

# Maximising investment return

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The collective investment industry (CIS) is among the most transparent in the domestic savings environment.

In strong contrast to the retirement products offered by insurance companies, you can easily find up to date information about fund managers, investment mandates, shareholdings in individual funds and management and performance fees. Investment houses also publish detailed performance information covering one, three and five-years for each of their funds.

As we plough through the 21st Century those of us who wish to manage our own unit trust investments have an absolute wealth of information at their disposal. But we're not necessarily qualified to make our own investment decisions.

Unit trusts were supposed to make investing less scary for the average investor," says Jeanette Marais, Director of Distribution and Client Service at Allan Gray. When the industry started there were fewer unit trusts than locally listed shares -- going back 12 years there were only 186 funds to choose from -- but today the plethora of available funds has eroded this benefit.

Executive director at Absa Investments, Johan Gouws, admits: "A market our size hardly needs 937 funds!" He says the Financial Services Board (FSB) and the Association of Savings and Investments South Africa (ASISA) are hard at work to de-clutter the environment, but until progress is made individuals will have to plot their own course through the fog. "There are two ways to choose a unit trust (or fund manager) -- you can delegate to a financial adviser or try to do it yourself," says Gouws.

There is plenty of information to assist DIY investors in plotting their own course, including the Internet, print media and the detailed Unit Trust Guide, available at local book stores. But going it alone could prove disastrous.

Jeremy Gardiner, director at Investec Asset Management says it makes sense for an investor to rather select a good financial adviser. "You can invest for your own account," he says. "But you'll miss out on the expertise a financial adviser brings to the table. They have access to fund managers and reams of relevant investment information, which enables them to add value in terms of manager selection."

Marais agrees: "You should take great care that the profile of the unit trust you select meets your specific needs. If you don't have the time, expertise or confidence to do this, you may be better off seeking independent financial advice." Rather let the professional struggle with performance indicators, fund mandates and asset allocation. Your financial adviser is better placed to choose a suitable fund manager.

"What makes one fund or fund manager better than the next? "Good fund managers are those

who, over the long-term, consistently outperform inflation and the majority of their peers in their respective categories," says Gardiner.

"When assessing fund manager performance it is important for advisers to consider periods of five or more years, to determine whether the implementation of the other factors has delivered over time," says Mahesh Cooper, Director at Allan Gray.

Investors can view an up-to-date review of unit trust performances at [www.equinox.co.za/unittrusts/funds/fundPerformances.asp](http://www.equinox.co.za/unittrusts/funds/fundPerformances.asp).

They can also turn to results from South Africa's popular industry awards, the Raging Bull Awards (in association with Personal Finance) and the Morningstar Awards (in association with the *Financial Mail*).

"The problem with awards is that most fund managers win at least something for individual funds, which they then trumpet to the press," says Gardiner. "The overall award winners, however, are a good indication of fund managers who perform well across their entire range of funds!"

But selecting a winning unit trust is about much more than simply "selecting" the best-performing alternative on a one, three or five year view. It's important also to consider such things as asset allocation, matching risk with return expectations and the impact of fees over the longer-term. Cooper says investors should not focus too much on the narrow performance measure when choosing one fund manager over another.

"Performance is in the past and the question on investors' minds should be whether the asset manager can replicate this good past performance over the long-term," he says. A successful fund manager is differentiated by his ability to generate performance with due attention to philosophy, process, and people. Investment philosophy deals with how an asset manager invests.

"The discipline is to develop a successful philosophy and apply it consistently through all market conditions," says Cooper. It falls on the investor to assess how a manager behaves relative to their philosophy through several market cycles. But philosophies can vary widely between investment managers and the various funds in their stables.

Gardiner observes: "We do not have an over-arching house philosophy or style. We firmly believe in the power of specialisation and that great investments come from bold and well tested ideas. Focused, small teams provide the ideal environment for idea generation and rapid implementation to deliver superior investment performance!"

You cannot chop and change your investment strategy. "Investors should be wary of allocating capital to 'no name' brands. Stick with the names you know, preferably those that are known as 'performance' brands, or those recognised as performing more often than not!" says Gardiner.

Investors in the group's Value Fund will know what Gardiner is talking about. The fund -- under fund manager John Biccard -- has returned 30% per annum compound over the past decade.

### **Summary**

Mahesh Cooper notes that when assessing fund manager performance it is important for advisers to consider periods of five or more years. Investors, on the other hand, should not focus too much on the narrow performance measure when choosing one fund manager over another. Performance is in the past and the question on investors' minds should be whether the asset manager can replicate this good past performance over the long-term.