# NOVARE®

# UNIT TRUSTS 101

## THE BENEFITS OF MULTI-MANAGEMENT

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# THE BENEFITS OF MULTI-MANAGER INVESTING

## When putting all your eggs in one basket does pay off.

Although the time old saying advises one never to put all your eggs in one basket, a multi-manager approach to investments might well be seen as the exception to the rule. The following article looks at the benefits of multi-manager investing and why these investments are in fact a great basket in which to house all your investment eggs.

In the case of multi-managed funds, diversification is offered in a single investment that removes the pressure of having to find, as well as monitor individual fund managers. Essentially it is one basket with a variety of eggs, all being nurtured to hatch on your behalf.

## DIVERSIFICATION

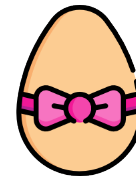
At the cornerstone of multi-managed funds is diversification. If you have been delaying investing because you don't know which funds to invest in, multi-manager funds can help set you on your way. These funds offer diversification in a single investment option and remove the pressure of having to find, as well as monitor, individual fund managers.

In 2016 the Financial Times reported that 86% of active equity funds underperform the index, putting to the fore the performance of active management. In a separate report by the S&P Dow Jones Indices, it was found that 100% of active managed equity funds in the Netherlands failed to beat the benchmark over the past five years. These concerns and findings are not exactly news, but forms part of the infamous and ongoing debate between passive and active management, with both camps making valid points for different market conditions. Scholars have been divided for decades into two camps - the efficient market hypothesis (passive investments) which states that the market is efficient and that existing share prices already reflect all relevant information, whereas active managers believe that the financial market is inefficient providing opportunities which they can exploit.

The famous saying goes - "Dear optimist, pessimist and realist, while you were arguing about the glass of water, I drank it! Sincerely, the opportunist". In many ways Multi-management can be seen as the opportunist - the sweet spot between the active and passive management as managers are able to extract both beta and alpha strategies separately" she explains. For example in a bull market, beta strategies can be used and active managers could be added for alpha purposes. In a bear market, active management becomes very useful as managers are able to protect capital through their strategy.

## REDUCE RESIDUAL RISK

The diversification that multi-management provides for a portfolio also reduces residual risk (in other words the uncertainty that comes with investing in one specific company or industry). As there is a mix in the asset manager exposure it allows for investors to be cushioned when an investment house underperforms or undergoes structural changes, which may impact investors negatively.

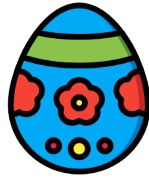


## A WIN-WIN SITUATION

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. This creates a win-win situation no matter the market. One has to bear in mind that no investment is 100% guaranteed, but at least your investment is protected in a multi-managed investment.

## RELIABLE RETURNS

In effect multi-managed investments tend to generate more reliable returns by smoothing out the periodic downswings in performance that a single manager typically experiences when market conditions don't favour their particular approach.



## EXPERTISE

A multi-manager approach provides you with access to the pooled expertise of multiple investment experts. What's great is that these managers research the plethora of asset managers (covering all 1043 local CIS portfolios, the 106 hedge funds and the multitudes of global funds) and are constantly on the lookout for new opportunities. They are constantly canvassing for different manager value propositions.

## NO CAPITAL GAINS WHEN CHANGING MANAGERS

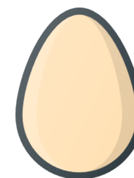
Investors are not subject to pay capital gains tax when changing underlying managers, providing better flexibility and cost-saving. If an individual invests with a single manager and wants to change funds (redeem the money) the investor will be liable for capital gains tax. However, a multi-manager can change between asset classes and funds without having to sell out of the multi-management fund and is therefore not subject to capital gains tax.

When structuring your investment plan 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.

## SCREENING AND MONITORING OF MANAGERS

She also highlights that managers are subject to a rigorous screening and due diligence process involving both quantitative and qualitative analysis. The multi-manager maintains contact and visits the various managers of the funds on a regular basis.

Every fund is monitored to ensure optimal performance and is rebalanced when necessary. Tactical allocations are employed to ensure that adjustments are being made timeously to ensure that the portfolio is able to benefit from the change in the economic environment.



## SIMPLICITY

Multi-manager funds combine multiple professionally-managed investment funds into a single offering. For example, instead of investing in 10 different funds, you only have to invest in a single fund.

The Financial Services Board (FSB) has officially taken up its new mandate as the Financial Sector Conduct Authority (FSCA), effective 1 April 2018. This marks the formal implementation of the Twin Peaks model of financial sector regulation, as envisaged in the Financial Sector Regulation Act 2017 (FSRA). The FSB will henceforth be known as the FSCA.