# Business Update

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Keeps you updated with business news and rationale behind changes to STANLIB Multi-Manager solutions.

## Dispelling the myth that multi-manager funds are expensive

Multi-Manager funds, long thought of as expensive, can cost investors less, while providing numerous benefits. However, you need to know how to choose them.

Financial advisers often think of multi-managers as a hard sell to investors because of perceived higher costs. However, in reality investors could be missing out on one of the best kept secrets of successful long-term investing.

### Avoid looking at the collective when expressing a view on fees!

Confusion about the fees charged by fund of funds and those of multi-managers tends to blur the issue. Fund of funds tend to be very expensive, partly because these managers don't have the scale necessary to negotiate better fees – typically the smaller Discretionary Investment Managers (DIM's). Multi-managers, on the other hand, benefit from having significant scale, allowing them to negotiate costeffective fees. Multi-manager funds charge far less than fund of funds and are often even more cost-effective than single manager funds.

For example, if you take the largest multi-asset ASISA category i.e. high equity , you will see that the majority of funds of funds are more expensive than single manager funds, whereas multi-manager funds from those managers with scale, such as STANLIB Multi-Manager's, are generally much cheaper than these and even cheaper than many single manager funds.

| (ASISA) South African MA High Equity Category | TER |
|---|---|
| Maximum multi-manager/ FoFs | 3.61% |
| Average multi-manager/ FoFs | 2.12% |
| Category average | 1.89% |
| STANLIB Multi-Manager Balanced Fund (B1) | 1.45% |

Source: MorningStar

### Additional layer of fees doesn't necessarily translate into higher fees

A multi-manager is a fund manager that creates a portfolio by choosing multiple managers to manage the underlying mandates. The aim is to diversify risk and the potential returns through blending some of the best managers in a particular portfolio. By their very nature multi-manager funds have an additional layer of fees (the fee they charge for their service and the fee paid to the underlying asset managers). This does not necessarily translate into a higher overall fee or total expense ratio (TER), as a large multi-manager like STANLIB Multi-Manager can negotiate very competitive fees with the underlying asset managers.

### Be prudent when comparing multi-manager fees with that of single managers - additional benefits at no extra cost

The investor gets all the benefits offered by multi-managers. As an example, STANLIB Multi-Manager conducts extensive research on the investment industry to understand the landscape and the players. We spend huge resources on understanding these managers through an investment due diligence process that covers the underlying managers' investment philosophy and process in detail. This covers house factors, people and teams (including how they are incentivised) and principles and policies to help decide how to weight each mandate (from our buy list of managers researched) within the overall fund. STANLIB Multi-Manager's sizeable and experienced investment team, processes and systems mean that all research and ongoing monitoring is rigorous and robust.

### Don't forget the extra layer of governance when looking at fees

Having the STANLIB Multi-Manager investment team responsible for investment due diligence is like having your own personal lawyer by your side whenever you sign a new contract. You have a professional on your side that knows what to look for and knows how to decipher the often complex financial language. STANLIB Multi-Manager, by constantly reviewing a fund's investment positions and mandate adherence, aims to identify and prevent catastrophic risks before they occur.

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There have been a number of high-profile fund failures which bring to the fore the importance of operational and governance due diligence. The 2008 Fidentia scandal saw R1.4 billion siphoned from a pension fund aimed at paying an income to widows and orphans of mineworkers. In 2013, the Sharemax-promoted Zambezi Retail Park property syndication turned out to be an illegal scheme with billions of investors' capital disappearing. As recently as December 2015, a SA unit trust lost 66% of its value in two days when the fund manager could not get out of complex derivative positions.

The lesson is clear. Operational due diligence and governance procedures matter. Changes in regulations are raising questions about the manager's risk governance and attention is shifting to the administrator and trustee. In cases like these, financial advisers could be next to come under the magnifying glass, especially if the work they have performed before recommending a fund to a client is superficial, baseless, or based on past performance.

By partnering with STANLIB Multi-Manager many of these risks are mitigated for both you and your clients. Our STANLIB Multi-Manager investment team has more than 120 years of collective investment experience. In addition, we are the largest collective investment scheme multi-manager in South Africa and have in excess of R150 billion assets under stewardship.

Please contact your regional **Business Development Manager** or e-mail **Albert Louw, Head of STANLIB Multi-Manager Business Development** at **albert.louw@stanlib.com**, if you have any queries or would like to understand what role STANLIB Multi-Manager can play in improving your investment value proposition to your clients.

**www.stanlibmultimanager.co.za**

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