High conviction will beat index huggers

I refer to "PM's Moore chides big-money index huggers" (March 29) and note PM Capital's delivery of consistent outperformance over long time frames. While the argument of active versus passive management continues, in order to beat the the index benchmarks fund managers need to take positions that differ from the index, as well as adopting a long-term time horizon on which to base investment decisions. These attributes require a level of conviction over and above the norm and therein lies the strength (or weakness) of the investment manager.

This is what defines the difference between so-called "active" managers, many of whom are indeed index huggers, and "high conviction" managers. Not all active managers will generate positive alpha over the long term, particularly so if they are hugging the index. However, those who adopt a high conviction approach will likely stand out over time.

Investors should not get trapped focusing on fees in selecting managers. Yes some managers charge high fees for delivering mediocre performance but the manager choice should be based around the investment philosophy, investment process and the manager's willingness to cap the level of funds under management to ensure they can continue to deliver performance. Only then can investors and their managers have a meaningful discussion about appropriate fees.

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