

Time for black asset managers to shake things up

HAS insurer MMI opened a can of worms in the asset management space? Will portfolio managers in asset management companies linked to insurers have the guts to toyi-toyi to management and demand that they should be given ownership of such money management businesses?

These were the questions on my mind as I pondered the MMI empowerment deal. I thought some professionals in asset management might have turned green with envy when insurer MMI announced it was unbundling Momentum Asset Management to a large black-controlled management entity.

But I quickly answered myself by saying portfolio managers are too soft to toyi-toyi — they would have to take some lessons from the Economic Freedom Fighters.

It will never happen.

The best thing that investment professionals do is leave for greener pastures. They simply can't toyi-toyi! Some of these guys are too scared to



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even utter a single word criticising a company they are invested in.

For those who may not have followed last week's events, the new black asset management company will manage assets worth more than R62bn, making it SA's third-largest black-owned money manager. Oh and by the way, MMI will facilitate some of the funding and the senior management will have to put in some of their own cash. Great deal isn't it?

The deal came about when MMI

changed strategy and felt a partnership with an independent asset manager would serve clients better. In the words of investment professional Malungelo Zilimbola, founder of asset management company Mazi Capital, "owner-managed asset managers tend to be better in managing funds, given the alignment with clients, if you look at companies like Coronation and Allan Gray".

Investec did a staff empowerment deal in the management space two years ago, selling 15% of Investec Asset Management. It also opened the window for staff to buy an additional 5% in the future. Investec did this in part to retain key staff because they knew that at the heart of a money management business is human capital. It also helps because your senior management has skin in the game and understand the risks.

It is a must that you reward your human capital in asset management appropriately. If you don't, the guys just jump ship — and the rewards need to be in line with industry trends.

So the decisions by MMI and Investec raise questions about whether other insurers, such as Old Mutual, Sanlam and Liberty, will unbundle some of their asset management businesses to their senior employees. There is now pressure to follow what others have done.

I know Thabo Dloti transformed Stanlib to a boutique asset manager. But still, I am sure some guys in Melrose Arch would want a sizeable piece of the pie to remain happy.

I know many will not confess because they are too scared to campaign. But those with guts will clearly be visiting Dloti and asking him to do something. It's not only Dloti; Ian Kirk at Sanlam might have the same challenge, Bruce Hemphill at Old Mutual and Edward Kieswetter at Alexander Forbes might need to think carefully too about this.

We are watching this space.

But back to the MMI transaction. That empowerment deal should not just be symbolic. Asset managers play a big role in the transformation of

society and its infrastructure as a whole. The new entity created from Momentum Asset Management needs to demonstrate it can invest wisely in helping transform the country. A failure to do so would undermine the entire idea of a black-controlled asset management business.

The guys at Mergence have found a way of playing a transformative role without blowing people's money. Mergence's asset management business manages R18bn in assets and has not lost a client in 10 years, except through a mandate change.

The company's property portfolio is valued at about R5bn. The company built a good mall in Orange Farm that transformed the social infrastructure in that area. Already there is a plan to build more malls in rural areas, as well as private hospitals.

That is what black asset managers need to be thinking about — changing the social infrastructure that was engineered to cater for a few!

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