

MULTI-ASSET FUNDS

Doing away with sideshows

The last decade has seen a move towards multi-asset funds. *finweek* unpacks why this is, as well as what to consider when opting for them.

One trend to emerge from the collective investments (unit trusts) industry over the past decade has been the increasing popularity of multi-asset class funds. Multi-asset funds are able to invest, within certain restrictions, in the various asset classes. Those asset classes are equities, cash, bonds, and property. The funds are usually invested in these asset classes both locally and offshore.

The attraction of multi-asset class funds is that the allocation to the asset classes is left up to the fund manager and their team. Allocating between asset classes happens quite efficiently and, importantly from the perspective of the investor, does not trigger capital gains taxes (CGT). If the investor, alone or with the assistance of a financial adviser, were to reallocate between asset classes then CGT would be triggered. There would be additional leakage from higher costs associated with the investor making all the switches.

Performance

Multi-asset class funds have become popular since the introduction of FAIS (Financial Advisory and Intermediary Services Act) legislation in 2004, when many advisers became uncomfortable with the idea of making asset allocation decisions for clients. The introduction of CGT was also a factor in the increasing popularity of these funds. The question that arises is whether or not these funds have delivered good enough returns to clients to justify the move, and to warrant their ongoing popularity.

The table below right shows returns for the various growth-orientated multi-asset sectors compared to equities and listed property.

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company primarily offers share portfolios to clients so he is unlikely to offer an objective view on any competing product offering. However, it is interesting to note that the best-performing balanced fund outperformed the best-performing equity fund over the past decade, and at 35% less volatility.

Perhaps there is a lot more ice cream in that mixture than he'd have us believe. The four largest balanced funds (Allan Gray, Coronation, Foord and Investec) have all outperformed the JSE since their respective inception dates.

Can multi-asset class funds deliver going forward? Yes. The main advantage multi-asset class funds have over single asset class funds is optionality, and the ability to protect against downside risk. A single-asset class fund will be required by law to maintain a high exposure to that asset class, even though the outlook for that asset class may have deteriorated. Multi-asset managers are able to consider other asset classes, or have a big allocation to cash while they wait.

I expect balanced funds to remain popular with compulsory (retirement) monies, but think that flexible funds will continue to grow in appeal. Our preference for discretionary investors with sufficient risk appetite and a growth objective is worldwide flexible funds, as these give the managers unfettered access to all the asset classes. Early evidence suggests that investors should get an additional return over balanced and South African flexible funds.

A well-managed multi-asset class fund takes the investor away from sideshows such as active vs passive, growth vs value, and large cap vs small cap. The key thing for investors to look out for is the managers' capability and track record when it comes to managing asset allocation mandates, their attitudes to risk, and cost structure. ■

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Fund category	Top performer: 10 years	Rank	Sector average: 10 years	Rank	Average volatility
Equity – general	16.37%	4	12.12%	R226bn	10.79
Real estate – general	17.68%	2	15.84%	R50bn	13.38
Multi-asset – medium equity	11.75%	6	9.9%	R83bn	5.54
Multi-asset – high equity	17.26%	3	11.12%	R456bn	6.97
SA – multi-asset – flexible	19.15%	1	10.8%	R41bn	8.46
WW – multi-asset – flexible	15.82%	5	13.56%	R32bn	9.97

Category	Constraints	Objective
SA – multi-asset – income	Maximum 10% offshore/property	Income
SA – multi-asset – low equity	Maximum 25% equity	Income and growth
SA – multi-asset – medium equity	Maximum 60% equity	Growth
SA – multi-asset – high equity	Maximum 75% equity	Growth
SA – multi-asset – flexible	Minimum 70% in SA	Growth
Worldwide – multi-asset – flexible	None	Growth

SOURCE: Morningstar 31 December 2015