which more than three years of historical data is available is nearly 65%, a remarkable result when one considers that the average figure for 4 and 5 star funds in the UK is 43.4%, against 35.4% in Europe.

We have chosen to present the AXA Framlington Emerging Markets fund, created in December 1992. This fund is invested in stocks from companies in emerging countries and is managed by William Calvert, a manager with extensive experience who has been with AXA Framlington since 1997. The fund's performance has been positive over the last three years, with an annualised return of 28.2%.

The reference used by the fund is IMA Global Emerging Markets, which represents the average for this category. Using Sharpe's Return-Based Style Analysis (1992), we can compare the index and the fund by looking at the last 156 weekly fund returns and the market index that most closely resembles its investment universe.

### AXA Framlington's Alpha Funds

ISIN	GB0003509436	GB0003500179	GB0003499414	GB0006598998	LU0089807050	LU0096727887
<b>Name</b>	AXA Framlington Emerging Markets Fund	AXA Framlington Japan Fund	AXA Framlington Financial Fund	AXA Framlington Global Technology Fund	Framlington International Port Nasdaq Fund	Framlington International Port Netnet Fund
<b>Category</b>	Emerging Market	Japan	Sector fund	Sector fund	Sector fund	Sector fund
<b>Alpha</b>	4.16%	16.27%	3.91%	4.30%	0.70%	4.00%
<b>VaR 99%</b>	5.47%	6.12%	4.07%	7.39%	7.83%	7.51%
<b>Coefficient of determination</b>	79%	81%	75%	85%	82%	83%
<b>Positive weeks</b>	48.70%	51.30%	53.21%	57.69%	53.20%	58.97%
<b>Hurst Exponent</b>	47%	63%	39%	49%	43%	46%
<b>Style Rating</b>	⊕⊕⊕⊕	⊕⊕⊕⊕ h	⊕⊕⊕⊕⊕	⊕⊕⊕⊕⊕	⊕⊕⊕⊕⊕	⊕⊕⊕⊕⊕

Source : EuroPerformance Style Analytics - Data as at 30 June 2006 (www.styleanalytics.fr)

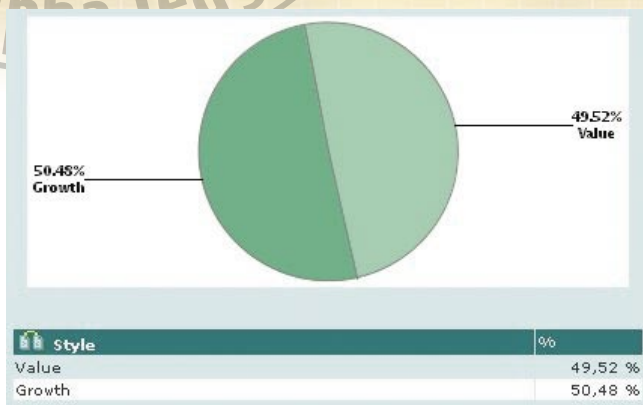
### Rating Elements for AXA Framlington Funds

<b>ISIN</b>	GB0003509436
<b>Category</b>	Emerging Market
<b>Name</b>	Emerging Markets fund
<b>Average Alpha</b>	4.6%
<b>VaR 99%</b>	5.5%
<b>Positive weeks</b>	49.4%
<b>Hurst Exponent</b>	47.0%
<b>Coefficient of determination</b>	79.0%
<b>Style Rating</b>	⊕⊕⊕⊕

Source : EuroPerformance Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

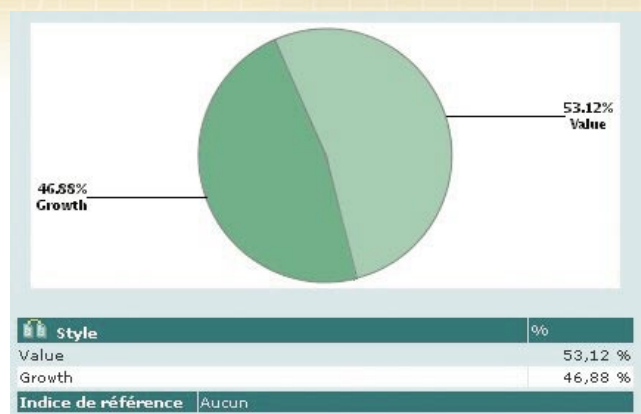
## EuroPerformance Analysis

MSCI Emerging Markets: Exposure to style factors



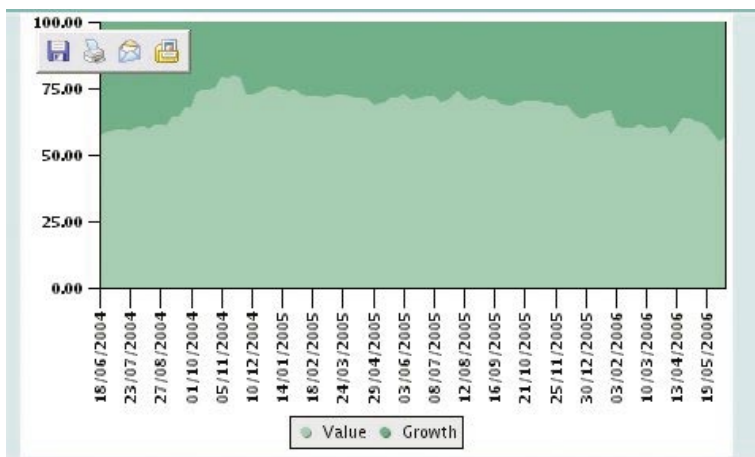
Source : EuroPerformance Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

AXA Framlington Emerging Markets: Exposure to style factors



Source : EuroPerformance Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

AXA Framlington Emerging Markets: Asset Allocation



Source : EuroPerformance Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

Because the fund is invested in emerging markets, we chose the MSCI Emerging Markets index.

Analysis of the MSCI index over the last three years, up to 30 June 2006, reveals a balanced exposure between value and growth styles. The same analysis carried out on the AXA Framlington Emerging Markets fund provides very similar results. Exposure to the style factor 'Large cap — value' is 53.1%, while the figure for 'Large cap — growth' is 46.9%.

Analysis over a long period reveals a high level of style stability.

The style analysis makes it possible to determine the average long-term benchmark used by the

fund and, within the fund's overall performance, to isolate the returns that result from normal risks (beta) from the outperformance that is created by management skill (alpha). The average alpha produced by the fund over the three-year period is 4.61%.

The fund's volatility (16.4%) is comparable to that of its reconstituted benchmark (17.4%). However, a volatility measure is not sufficient to identify the risks of the portfolio. This is why the analysis also accounts for the risk of extreme losses. The Value-at-Risk on weekly returns at a threshold of 99% displays a potential loss of 5.5%, which is lower than the corresponding figure for the fund's benchmark (6.7%).

The management approach is active, with a tracking error of 8.1%.

Having measured the alpha and risks, we now turn our attention to the regularity and persistence of the fund's outperformance. Persistence is measured using a gain frequency on the weekly returns. The frequency calculated for the last three years is 49.4%. Persistence is a measure of the manager's capacity to repeat performance from one week to the next. This serial correlation is measured using the Hurst coefficient. The value of this coefficient for AXA Framlington Emerging Markets is 47. When this value is greater than 50, it is considered that we are in the presence of a momentum and that there is persistence.

The excellent results of the AXA Framlington Emerging Markets fund give it a rating of **★★★★**.

Analysis of all of AXA Framlington's alpha funds reveals that its highest alpha comes from sector funds. With the possible exception of the fund invested in the NASDAQ, the alphas are positive. This outperformance is not the result of excessive risk-taking. Over the last three years, the Value-at-Risk figures are low, with a weekly potential loss of between 4% and 7%.

To conclude, AXA Framlington displays a high-performance and homogenous management approach, with 65% of its funds receiving 4 stars or more in our ratings. Such a proportion of funds performing at least as well as, if not better than, the benchmark is truly remarkable.

David Jane,  
Head of Equity Investment, M&G

**m&g**  
2nd

## Interview



David Jane,  
Head of Equity Investment, M&G



Interview with David Jane, Head of Equity Investment, M&G

### Strategic Orientation

#### **What strategic orientations do you favour for stock selection?**

At M&G we embrace a broad range of styles and strategies to generate alpha. However a core focus common to all funds is bottom-up stock selection, which involves fully understanding the companies in which we invest. We meet regularly with company management on-site and 'kick the tyres' before we commit our clients' money. As a significant, long term shareholder in many companies, we are able to actively engage with their management and help them maximise value for shareholders.

#### **Are these strategic orientations representative of your company's approach to investment management (large caps, small caps, sector, etc.)?**

We manage a wide variety of funds that invest in companies from the full range of capitalisations and sectors, covering the globe.

#### **Do these orientations correspond to a source of alpha that you favour?**

Our philosophy at M&G is to employ excellent fund managers with clear, value-adding approaches to investment, and then empower those managers to implement their approaches in the manner they see fit. We actively encourage diversity in fund managers' approaches as we believe no single approach is correct for the different funds that we manage.

#### **Do you have rules regarding sector exposure, capitalisation or style?**

Our retail funds are relatively unconstrained in terms of sector exposure and capitalisation. In general, we regard style as an output of the investment process, not an input. This means sector or capitalisation biases that emerge within a fund are often the result of the fund manager's conviction in particular stocks. However certain funds use thematic views to support the stock selection process.

#### **Is your management more bottom-up or top-down?**

We specialise in active bottom-up stock selection, seeking to identify those companies that will deliver superior returns for shareholders over the long term.

### Alpha Generation

#### **Do you carry out stock picking?**

Yes. As mentioned above we focus on bottom-up stock selection, coupled with in-house research and active risk management.

#### **Do you seek to take advantage of market momentum?**

Our over-riding strategy is bottom-up stock selection, so top-down views in terms of the direction of the market are not a key driver in the generation of performance. However, we believe it is important to capture the flair of individual fund managers by giving them the flexibility to be truly active in picking stocks and allowing them to have conviction in their views. Therefore some

managers do place more importance than others on exploiting market momentum in their stock selection process.

#### **Do you use tactical allocation?**

Our fund of fund range, which includes both fettered and unfettered multi-manager offerings, focuses on strategic asset allocation rather than short-term tactical moves.

### Risk Measurement and Risk Management

#### **Do you have specific tools at your disposal?**

Integral to the management of M&G funds is the management of investment risk. M&G's Portfolio Strategy & Risk team works closely with fund managers to monitor the various dimensions of investment risk assumed.

#### **Do you track the potential extreme losses of your portfolios?**

The Portfolio Strategy & Risk team monitors all areas of risk including stock selection risk as well as exposures to macro factors such as currencies or interest rates.

#### **Do you have specific techniques for managing your risks, such as limiting the number of positions in your portfolios?**

We believe that risk management should enhance performance, not constrain it. Our aim is therefore to exploit the risks in the portfolio that we feel confident about, and minimise the impact of those where we do not have confidence. ■



**m&g**  
2nd

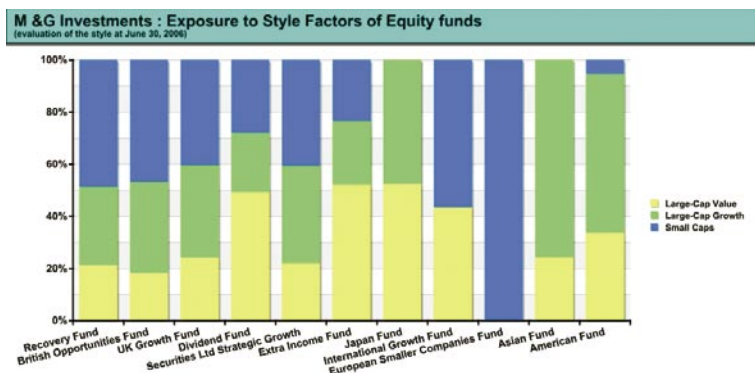
## EuroPerformance Analysis

**M**&G is ranked second with an average alpha of 4.52% for 13 equity funds (see table below). Over the period analysed, the proportion of 4 or 5 star funds for which more than three years of historical data is available is 62%, a result that is higher than the average figure for managed funds in the United Kingdom (43.4%).

The highest alpha comes from the sector-based Global Basics Funds (11.64%), followed by the funds invested in the United States or internationally, with alpha levels of between 4% and 7%. Of the 13 selected funds, 6 are invested in UK stocks.

M&G Group, a subsidiary of the leading British insurance company, Prudential, is ranked sixth in terms of assets under management. With more than 75 years' experience, M&G has developed its expertise in active asset management and is recognised as being one of the leading players in the financial industry. Its management approach is one of fundamental analysis and places a large emphasis on stock-picking.

M&G achieves strong performance in all management styles, although its alpha funds appear to focus primarily on large caps. With particular emphasis on the UK and international markets, M&G Investments has a very wide range of products and can boast outperformance on each of these markets.



Source : EuroPerformance Style Analytics - data as at 30 June 2006 (www.styleanalytics.com)

### M&G Alpha Funds

ISIN	GB0030926843	GB0030935794	GB0030926631	GB0030927361	GB0031289217	GB0030938038	GB0030935556	GB0030938475	GB0031286197	GB0031107468	GB0031111817	GB003111682	GB0030932452
Name	American Fund	Global Technology Fund	European Smaller Companies Fund	British Opportunities Fund	Recovery Fund	International Growth Fund	Asian Fund	Japan Fund	Dividend Fund	Extra Income Fund	UK Growth Fund	Securities Ltd Strategic Growth	Global Basics Funds
Category	North America	Sector fund	Europe	UK	UK	International	Asia ex Japan	Japan	UK	UK	UK	UK	UK
Alpha	4.72%	2.97%	1.49%	2.82%	3.72%	7.58%	1.17%	0.15%	1.57%	1.36%	2.09%	1.57%	11.64%
VaR 99%	4.64%	5.79%	5.87%	5.01%	6.04%	4.68%	5.70%	5.85%	3.20%	2.42%	4.82%	4.82%	5.56%
Coefficient of determination	89.00%	84.00%	83.00%	75.00%	73.00%	66.00%	83.00%	95.00%	79.00%	71.00%	76.00%	78.00%	72.00%
Positive weeks	53.85%	52.56%	54.49%	50.64%	51.28%	54.49%	48.72%	48.72%	48.08%	41.03%	48.08%	48.72%	48.72%
Hurst Exponent	59.00%	57.00%	48.00%	38.00%	44.00%	48.00%	45.00%	43.00%	47.00%	50.00%	53.00%	51.00%	43.00%
Style Rating	○○○○○ h	○○○○○ h	○○○○○	○○○○○	○○○○○	○○○○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○○

Source: EuroPerformance Style Analytics - data as of 30 June 2006 (www.styleanalytics.com)

Hugh Young,  
CIO Equities of Aberdeen Asset  
Management

## Aberdeen Asset Management 3rd



Hugh Young,  
CIO Equities of Aberdeen Asset Management

## Interview

### Strategic Orientation

#### **What strategic orientations do you favour for stock selection?**

We're long-term, traditional buy-and-hold stockpickers, finding well-run companies that are inexpensive relative to their growth prospects. We hold stocks for as long as possible, provided they reward us.

#### **Are these strategic orientations representative of your company's approach to investment management (large caps, small caps, sector, etc.)?**

We don't favour a particular area of the market, although we face practical size constraints. We have few preconceptions about where good companies reside, although we like domestic firms because exporters in Asia are more exposed to margin pressure, being at the wrong end of the value chain. We also think growth will become more balanced in the domestic markets' favour as Asia's wealth rises.

#### **Do these orientations correspond to a source of alpha that you favour?**

Alpha generally comes from stock selection. We do our own research, never feel compelled to own stocks, and ignore benchmarks in portfolio construction.

#### **Do you have rules regarding sector exposure, capitalisation or style?**

Not really. Diversification is our main source of risk control and rules on exposure are common sense checks. If we want to go heavily over- or under- weight in a country we will. Our minimum market cap is cUS\$1bn, which provides adequate liquidity. All our funds are run off model portfolios.

#### **Is your management more bottom-up or top-down?**

We follow a bottom-up process based on evaluation of companies through direct visits. Before we buy any stock, we meet the management and write detailed notes. We estimate a company's worth in terms of quality, then price.

### Alpha Generation

#### **Do you carry out stock picking?**

Yes. This is our main focus. In 2005 we visited over 1,000 companies.

#### **Do you seek to take advantage of market momentum?**

No. We take our time building positions and are long-term holders. Our style wouldn't suit momentum-led conditions. The danger in such markets is of chasing performance and overpaying.

#### **Do you use tactical allocation?**

No. But we use price dips to top up stocks we like and we top-slice stocks if they run up.

### Risk Measurement and Risk Management

#### **Do you have specific tools at your disposal?**

The main tool we have is good research - we get to know our holdings before investing. Assessment of downside risks is critical. We're loath to overpay, so stocks we like that look dear are put on our watchlist for monitoring. Our independent investment risk department reports on the consistency of portfolio positioning on a post-trade basis.

#### **Do you track the potential extreme losses of your portfolios?**

No, we run long only funds. Concepts such as VaR are inappropriate. As with any investment, the ultimate risk is that an investor can lose a large amount. Falls of 80-90% were sustained in recent memory by tech funds; investors should be aware of such potential losses. We always remind them that emerging markets carry higher risks.

#### **Do you have specific techniques for managing your risks, such as limiting the number of positions in your portfolios?**

Portfolios are constructed to maximise their level of exposure to the most attractive companies. We run a representative unconstrained portfolio of around 55-65 stocks at any one time, enough for effective diversification while allowing for individual company oversight. We limit the exposure of any one stock to around 10% of the whole, while new stocks are introduced at 1-3%, to avoid big absolute bets. ■



## Aberdeen Asset Management 3rd

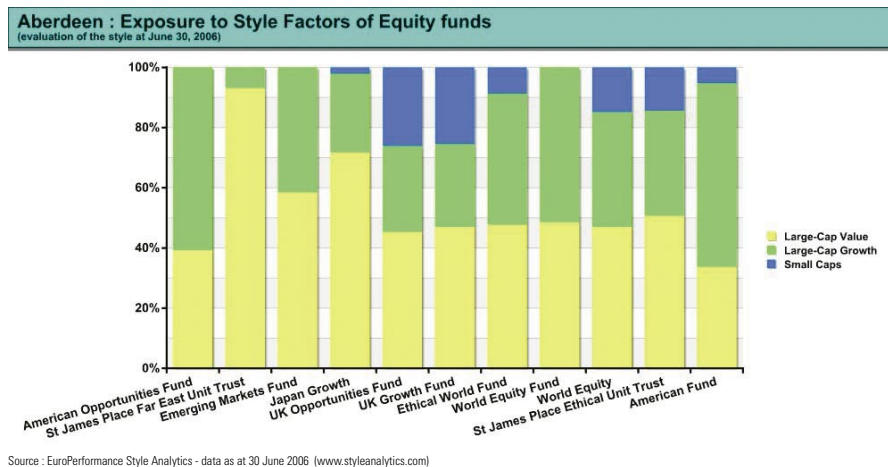
### EuroPerformance Analysis

**A**berdeen Asset Management is ranked third in the Alpha League Table for the United Kingdom, with an average alpha of 2.78% for 10 equity funds (see table below). For the period analysed, the proportion of 4 or 5 star funds for which more than three years of historical data is available is greater than 65%. This exceeds the average figure for UK funds (43.4%).

Analysis of all of Aberdeen Asset Management's alpha funds reveals that it is the management of international large caps that produces the highest alpha. With the possible exception of funds invested in American or British securities, positive alpha is produced. Such outperformance is not the result of excessive risk-taking: over the last three years, the figures for Value-at-Risk are low, with a potential weekly loss that is often below 5%. Persistence is strong, with figures of between 40% and 55%.

Aberdeen Asset Management began to develop its equity fund management activities at the beginning of the 1990s and places alpha at the heart of its management procedures. The company uses fundamental analysis in its choice of securities and makes medium-term investments. Its asset management team is made up of some sixty professional fund managers.

The alpha funds use a large cap style, with the exception of those invested in UK securities, which have a small cap exposure of around 20%. Value exposure is high. This exacting management approach produces a very high proportion of alpha funds (65%) in a company that is also enjoying strong growth in its assets under management.



#### Aberdeen Asset Management's Alpha Funds

ISIN	GB0006833601	LU0094547139	GB0031682403	GB0006074891	LU0107464264	LU0011963831	GB0007667669	LU0132412106	LU0011963757	GB00B0L6GH52
<b>Name</b>	Ethical World Fund	World Equity Fund	World Equity	St James Place Ethical Unit Trust	Technology Fund	American Opportunities Fund	St James Place Far East Unit Trust	Emerging Markets Fund	UK Opportunities Fund	UK Growth Fund
<b>Category</b>	International	International	International	International	Sector fund	North America	Asia	Emerging Market	UK	UK
<b>Alpha</b>	3.83%	4.57%	4.31%	5.97%	0.66%	0.12%	5.03%	4.03%	1.91%	0.57%
<b>VaR 99%</b>	3.89%	4.04%	3.98%	3.75%	6.76%	4.45%	4.86%	5.73%	3.76%	3.66%
<b>Coefficient of determination</b>	0.84%	0.80%	0.70%	0.71%	0.88%	0.85%	0.77%	0.81%	0.73%	0.75%
<b>Positive weeks</b>	55.84%	58.71%	54.84%	53.85%	52.26%	49.03%	48.72%	47.74%	49.03%	49.36%
<b>Hurst Exponent</b>	42.00%	46.00%	48.00%	42.00%	45.00%	43.00%	47.00%	46.00%	45.00%	43.00%
<b>Style Rating</b>	○○○○○	○○○○○	○○○○○ h	○○○○○	○○○○○	○○○○○	○○○○	○○○○	○○○○	○○○○

Source : EuroPerformance Style Analytics - Data as at 30 June 2006 (www.styleanalytics.com)

# Alpha League Table Methodology

The Alpha League Table methodology is drawn from the work of the EDHEC Risk and Asset Management Research Centre



For the first time in Europe, a ranking method is genuinely striving to distinguish the skill related to active management (alpha), from the other components of performance, which are related to the market (beta).

The Alpha League Table is based on the referential Style Rating database developed by EuroPerformance and EDHEC.

By retaining the funds rated  $\oplus\oplus\oplus\oplus$ ,  $\oplus\oplus\oplus\oplus\oplus$  and  $\oplus\oplus\oplus\oplus\oplus h$ , in other words funds that have strictly positive alpha, the Alpha League Table is the first European ranking that allows asset management firms to be rewarded for their capacity to create alpha via active "equity" management.

## Alpha is the core element in evaluating investment management

At a time when passive investment offerings are becoming more prevalent, it seems indispensable for both the asset management industry and investors to be able to identify talented active management "producers", who, over and above the returns procured naturally by the fund's long-term exposure (beta) to market and style risks, are capable of providing their clients with outperformance (alpha).

The calculation of alpha, i.e. the outperformance obtained by the manager compared with the "normal" returns procured by exposure to market and style risks, presupposes that the exposures to risks (the betas) are determined with accuracy. The benchmark that is representative of the risks that were actually taken by the manager is determined by analysing the fund's returns through a multi-index regression onto the styles (the Nobel Prize winner William Sharpe's Return-Based Style Analysis method).

## Presentation of the Alpha League Table:

The Alpha League Table provides an annual ranking of the best European asset management firms. These annual rankings are published every year on the basis of the fund performance as at 30 June for each of the management companies that act as asset managers in a European country.

In addition to these annual rankings, the ALT includes a special focus each year on 4 zones in Europe: France; the United Kingdom; Italy and Spain; and Switzerland. The publication of the rankings is spread out over the year on a quarterly basis.

The rankings are put together on the basis of a score relating to each management company's alpha intensity.

## The Alpha League Table score: alpha intensity

The goal of the Alpha League Table is to be able to rank asset management companies on their ability to deliver alpha frequently: their alpha intensity.

The alpha intensity is a synthesis of two indicators calculated from information in the EuroPerformance-EDHEC Style Rating:

- The frequency of alpha in the range, which is expressed by the ratio of the number of funds with a strictly positive alpha ( $\oplus\oplus\oplus\oplus$ ,  $\oplus\oplus\oplus\oplus\oplus$  and  $\oplus\oplus\oplus\oplus\oplus h$  in the style rating) to the total number of funds rated for the same asset management company.
- The average alpha, which corresponds to the average percentage of alpha calculated for the funds that have a strictly positive alpha ( $\oplus\oplus\oplus\oplus$ ,  $\oplus\oplus\oplus\oplus\oplus$  and  $\oplus\oplus\oplus\oplus\oplus h$  in the style rating).

The alpha intensity score for the Alpha League Table is the product of the frequency of "alpha" funds by the average alpha.

Example:

If company X displays a frequency of 30%, i.e. 3 funds out of 10 are rated 4 or 5 stars, and the average alpha of these funds (alpha >0) is 4%, then the score will be  $4\% \times 0.30 = 1.2\%$ .

In the same way, if company Y displays a frequency of 50% and an average alpha of 3%, its score will be  $3\% \times 0.50 = 1.5\%$ .

## The awards listing

Each month, rankings are established on the basis of this score. Only companies that have participated in the 12 monthly rankings are retained for the annual rankings.

In the present case, the calculations cover the period from July 2005 to June 2006.

In the final awards listing, the companies are ranked according to the average of their 12 monthly scores.

## The asset management companies selected for the Alpha League Table

All companies that carry out an investment management activity and are registered and approved by the regulatory authorities in the zone referred to in the awards listing are eligible for the Alpha League Table.

Foreign companies that only have a sales activity in the zone referred to are excluded. However, for companies that are registered and approved, all of their funds, both managed and marketed, are selected, irrespective of the country in which the fund is domiciled.

Each management company that has regulatory approval competes on its own behalf. Nevertheless, certain organisations, for which the equity management team is shared with another company within the same group, have been grouped together under the main name.

The companies with regulatory approval must have at least 4 funds rated in the EuroPerformance-EDHEC Style Rating to compete in the Alpha League Table.

### The funds selected for calculating the score

Equity funds are eligible for the Alpha League Table on condition that they are included in the EuroPerformance database and have a score in the Style Rating, the rating system developed by EuroPerformance and EDHEC. For this, they must have at least three years of historical data and fewer than two returns missing over the alpha calculation period (156 weeks) and not belong to one of the following categories:

- Gold and raw materials
- Real estate
- ETFs and all mutual funds that carry out index management

### The alpha measurement is drawn from the EuroPerformance/EDHEC Style Rating

The EuroPerformance-EDHEC style rating is constructed on the basis of three criteria:

- Risk-adjusted performance (or alpha)
- Extreme loss potential (Value-At-Risk)
- Performance persistence

The ratings integrate the most advanced conceptual and technical research. The Style Rating measures the quality of active management and provides a score that ranges from 1 to 6.

The 1 and 2 categories group together funds that have not outperformed their management objective on average. The 3 category contains funds whose performance is close to the returns of the market in which they invest. The 4 and 5 categories include funds that have outperformed over the analysis period. This excess performance is the fruit of the manager's decisions: active stock picking and/or market timing. Among the funds that excel, some provide a significant gain frequency, which characterises persistence of outperformance. These funds are distinguished with the maximal score of 6 or 6h characterising consistency in the distribution of the fund's excess returns.

### EuroPerformance and EDHEC

The philosophy of the EDHEC Risk and Asset Management Research Centre is that research should be useful for business.

On the basis of research work relating to performance measurement and mutual fund ratings, and having observed the inadequacies of the existing ratings systems, EDHEC began to collaborate with EuroPerformance in 2002.

Combining the state of the art in financial research and business know-how, EuroPerformance and EDHEC developed a European fund rating method based on ALPHA, the EuroPerformance-EDHEC Style Rating, a genuine analytical referential database. All the calculations, for which the EuroPerformance - EDHEC Style Ratings constitute a detailed summary, are drawn from "Style Analytics", a tool for measuring the performance and risks of European funds developed by EuroPerformance.

The partnership with EDHEC is a guarantee for EuroPerformance that the performance and risk analysis methods and concepts in "Style Analytics" are derived from the most recent research results in the area of ALPHA measurement.



#### About EDHEC

EDHEC is one of the leading French and European business schools. It ranked 7th in the Financial Times Masters in Management rankings in 2006. The EDHEC Risk and Asset

Management Research Centre, with its 33 professors, engineers and research associates, is the leading European research centre in asset management.



#### About EuroPerformance

EuroPerformance, a European fund analysis company, is a subsidiary of the FININFO group, the leading French financial information company. Specialised in data collection, EuroPerformance has developed tools with considerable added value in the areas of performance and risk analysis through a broad referential database of European funds.



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## Style Analytics

EUROPERFORMANCE

All the calculations in the Alpha League Table rankings are drawn from "Style Analytics", a tool for measuring alpha and, more generally, the performance and risks of European funds. **[www.styleanalytics.com](http://www.styleanalytics.com): get connected!**

### **EuroPerformance:**

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