

# Supporting transformation 'doesn't mean compromising on returns'

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Retirement fund trustees can play a role in transforming the asset management industry without compromising on investment returns for members of their funds, trustees and consultants attending Alexander Forbes' latest Hot Topics seminars heard this week.

The asset management industry was described as the least transformed sector of the financial services industry by National Treasury's deputy director general Ismail Momoniat during hearings into transformation in the industry in parliament last week.

Transformation of the asset management industry will lead to greater competition and, with that, lower fees for you, as a retirement fund member and investor.

Among the 100 asset managers that offer their services to institutional investors, such as pension and provident funds, 40 are more than 51-percent black owned, according to Alexander Forbes.

But 50 percent of the assets are managed by the five largest asset managers, none of which are black-owned: Old Mutual Investment Group, Coronation Fund Managers, Investec Asset Management, Allan Gray and Sanlam Investment Management, according to Alexander Forbes's latest Manager Watch Survey.

None of the next five biggest fund managers are black-owned either, but the top 10 all have level two or level three black economic empowerment scores.

## FAST FACT

27Four Investment Managers conducts a monthly and an annual, industry-wide, survey of black fund management firms in South Africa.

The biggest black-owned asset manager is Taquanta, which specialises in money market investments.

The second largest, Aluwani, was established late in 2015 after senior staff bought out the third-party institutional business in Momentum Asset Management.

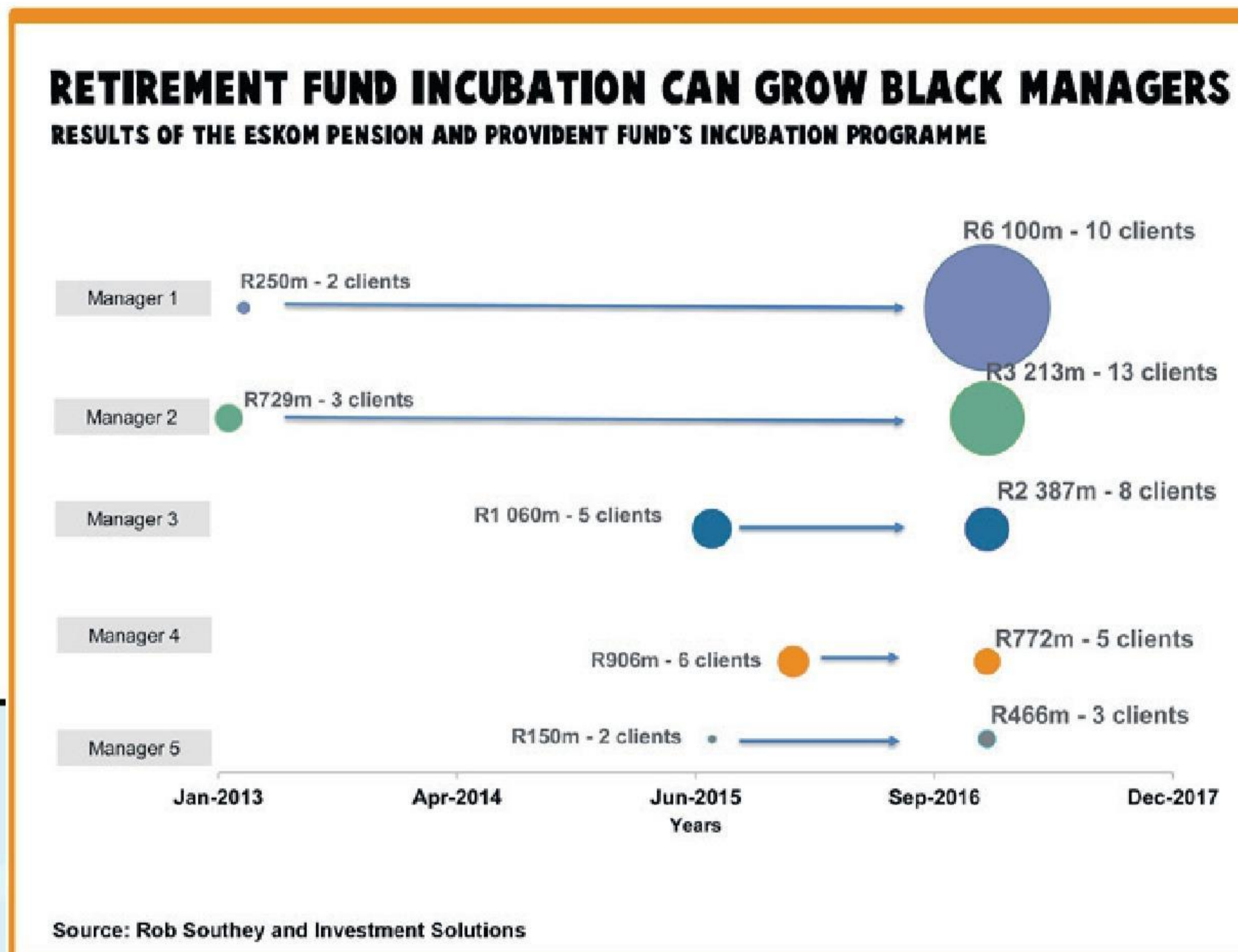
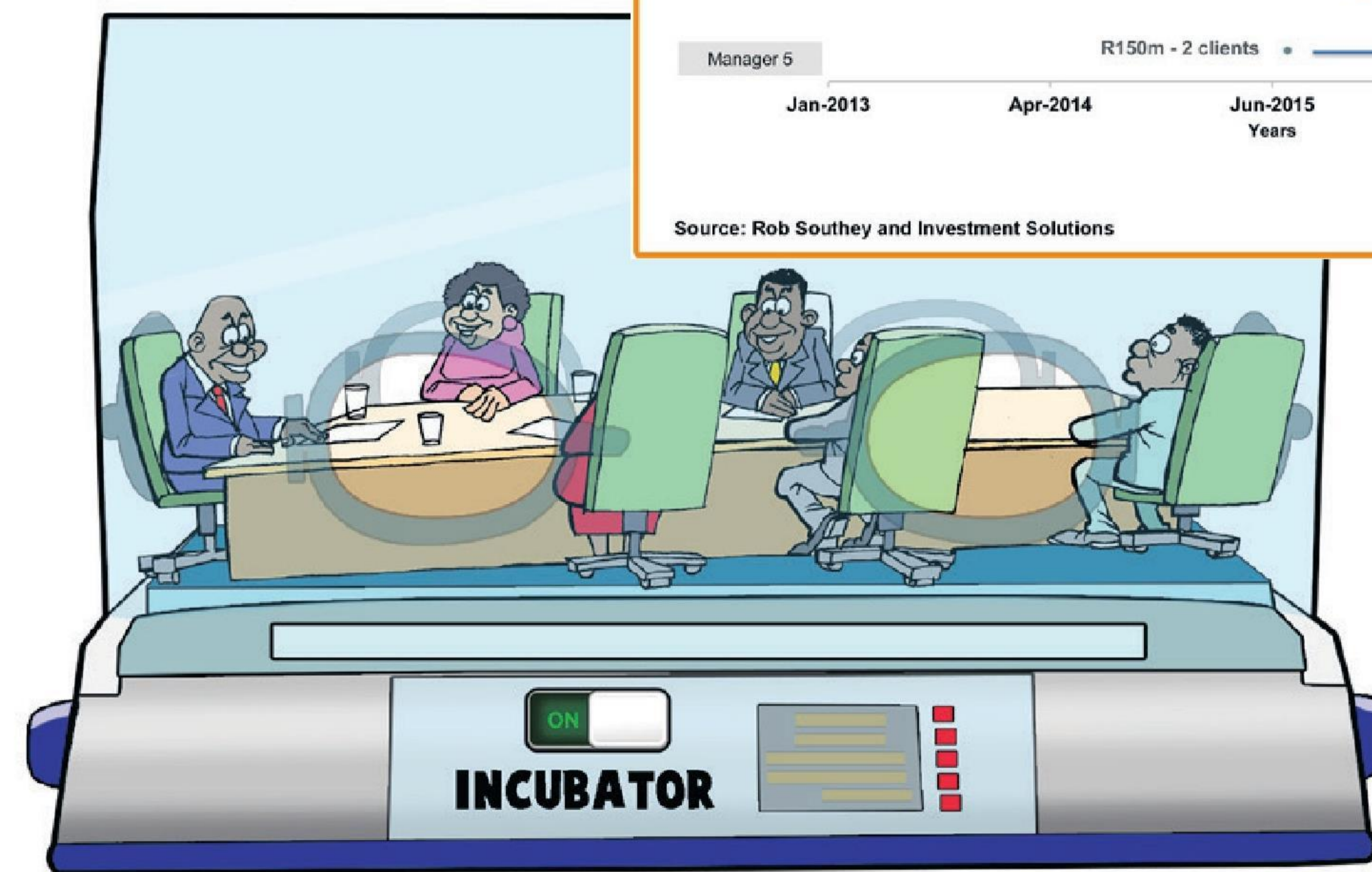
The amount invested with black-owned asset managers, however, remains "stubbornly low", according to the Manager Watch Survey.

According to the 27Four BEEconomics Annual Survey 2016, black-owned asset managers manage 4.6 percent of the industry's assets.

Rob Southey, an independent consultant at Alexander Forbes, says some of the reasons black fund managers find it difficult to find their way into portfolios are:

- They tend to manage portfolios to specialist mandates so the opportunity set is limited;
- Few have unit trust funds;
- Asset consultants find it difficult to research the full manager universe;
- Trustees tend to prefer larger well-known brand managers;
- Most black managers are small and have short performance track records.

Southey says incubation programmes are used internationally



This graph shows how five managers used in incubation programmes by the Eskom Pension and Provident Funds grew their clients and assets under management from the time they were appointed until December last year.

to foster small managers and are one way retirement funds can assist in transformation.

These programmes have been used by the Eskom Pension and Provident Funds, the Telkom Retirement Fund, the Public Investment Corporation, the Mineworker's Provident Fund and one is being

implemented by the Alexander Forbes Retirement Fund (an umbrella fund for multiple employers' fund members).

Southey says incubation programmes are not the same as providing seed capital to a new manager, but are designed to ensure that a manager is supported while it is still

small and is free to manage assets.

Many start-up black-owned asset managers are seasoned investment professionals who can hold their own against larger managers, but it is not easy to start an asset management business, particularly if you do not have a track record.

This is why funds can play a

## FOR INDIVIDUALS

Individual investors can support transformation in the asset management industry by supporting black-owned fund managers' unit trust funds.

The following funds from black-owned fund managers are listed among the top 10 funds on performance over various periods in their respective unit trust sub-categories for periods of three years or longer:

### SOUTH AFRICAN GENERAL EQUITY

- Mazi Capital Prime Equity Fund: 5th out of 94 funds over five years with an annual return of 16.02 percent.
- Mergence Equity Prescient Fund: 8th out of 94 funds over five years with an annual return of 14.98 percent.

### SOUTH AFRICAN EQUITY LARGE CAP

- Kagiso Top 40 Tracker Fund: 4th out of six funds over 15 years with an annual return of 12.83 percent.

### SOUTH AFRICAN MULTI-ASSET FLEXIBLE

- Noble PP STANLIB All Weather Fund of Funds: 10th out of 29 funds over 10 years with an annual return of 9.49 percent.

### SOUTH AFRICAN MULTI-ASSET INCOME

- Pan-African IP Income Hunter Fund: 3rd out of 50 funds over three years with an annual return of 8.65 percent.

### SOUTH AFRICAN REAL ESTATE

- Sesfikile BCI Property Fund: 2nd out of 22 funds over five years with an annual return of 20.12 percent.

### WORLDWIDE MULTI-ASSET FLEXIBLE

- Argon BCI Worldwide Flexible Fund: 1st out of 54 funds over three years with an annual return of 46.71 percent.

helpful role as incubators of new managers, he says.

The survey notes that supporting new managers does not mean investors have to compromise on returns.

Research has shown that small boutique managers are able to exploit investment opportunities in which larger managers cannot invest, Southey says.

Small managers' interests are more aligned with those of investors; they have more investment opportunities, as they can invest in smaller shares that large managers cannot invest in without owning a significant stake of the business; and they have the ability to trade in

and out of positions quickly without affecting the market.

Trustees of funds that want to incubate a manager need to develop a clear policy to support the strategy and to get stakeholders to support the programme.

The policy should state how much will be invested with these managers, what type of manager will be supported, and it should set out how decisions will be made and reviewed, Southey says.

Trustees can implement their own incubation strategies through an investment consultant or they can use a solution provider, such as a multi-manager.