ARTICLES

How to Turnaround a Struggling Fund

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Every day, fund NAVs are published. Instantly, it's clear which funds are the top performers and which ones are underperforming the benchmark. The nature of mutual funds is measured by their performance and judged by numbers and consistency, which ultimately leads to a rating.

However, anything that has a day's end result that is quantifiable and known by exact number also functions in a sense as a ranking. So, there has to be some funds at the bottom of the list. This article is meant to share some ideas to help those funds improve their performance and in particular go from ground to gold.

How do you know your fund needs a Turnaround Strategy?

If your fund has been a poor performer for 3 or more months, an intervention is necessary. Begin by acknowledging and identifying this is a problem fund, and then start thinking of a specific strategy for it. Never hesitate to back out or retreat from an earlier strategy if it is not working for you as a fund manager has a fiduciary responsibility to optimize return and put unitholder needs above all else.

Key indicators you should immediately adopt a turnaround strategy for a fund

There are certain indicators which make it mandatory for a fund to adopt this strategy for survival:

1. Under performance against Benchmark
2. Continuous losses
3. Poor management
4. Wrong Corporate strategies
5. Poor quality of functional management
6. Poor cash flow

Developing a turnaround strategy for a fund - Identify the problem

Developing a structured, well-planned and methodical turnaround strategy takes time, investment and the right people to make it happen. The main thing that you need to do is to identify the problem. You need to figure out why your fund is struggling and identify the WHO, WHEN, WHERE & WHY. This require you to identify whether the fund is struggling because of internal causes or external causes because the sooner you identify what doesn't work, the sooner you can discover what will. Once you have identified the problem areas and have decided a strategy that you wish to implement, it's time to do some damage control. Which mean you will conserve the fund size or will make sure it doesn't face downsizing. Because it's important to monitor the problem and get it under control so it doesn't get worse.

Start Planning

Now that you have identified all the problems, it's time to start planning your turnaround strategy on the basis of all the information you gathered about the fund. There are following tips to remember when you are planning a turnaround strategy.

1. Perform SWOT analysis: When you are building a strategy, it's always better to know your strengths and weaknesses so the best thing is to do a SWOT (Strength, Weakness, Opportunity, Threats) Analysis so you have this insight from the onset.

2. Look for hidden assets: Sometimes written off default scripts can later be restructured, so always keep in touch even with those who others have given up on.

3. Compare your investments: It is always better to compare your investments to that of your peers. You may see a trend in top funds that what they are doing differently or certain sectors that are consistently part of the portfolio of the top performing funds.

4. Work on your rating: Work on your rating more and more as it shows your good performance and helps builds your investors' trust in you. Setting targets and milestones for increasing your rating will automatically put you in the right direction for improving your fund performance.

5. Keep checking your return on deposits: Bank managers do have a little leeway when it comes to their deposit rates, particularly if you give them funds consistently. Leverage these relationships and keep coming back to them. You won't know what's possible unless you ask and try!

6. Upgrade technology: Efficiency through technology will enable you to focus more on the actual decisions of where and when to invest and exit.

7. Financial restructuring: Check your cash flows. Being able to exit investments is critical especially is at all times this is public money in your trust.

8. Strategic review: Have periodic and at least quarterly reviews of the overall fund direction. This strengthens and aligns your investment committee and morning equity meetings.

9. Work on your AUMs: Higher AUMs also economies of scale to kick in and spreads your costs so that you can outperform the market.

10. Change your fund manager: If the above does not work, perhaps the problem is more basic and a new fund manager may be necessary to breathe life into the struggling fund.

Conclusion

One of the best things about working in finance is that your performance usually can be seen easily by examining the numbers. As you try out the above tips or perhaps a combination of them, you will see quite quickly whether they are working or not and be able to adjust your fund management accordingly. Good luck!