“LIFE IS LIKE a box of chocolates YOU NEVER KNOW what you’re going TO GET”

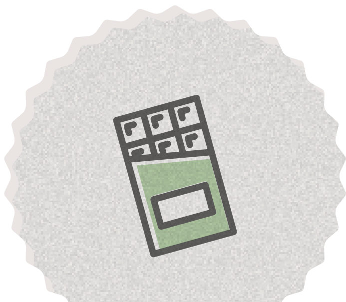
This famous line was said by the character Forrest Gump. Given the current volatile market environment the same could well be said about investing. We could still accept that life is full of surprises, however, can we really accept the same about our investment strategies?

NOVARE®

> **Much like the debate between passive and active investment options, the same debate exists when making a decision between the single manager, multi-manager, and fund of fund options. As with any investment style or type, the perfect fit is dependent on the needs of the investor.**

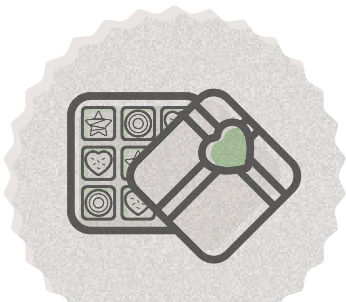
Imagine if you were to walk into your local grocery store looking to buy a chocolate and the following three options were on offer,

which would you be tempted to choose?



THE TRADITIONAL BAR OF CHOCOLATE

Only one flavour but it is the best, handcrafted chocolate bar with only the most exclusive, handpicked ingredients. It's made by the best chocolatier on the market.



A TOP QUALITY MIX OF CHOCOLATES

A variety of flavours, shapes and sizes of chocolates all packed into one box. Each flavour is the best of its kind, with handpicked ingredients and made by the best chocolatiers on the market.

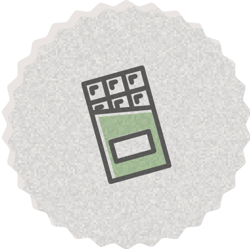
THE MASTER CHOCOLATIERS,

that can make a chocolate of your choice. You pick which flavours you like the best and the best selection of chocolatiers will create and make your one bespoke box of chocolates to order.

Much like we select what we would like to order off a menu or buy off the shelf according to our unique appetites, so to we select investment vehicles that are best suited to our investment and risk appetite.

If only it could be as easy as buying a bar of chocolate, but unfortunately choosing an investment requires a lot more due diligence.

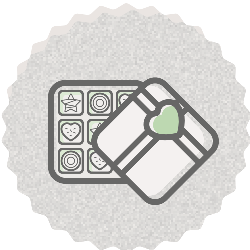
THE SINGLE MANAGER FUND | The traditional bar of chocolate



In the case of a single manager unit trust fund, an investor buys into one portfolio manager (i.e. one chocolate bar), specialising in a specific asset class and investment style. This manager may implement one investment strategy or multiple strategies within a single investment fund. This specialisation counts in an investor's favour as the fund manager will know all the ins and outs of this particular area of focus, ensuring your investment is well looked after (subject to markets playing along of course). Investors are only required to pay for one manager's fees.

In this case, an investor would have to consider whether he/she has the time and inclination to search for the best of the best single managers from an array of different specialities and select a good blend of focus areas to ensure a well-balanced portfolio according to their individual risk appetite.

THE FUND OF FUNDS | Top quality mix of chocolates



On the other hand, a fund of funds is exactly what the name suggests – it is a fund that invests in and consists of an array of other funds. Packaged in the same manner as a unit trust, investors also purchase units in the fund of funds. In the case of a fund of funds, the best funds are identified and cherry-picked by the asset manager of the fund of funds, meaning the labour intensive task to search for the best of the best is done on behalf of the investor. Needless to say, this does add an additional layer of fees, however, the fund of fund manager is able to negotiate rates with the underlying fund houses to ensure favourable terms that are passed on to the end investors.

The main attraction, much like one box with a variety of chocolates to suit everyone's taste, is the variety and diversity fund of funds offer investors. Unlike the 'standard' unit trust which invests in shares, bonds or money market instruments, this unit trust invests in a collection of other unit trusts (no securities are included). The performance of the fund is looked after by specialist managers, and their performance is in turn tracked by the fund of fund manager which ensures a double layer of management – ensuring portfolios are adjusted as and when needed. The fund-of-funds manager aims to blend different and the best-suited options to create a portfolio with the preferred risk/return target. This strategy typically has lower short-term volatility than with a single manager.

THE MULTI-MANAGER| The Master chocolatiers

A multi-managed fund is set up a lot like a fund of fund. The main difference is that where a fund of funds invests in different unit trust funds, a multi-managed fund focuses its attention on investing in an array of different managers. Another way to look at it is that a fund of funds focuses on investing in preferred products, whereas a multi-managed fund focuses on manager expertise and their specialities.

It is the responsibility of the multi-manager fund manager to actively search for and identify the best of breed fund managers with different specialities. These managers are then given the mandate (in other words, the permission/responsibility) to make investment decisions and run a specific portfolio within the fund. The underlying manager keeps a close eye on his/her particular area of focus and the multi-manager keeps a second eye. Should a manager not perform, he/she is replaced with another manager. This essentially also means that a multi-managed fund has better flexibility when it comes to investments.

Much like with fund of funds, the key focus is diversification. Fund of funds, as well as multi-manager funds, provide the services of manager selection, due diligence, portfolio construction and risk monitoring. Multi-management is able to blend different investment views by, for example, pairing a manager who performs best in a climbing market with a manager who is defensively positioned to offer better protection in a falling market.

SOME CONSIDERATIONS

Just how **hungry** are you?

HOW MUCH DO YOU HAVE TO INVEST?

Investors that don't have a lot of money at their disposal to invest with, might not be able to afford to build a diversified portfolio using single manager options, whereas a multi-manager or fund of funds option might offer a more suitable option (depending on the level of risk of the fund).

IS THE INVESTMENT SUBJECT TO CAPITAL GAINS TAX?

Something an investor should consider is how actively they would like to be able to move around funds and change investments. For example, in the case of a fund of funds, managers are able to switch between funds, change allocations and transfer funds without paying capital gains tax as the money doesn't actually leave the fund, but is simply readjusted to meet the investment objective of the overall fund of funds. If a single manager wants to transfer funds, the investment would be subject to paying capital gains tax with each move or every time the investor withdraws funds.

THE NEED FOR DIVERSIFICATION

Multi-manager and fund of funds offerings offer an investor exposure to the views and performances of a number of different investment houses - reducing risk and enhancing opportunity. A single manager approach, on the other hand, is far more specialised and receives the utmost dedication from the fund manager. Dispersion risk may be mitigated by investing in several single-manager funds, but that requires another level of due diligence.

COST AND VALUE FOR MONEY

A very fine line exists when it comes to the world of investments and the fees associated with investing and the associated fees. Some are of the opinion that fund of funds and multi-managers charge higher fees but some are in fact 'cheaper' than some single manager funds. In the case of it being more expensive, some argue that these funds offer individual investors access to managers they can't buy in a single-manager fund, such as hedge-fund managers. Others argue that single managers, on the other hand, only have one layer of fees and are experts in their field of investments – some are even willing to pay more for the expertise itself.

When structuring your next investment plan (or choosing what you'd like to buy on the investments shelf) it is recommended that you discuss your requirements with an accredited financial advisor who can help you navigate the complexities of investment decisions to achieve your financial goals. You might find it to be the difference between something bitter or something bitterly sweet.