

## Zombie Funds Will Leave You For Dead!



**A recent report by Morningstar, the fund-rating agency, explained that there were (in 2017) some 194 UK-domiciled 'Zombie funds', each with less than £87 million in assets.**

Whilst there is no exact definition of a 'Zombie' fund, a fund more than 5 years old with holdings of less than €100 million and annual inflows/outflows of less than €10 million seems a guide.



By this measure, 3571 funds, 25% of all European domiciled funds, are zombies!

With their lack of cash-flow, and small size, these funds invariably underperform, often down in the 4th quartile of their peers.

Because there are no economies of scale, charges are frequently higher than usual, too.

At first glance, one might think it should not really matter about the size of a fund. After all, if the manager knows his stuff, it will be fine anyway.

However, there is a significant fixed cost for legal and compliance aspects of any fund, and €100 million is about the threshold at which this fixed overhead becomes viable.

As if to add insult to injury, €100 million is also the level at which many institutional investors (pension schemes, wealth managers and private banks) start to take notice of a fund, at which point, the big money appears, and provides significant cash-flow.



The 194 zombie UK funds hold some £4.2 billion of investors' money, meaning on average, these funds have only £21.6million each.

This is a trifling amount for a manager to try to manage, given the limited cash-flow, cost of research and administration, and this typically means annual costs of more than 2.2% simply add to the burden.

Uncannily, the €80 billion held in the 3751 European zombies works out at an average of just over €21 million per fund, just like the UK.

We could now discuss which countries, asset classes or managers are worst or best, or list the worst funds, but this is not what is important to an investor, who simply doesn't want to hold those funds.

Is your portfolio performing reasonably well, or do you have some holdings which seem unchanged from statement to statement? If so, you may have a coffin full of zombies!