

...AND ONE TO SELL

UBS Global Asset Management – Absolute Return Bond fund

One to sell

Daniel Minett, investment manager at Investment Quorum, has pointed the finger at UBS Global Asset Management's Absolute Return Bond fund as a product to sell.

The fund, managed by the UBS team, has suffered a loss of 9.7%, to the end of January, since it launched in April 2005.

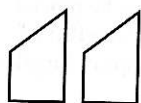
Minett says investors in this fund were initially rewarded with a strong, consistent return backed by reduced volatility, but the fund's results have recently been the antithesis of the rest of the peer group, with the average manager return standing at 8.69%.

The fund's objective is to produce positive returns regardless of market conditions which, in turn, compliment other bond holdings clients may hold within their portfolios. However, the fund is failing to live up to its own expectations.

Minett says: 'The problem for any absolute return manager is that once a target of 'beating cash' is set the failure to do so becomes blindingly obvious to the investor. When an investment collapses against such a target the investor should feel somewhat aggrieved.'

This appears to be what has happened to investors in the UBS Absolute Return Bond fund, he says, as it has fallen nearly 15% over the last 12 months and 9% in the last six months alone.

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the qualitative aspect of fund analysis will be first rate.'

Minett feels the fund's exposure to 'mortgage-backed and asset-backed securities', which represent some 34.8% of the portfolio as of February 2008, may be a primary reason for the chronic underperformance.

Minett says: 'In aiming to reduce the volatility of the fund, UBS utilises a risk management process to monitor the level of risk taken in managing the portfolio. However, as they rightly state, there is no guarantee that this process will work in all instances.'

He adds: 'The lack of liquidity and increased delinquencies in this part of the credit market have been costly for investors and if the prevailing market conditions continue you would need to question a fund's ability to recover and achieve the target of absolute return.'

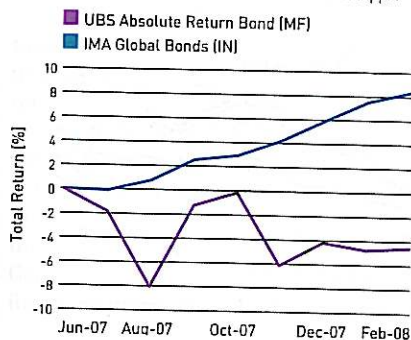
'While investors should always take a long-term view towards their portfolio, when a fund falls so short of its objective, so fast, there needs to be fundamental questions raised about the investment and research process.'

UBS' February fund factsheet stated: 'A chain of recent events have put UBS Absolute Return Bond's performance under pressure, including the ongoing credit crisis and extremely high market volatility. That said we believe there are signs of stabilisation and improvement and expect a more positive trend in the future.'

'In our view, UBS Absolute Return Bond's investment strategy is well positioned to benefit from such a recovery and to deliver results in line with the fund's objectives over time.'

THE UBS ABSOLUTE RETURN FUND HAS LOST 9% IN THE LAST SIX MONTHS

Source: Lipper



Citywire verdict

It is unacceptable for a low-risk bond fund boasting absolute return objectives to suffer such pronounced losses. This, coupled with UBS' refusal to name a specific fund manager responsible for the fund's performance, are in Citywire's view, clear indications that this fund is a sell.