INVESTING

Advisers should consider adding funds from boutique managers

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Multi-asset flexible funds increase in popularity

Why has the popularity of multi-asset funds, especially flexible funds, increased over the last few years?

Investors in the South African collective investments industry are spoilt for choice when it comes to the range of multi-asset funds that are available. With R988 billion invested in multi-assets funds, they constitute 51% of total industry assets, more than double the assets of equity funds. (Source: ASISA Stats, June 2016).

South African multi-asset funds have gained in popularity due to investors requiring a 'balanced' or Regulation 28 compliant solution. Financial advisers have to a large extent driven assets into multi-asset funds where the investment manager makes the investment decisions around asset allocation and stock selection, rather than the financial adviser having to select the building blocks to construct a balanced solution. There are some excellent balanced funds in South Africa, and clients invested over the long term have been well rewarded on a risk-return basis by having their money invested in these funds.

What is interesting to note though, is the increase in popularity of multi-asset flexible funds, which may not be Regulation 28 compliant. The good flexible funds in the industry have managed to protect capital without sacrificing performance on the upside and have done much better than general equity funds, but with lower risk. More and more, investors are seeing the benefit of including flexible funds in their overall client portfolios.

What are the advantages of multi-asset funds?

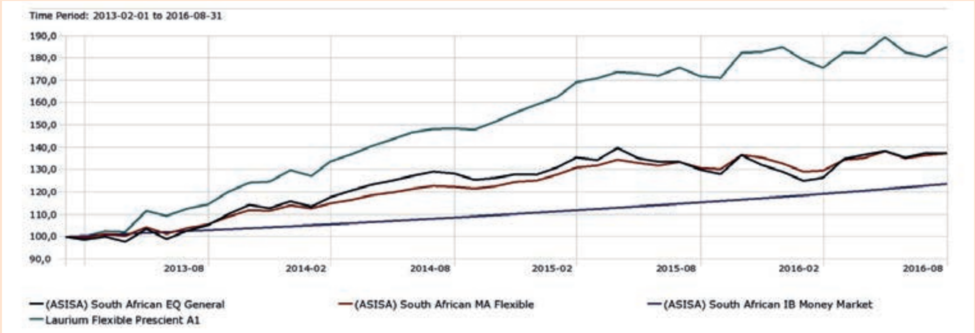
In terms of the traditional low, medium and high equity funds, the benefit for advisers is that they can assess their clients' needs and risk profiles, which can then be easily matched to a Regulation 28 compliant fund that has a defined holding for each asset class. However, for investors looking for a fund that can move between different types of investments in search of strong risk adjusted returns, and that can fully benefit from whichever asset class offers the best opportunities, then flexible funds may have an edge over balanced and equity funds.

How do flexible funds perform in times of economic turmoil?

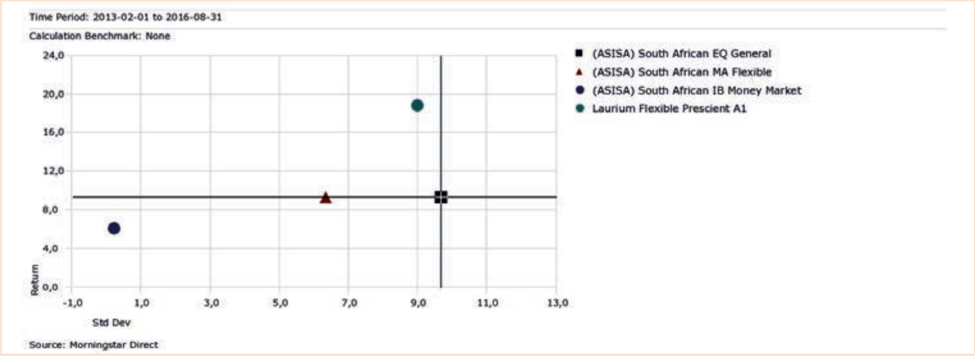
With the ability to keep up in bull markets, combined with superior risk management, this will lead to outperformance in the longer run, especially during times of high volatility.

How has the Laurium Flexible Fund performed vs equity funds and peers?

GRAPH 1
Investment Growth



GRAPH 2
Risk-Reward



Multi asset flexible funds have fewer constraints, dynamic asset allocation, and more optionality and flexibility. Portfolios are able to be actively managed with assets being shifted between various markets and asset classes to reflect changing economic and market conditions, resulting in low downside capture.

Performance

The 1st graph shows the investment growth of the Laurium Flexible Fund, the SA general equity sector, and the SA multi asset flexible sector since inception of the Laurium Flexible Fund, till end August 2016. (01/02/2013 – 31/08/2016).

Risk vs Return

The 2nd graph shows the risk vs return numbers, over the same period. The Laurium Flexible Fund clearly outperforming both sectors, at lower risk than the equity sector. And the multi asset flexible sector with very similar returns to that of the equity sector, but at 60% of the risk.

Which factors should an adviser consider when deciding on the allocation to a multi-asset fund?

Many advisers have done well to select good balanced funds for their clients, but often fall short when it comes to looking at the correlation of the funds that they have chosen. It is very common to see the largest or 'big 4' balanced funds being combined in portfolios for clients, where due to their huge size and our limited investment universe in South Africa, they are highly correlated, so diversification benefits are negligible. Advisers should consider adding funds from boutique managers, whether they be balanced or flexible, to enhance the diversification and hence the risk adjusted return profile for their clients. When evaluating a fund manager, skill set, team experience and track record are key. You also want to put your money with managers that have skin in the game by having most of their own investable assets in the funds they manage.