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Multi-management: Diversifying across asset managers

Multi-managed funds have become increasingly popular, but many might wonder how they work, and whether they are beneficial.

What is multi-management?

Multi-management is basically an investment strategy where a multi-manager constructs an investment portfolio by utilising the expertise of various investment managers. The analogy is often drawn to a wine-maker optimally blending different varietals to create a unique wine. Or of a sports coach, combining the talents of various players into a single team. And remember that a good team is more than just a collection of individuals.

Like the maker of a fine wine, a multi-manager's skill is in blending complementary ingredients to produce a superior result for investors.

So for instance, in a multi-managed balanced fund, different specialist managers might each manage the equity, cash, bonds and property components. The role of the multi-manager is to combine the different managers, and decide on the asset allocation (how much of each asset class should be in the portfolio). The 'single' managers can thus focus purely on delivering superior returns. Another example might be a multi-managed equity fund, where specialist equity managers will look after sectors such as resources, financials, industrials, or where one manager might be a 'growth' manager, and another a 'value' manager and a third a contrarian manager. This blending skill thus also requires expertise in constructing portfolios that deliver superior returns.

It goes without saying that the skill of blending various managers into a portfolio is dependent on the multi-manager really understanding the strengths and weaknesses of each manager. Multi-managers thus spend a lot of their time on researching the capabilities and performance records of the asset managers in the industry, trying to suss out, for instance, which managers are truly skilful, and which have simply been lucky with their performance. They will conduct extensive due diligence on these asset managers, to ensure they know the ins and outs of each business, particularly when it comes to investment philosophy and processes, human capital, risk management and compliance. It is crucial then, that multi-managers have complete independence in choosing the underlying managers. A multi-manager must be free to select the best in the industry, and not be forced to use a manager that is in the same stable. So while most large multi-managers in South Africa are in some way affiliated to a single manager, it is important that they are operationally separate.

Surely this costs money? What's in it for the investor?

Multi-management does add an extra layer of fees, as the client will not only be paying for administration, distribution and asset management, but also for multi-management. Higher fees will obviously impact on the return the client receives. Multi-managers can, however, reduce the extra layer of costs by negotiating lower bulk fees with underlying managers.

The advantage to the investor, if done correctly, is a reduced exposure to the performance of a single asset manager (essentially, avoiding putting all your eggs in one basket). Doing so adds more diversification depth to a portfolio. In other words, the investor is not just diversifying across asset classes, but also across asset managers. An asset manager might perform very poorly under certain economic and market conditions. For instance, the manager of a financials equity fund can hardly outperform if all financial shares are falling. Worse, an asset manager might go bankrupt, or fraudulent activities can take place (while the SA industry is overwhelmingly sound, remember there are investors who lost money at Fidentia).

Isn't it easy for investors to do this portfolio construction for themselves?

Of course, investors can blend their own portfolios using various managers, but ordinary investors will not have the time or expertise to do due diligence and ongoing monitoring of various asset managers. And with the compliance issues raised by the FAIS Act, many intermediaries might feel more comfortable allowing a multi-manager to take care of the portfolio construction responsibilities. Multi-managers can also access niche investment houses that are not open to ordinary investors.

But the fact remains that to justify extra fees, a multi-manager has to reduce the risk (volatility) of a portfolio, and deliver consistent long-term returns.

What multi-manager fund options does Fairbairn Capital provide?

Fairbairn Capital offers a range of leading funds multi-managed by SYmmETRY Multi-managers. These funds remain extremely popular, and provide multi-management across the risk spectrum for investors.

The table below shows the range of funds available on the various products within the Galaxy (LISP) and Investment Frontiers (Life) platforms.

	Galaxy					Risk Rating	Investment Frontiers				
	Investment Plan	Income Plan	Retirement Annuity	Preservation Fund	Underwritten Life Annuity		Capital Portfolio	Income Portfolio	Retirement Capital Port	Capital Preservation Port	Retirement Income Portfolio
Symmetry Balanced Fund of Funds	✓	✓	✓	✓	✓	3	✓	✓	✓	✓	✓
Symmetry Defensive Fund of Funds	✓	✓	✓	✓	✓	2	✓	✓	✓	✓	✓
Symmetry Equity Fund of Funds	✓	✓	✓	✓	✓	4	✓	✓	✓		✓
Symmetry Fixed Interest Fund of Funds	✓	✓	✓	✓	✓	2	✓	✓	✓	✓	✓
Symmetry Money Market Fund	✓	✓	✓	✓	✓	1					
Multi-manager Balanced Fund						3	✓	✓	✓	✓	✓
Multi-manager Defensive Fund						2	✓	✓	✓	✓	✓
Multi-manager Growth Fund						4	✓	✓	✓		✓
Symmetry Islamic Fund						3	✓	✓	✓	✓	✓
Women's Activism Balanced Fund						3			✓		

For more information on all the multi-managed funds, visit the Fairbairn Capital website at www.fairbairncapital.com.