

# INVESTMENT

## WEEK

investmentweek.co.uk

22 May 2017

## Hamzaogullari: Passives are growing because most active managers are not active; they are cheating

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Aziz Hamzaogullari, manager of the £306m Natixis Loomis Sayles US Equity Leaders fund, has said many active managers are letting clients down by having a low active share.

The manager identified this factor as the key driver behind the passives boom, as active managers were simply not delivering the alpha their clients were paying for.

“The reason why passives are growing is because most active managers are not active; they are cheating,” he commented

In particular, he said the average active share of portfolios had been declining consistently over the last two decades, as many managers had become more focused on the short term. His own active share on the fund is 82.9% versus the S&P 500 (at 30 April 2017).

“Anything below 80% active share is not high and anything below 50% is considered very low.



**Managers want to have it both ways, as they do not want the risk versus the benchmark so they think they are minimising risk, but they are charging fees which do not show they add value - Hamzaogullari**

If you want to be like the index you are not an active manager,” he said.

“Managers want to have it both ways, as they do not want the risk

versus the benchmark so they think they are minimising risk, but they are charging fees which do not show they add value.

“Our goal is to add value cycle-over-cycle on a risk-adjusted basis but most active managers’ starting point is wrong. Investing is a zero-sum game: if someone is losing, someone is making money. However, true active managers will gain market share.”

Furthermore, Hamzaogullari said the way many investors approach risk means portfolios which appear diversified on the surface could in fact contain stocks that are highly correlated.

Using benchmark definitions of sectors, he said, did not take into account the inherent risks of the individual businesses in the portfolio.

“For example, in 2008 when global markets declined in a synchronised fashion, even sector neutral portfolios which looked “safe” did horribly because when one peeled back the layers of the onion you realised

they had highly correlated names in different sectors,” he said.

“You could have had a 200-stock portfolio with one business driver accounting for 50% of the portfolio but on the surface it appeared diversified.”

This is why, Hamzaogullari said, it does not matter that he has 44.7% of the portfolio in information technology stocks because the business drivers of the companies are entirely different.

“Within the technology sector we have 11 different business drivers in our portfolio. The reason we invested in those companies is not because we have a positive view on the sector but rather we have positive views about each individual business that happens to be in IT.”

According to FE, the Natixis Loomis Sayles US Equity Leaders fund has returned 93.7% over the past three years versus 65.5% for the IA North America sector, as at 15 May.

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Exp 6/30/18  
AR254-0617  
MALR019442