MANAGER RESEARCH - **A MULTI-MANAGER'S PERSPECTIVE**

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Choosing the right asset manager is a complex process. Deciding to blend a number of asset managers to achieve optimal returns is even more abstract. Yet these are key decisions investors and financial advisors need to make to meet specific investment objectives.

Most people agree that you should blend a number of managers together to diversify manager specific risk. Such risk is substantial in South Africa, and sometimes comes with substantial benchmark or index risk.

But which managers should you select and how should they be blended?

Some market commentators may naively suggest that you can just select the biggest managers. This ignores the requirement of Regulation 28 of the Pension Funds Act which calls for 'due diligence' before investing, to ensure that there is accountability for the investment decisions taken. Similar regulations exist to protect retail investors when they are given financial advice.

This is where multi-managers can play a critical role through the niche service they offer. Multi-managers spend hundreds of hours researching and assessing managers on behalf of institutional and retail clients. These clients do not have the time or resources to conduct such extensive research. Nor do they have the tools to draw meaningful analysis from the data collected.

Multi-managers have teams of highly experienced, qualified people who spend many hours researching managers. In South Africa alone, STANLIB Multi-Manager spent over 800 man hours in 2014 in meetings with managers. Countless additional hours are spent preparing for these meetings as teams carry out desktop research using advanced quantitative holdings-based and returns-based analysis. Even more hours are spent in preparing research reports and recommendations to investment committees.

Both the institutional and retail markets are plagued with investment decision making akin to steering a vehicle by looking in the rear-view mirror. Many investors chase past performers based on the latest manager surveys, without even a basic understanding of the manager and the seeds of their past performance. Worse still, they have little understanding of how the portfolios are currently positioned and likely to perform in different scenarios. The result is a continual churn from the worst performing managers, to the latest best performing managers, and back again.

Multi-managers, on the other hand, have a range of tools they use to discover the truth about managers. We do not rely on a single fact or piece of information, but rather, like detectives, we seek multiple lines of evidence that all point to one Truth!

Fund	ABSA	Allan Gray	Cannon	Coronation	Foord	Investec Equity	Investec Value*	Kagiso	Momentum	Prudential
ABSA	100%	30%	50%	53%	68%	32%	38%	44%	16%	25%
Allan Gray	30%	100%	26%	13%	50%	67%	29%	-3%	7%	22%
Cannon	50%	26%	100%	63%	20%	14%	47%	42%	15%	26%
Coronation	53%	13%	63%	100%	22%	15%	58%	59%	35%	29%
Foord	68%	50%	20%	22%	100%	49%	20%	9%	6%	18%
Investec Equity	32%	67%	14%	15%	49%	100%	8%	-29%	13%	59%
Investec Value*	38%	29%	47%	58%	20%	8%	100%	54%	27%	11%
Kagiso	44%	-3%	42%	59%	9%	-29%	54%	100%	24%	-10%
Momentum	16%	7%	15%	35%	6%	13%	27%	24%	100%	46%
Prudential	25%	22%	26%	29%	18%	59%	11%	-10%	46%	100%

Let's take a quick peek into one of the many analytical techniques we use to understand how managers perform their craft. A correlation matrix is a useful tool to compare two managers. In the table above, we look at the correlations between monthly active returns of various equity funds over a recent three year period.

It may seem confusing at first glance but, in a nutshell, what it means is the more dissimilar the returns of two managers, the more the matrix will tend towards green. The more similar they are, the closer they are to red in colour.

As an example, Absa is 100% correlated to itself, while Absa and Prudential have a 25% correlation. Absa and Prudential would therefore potentially offer diversity in a portfolio based on this analysis.

Some multi-managers may simply score managers on dimensions such as philosophy, process, people, performance or price, but we don't focus on scoring for decision making.

Based on our research and experience, we think a good understanding of managers, obtained through information gathering, discussion and debate, analysis and synthesis, allows us to form a high conviction view of what these managers will or won't deliver in future. This allows us to choose the optimal blend of managers to meet investment objectives.

Correlation matrices are just one of the many advanced statistical analytical tools we use to choose the right managers, and the right blend of managers.

This article was published in the August edition of MoneyMarketing, a leading publication and website for financial advisers focused on financial planning, risk cover and investment matters. Published monthly, with a weekly e-newsletter, the magazine features insightful and up to date information, with an emphasis on adding value to readers' lives and enhancing their businesses.

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