By Craig Gradidge

SATRIX LOW EQUITY BALANCED FUND

Low risk and low costs in one place

This fund, which launched two years ago, offers a good spread of assets although it could benefit from a higher exposure to property.

Given the current market volatility and low returns emanating from markets globally, investors are being advised to reduce two things: portfolio risk and total portfolio costs. This advice is both sensible and timeless. I recall the first time I heard a fund manager giving this advice in 1996/97, when I was still new to the industry. I was to hear it repeatedly over the next two decades.

Towers Watson, a global financial services consulting company with over 15 000 associates worldwide, added an additional piece of advice: lower your return expectations. As a financial planning practitioner I can appreciate the importance of this advice, and it is crucial in getting investors to behave appropriately when it comes to their investments in such market conditions. However, for many investors, it is not easy to lower their return expectations after five to six years of high returns. It is this challenge that many advisers are facing at the moment.

Finding a fund with lower portfolio risk and lower costs, however, has become a lot easier today than 20 years ago. The growth of index tracking/passive investments has brought about much-needed competition in the market, which has driven down portfolio fees over the past few years.

Active managers such as Prudential and Grindrod now offer growth-orientated retail funds priced at 0.6% and 0.75% respectively, without any performance fees. They offer funds in the multi-asset, low-equity category, which limits equity exposure to 40% of the fund. This category would be the ideal place for investors to go in search of a low-volatility fund.

However, to combine low risk with low costs in one fund, investors need to look no further than the Satrix Low Equity Balanced Fund. The fund is priced at 0.25% per year with no performance fees on top of that. This is less than half the price of the nearest rival, and about a 10th of the price of some of those with generous performance fee structures.

In a world of single-digit returns, a 0.25% asset management fee is attractive and very difficult to argue against. (Note, if an investor accesses the fund directly, the annual fee will be 0.6% as it includes the administration fee. The fund is costed at 0.25% on various linked product platforms.)

The fund offers investors a good spread of assets, with exposure to growth-orientated assets making up 45% of the portfolio.

My only criticism of the fund is the listed property exposure, which we believe is too low to have a material impact, specifically from an income perspective. According to the fund fact sheet, the fund should provide an income to investors over the medium to long term. It could provide a more meaningful income with a higher property exposure.

It is also a pity that there is no bespoke exposure to dividend-yielding equity in the portfolio. This could have also assisted in increasing the income, which would benefit the fund from an income growth perspective. For investors with this objective, it could be an idea to add the Grindrod Stable Growth fund into the overall portfolio.

Having only launched in July 2014, the fund has a short track record. This was about two months before the JSE entered a sideways trend with huge volatility, as can be seen in the graph. The fund has managed to outperform the sector over the period (I imagine thanks to a cheap management), and has done so at significantly lower levels of volatility compared to the market. If it could only assist us in managing client expectations, it could have been the perfect fund! ■

editorial@finweek.co.za

THE ASSET ALLOCATION OF THE FUND IS AS FOLLOWS:

Asset class	Index exposures
SA Equity (25%)	FTSE/JSE Shareholder Weighted Index (Swix)
SA Bonds (20%)	FTSE/JSE All Bond Index
SA Property (5%)	FTSE SA Listed Property Index
SA Inflation-linked bonds (10%)	Barclays SA Inflation-Linked Bond Index
SA Cash	SA Nominal Cash
International Equities (10%)	MSCI World Equity Index
International Bonds (5%)	Barclays Global Treasury Index
International Cash (5%)	International Cash Index (Notional)

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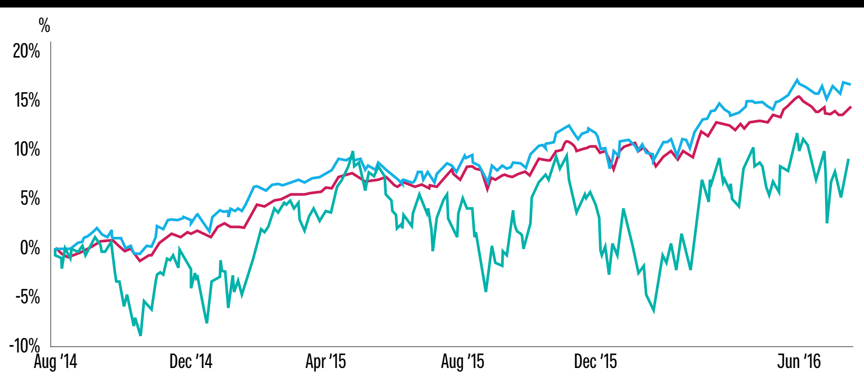
FUND PERFORMANCE VERSUS BENCHMARKS



A - Satrix Low equity, balanced index, total return in rand [16.47%]
B - South African multi-asset, low equity, total return in rand [14.24%]
C - FTSE/JSE All Share, total return in rand [8.81%]

SOURCE: FE 2016

Craig Gradidge is a co-founder of Gradidge-Mahura Investments.