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Appian
Asset Management

Monthly Monitor

& Appian in the Media

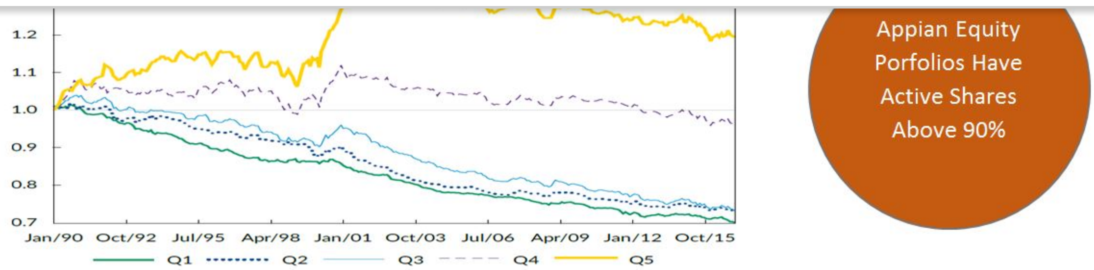
February 2018

Active Management: There is a Right Way.

The most common criticism thrown at fund managers is that they don't add value i.e. they don't out-perform the Index. In a recent academic paper published in the Financial Analysts Journal Martjin Cremers, professor of Finance at the University of Notre Dame, addresses this criticism head on (Cremers, 2017). It highlights that active managers can out-perform but two key attributes are necessary: **Opportunity and Conviction.**

Opportunity: In order to out-perform, managers need the opportunity. This is defined in terms of active share, which is a measure of how different a fund is to the index. You can't out-perform the index if you look like the index. The following graph from the academic paper highlights this point, where it shows the performance of funds ranked by active share. **Only the highest active share managers perform.**

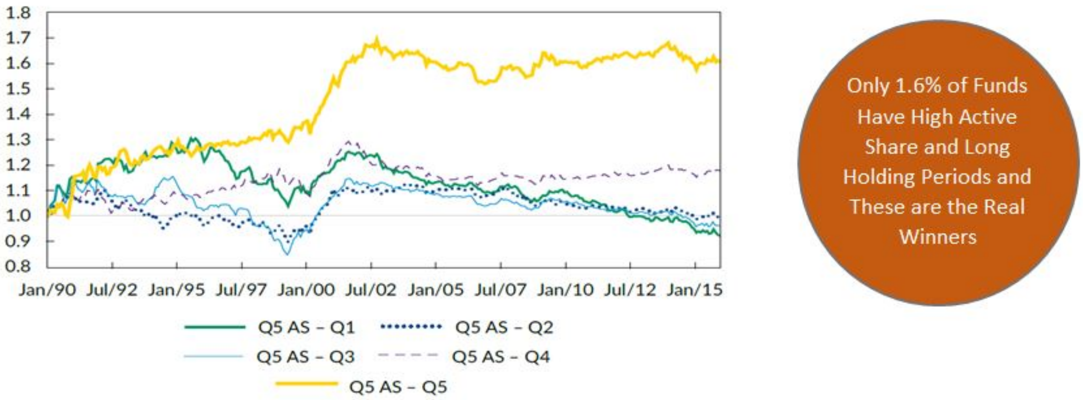
Cumulative Excess Returns over Index Ranked by Active Share Quintile:



Q1 refers to the performance of the first quintile portfolio (low active share) and "Q5" refers to the performance of the fifth quintile portfolio High Active share.

Conviction: The second key attribute needed for performance is conviction and this means having the conviction to hold stocks over the long-term. Amongst high active share funds, it is only those with long duration holding periods that really out-perform. At Appian, there is an investment philosophy centred around buying businesses that we believe in for the long-term.

Cumulative Excess Returns of High Active Share Funds Ranked by Fund Holding Duration:



Q5 AS– Q1" refers to the performance of the portfolio of funds with high Active Share (AS) that are also in the short (first) fund holding duration quintile portfolio, and "Q5 AS – Q5" refers to the performance of the portfolio of funds with high Active Share (AS) that are also in the long (fifth) fund holding duration quintile portfolio.

So, what's wrong with fund managers: A phobia is defined as an intense fear of something that, in reality, poses little or no actual danger. After considering this definition, it is fair to conclude that fund managers are suffering from *"Indexphobia"*, which together with low levels of conviction is resulting in poor returns. At Appian "*Indexphobia"* is one thing we are not suffering from. Active share in Appian equity funds is above 90%. Conviction is also something we are not lacking as stocks are bought with their long run prospects in mind.
We remain believers in active management and are happy, but not surprised, that academic research shows we are going about it in the right way.

Work Cited

Cremers, M., 2017. Active Share and the Three Pillars of Active Management: Skill, Conviction and Opportunity.

Appian In The Media

Eugene Kiernan, Appian's Head of Investment Strategy, appeared on **Newstalk** February 7th. With Vincent Wall he discussed the current volatility in markets and how investors should respond.

Click here to listen to Eugene Kiernan on Newstalk Breakfast

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Appian Unit Fund Prices

1 February 2018

Appian Value Fund	**144.02**
Appian Equity Fund	**190.76**
Appian Small Companies Opportunities Fund	**210.23**

Appian Burlington Property Fund	**103.85**

For more detailed information on each of our funds click **here**

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