Multi-managers

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Ten years of change in the world of multi-management

Anne Cabot-Allezthauser, CIO of Advantage.

THE multi-management industry has experienced huge growth in the space of a decade, but at the same time as influential an individual as Advantage CIO Anne Cabot-Alletzhauser claims that multimanagement is in danger of strangulation, because it has become prey to the very disease it aimed to remedy: short-termism.

Investment Solutions' head of portfolio management, Nina Saad, says: "We have the situation of trustees requiring us to report on a quarterly and half-yearly basis - just as if we were a single manager.

"It is this short-term approach to investment that results in trustees chopping and changing fund managers thereby destroying value. Multi-management aimed to provide an alterative to this, but instead is in danger itself of being evaluated in exactly the same way.

Sonja Saunderson, chief investment officer at Advantage Asset Managers, says the market is predominantly driven by views captured in performance surveys that typically try to cater for both short- and longer term performance.

"Unfortunately human nature is such that it inevitably does place a premium on most recent performance, which, as we well know, does not necessarily guarantee anything about the future and carries a lot of noise.

"The multi-manager philosophy is by its nature designed to pick up on underlying inherent characteristics of fund managers that are more prevalent in longer-term outcomes. Undue focus on shorter-term performance delivery is therefore not only risky but also introduces behavioural biases that can destroy a lot of value for investors," says Saunderson.

"However, good advisors in the industry can assist clients to look at value-add performance and risk delivery over the appropriate period suiting their particular needs and should not introduce any problems for single or multi-managers."

Bernard van Wyk, head of asset strategies at SYmmETRY, a division of Old Mutual, says: "Unfortunately pension fund trustees still focus on short-term performance and compare multi-managers against one another over short-term periods.

"Multi-managers take responsibility for the selection and monitoring of investment managers on behalf of the pension fund trustees.

"When an investment manager underperforms, the multi-manager relates the performance to the manager's investment style and philosophy, as certain market conditions favour different investment styles and philosophies.

"If the market conditions weren't favourable for a specific manager's style and philosophy, we can then make an informed decision regarding the manager's poor performance.

"We know that even great investment managers go through periods of poor performance, and multi-managers need to have the patience and conviction to stay with these managers.

"Pension fund trustees place pressure on multi-managers to fire these underperforming managers, due to the short-term focus.

"A good starting point for trustees would be to review investment managers over full investment cycles, and relating the cycle to the style and philosophy of an investment manager," adds Van Wyk.

The answer, says Saad, lies in how the multi-management model is initially sold to pension fund trustees, and an ongoing drive to educate trustees on the benefits of the multi-management model.

"We're heading in a direction of greater simplicity, with more focus on transparency, costs and consumerism. We need to get much better at explaining to people what we do."

The asset management industry has become a lot more complex over the past decade with a major emphasis on fund specialisation.

In addition to the increase in investment choice, retail investors have gained far greater access to information through newspapers, websites and other sources, making them much more savvy.

Furthermore, the investment cycle has accelerated: you tend not to get long cycles (boom to bust and back again) but much quicker and more frequent cycles.

Saad adds that the strength of multimanagers lies in the fact that they have teams dedicated to researching fund managers' capabilities and track records, as well as changes to such teams, and agreeing mandates and fees with selected managers.

"We're a 20-man investment team, and integral to our process is the operational due diligence we perform on all fund managers. This is exactly the type of thing your average pension fund trustee does not have the time or resources to do, and is one critical process in avoiding a Madoff-type loss," she says.

"In addition, most fund managers today are signed up to performance fee structures, and this requires specific skills to negotiate as the multi-manager needs to ensure that the asset manager's remuneration is aligned with the investor's," explains Saad.

Saunderson adds: "It is important to understand the fund management industry both globally and locally, since global trends and best practice often affect the South African landscape quite considerably.

"These have a direct impact on fee structures, product innovation and ultimately legislation.

"Take the ESG [environmental, social and governance] revolution for instance – who would have foreseen the amount of competition in products and research affecting the industry globally right now.

Both investors and practitioners need to understand trends and current dynamics to position their funds and offerings in the best possible way for it to add any meaningful value and have the edge over everybody else.

"For multi-managers this is even more important since they need to source the best skill set and strategy from the market and therefore need to be on top of different houses at all times," says Saunderson.

Saad says a multi-manager can implement everything for the trustee, leaving him free to concentrate on ensuring that the overall investment strategy is appropriate for his members.