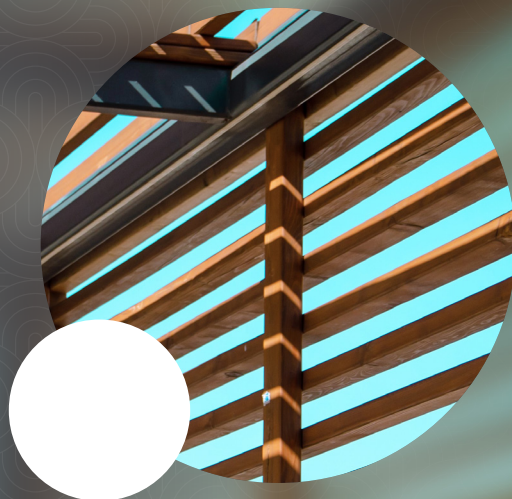


Multi-management for the win



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Multi-management is an investment approach that consists of combining several asset managers, across different markets, asset classes, investment philosophies and styles of money management to help reduce risk and enhance investment returns. Put simply, it allows investors to invest in a blend of the smartest strategies and most talented asset managers from one single portfolio solution.



The basis of this approach is that no single asset manager can be an expert in every field nor consistently outperform, all the time.

“A jack of all trades is a master of none, but oftentimes better than a master of one.”

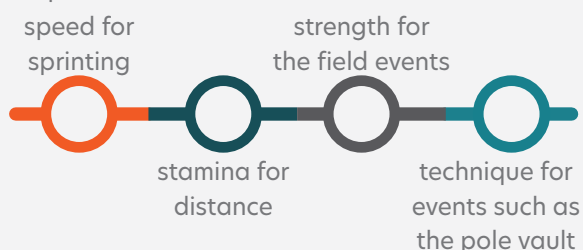
The value of a multi-manager lies in extensively researching the vast investment landscape to find solid investment opportunities.

Good asset manager strategies are distilled from bad ones to find the most talented asset managers, and skilfully blending their complementary strengths across all market conditions to produce superior risk-adjusted returns over the long term.

2020 Tokyo Olympics: an analogy

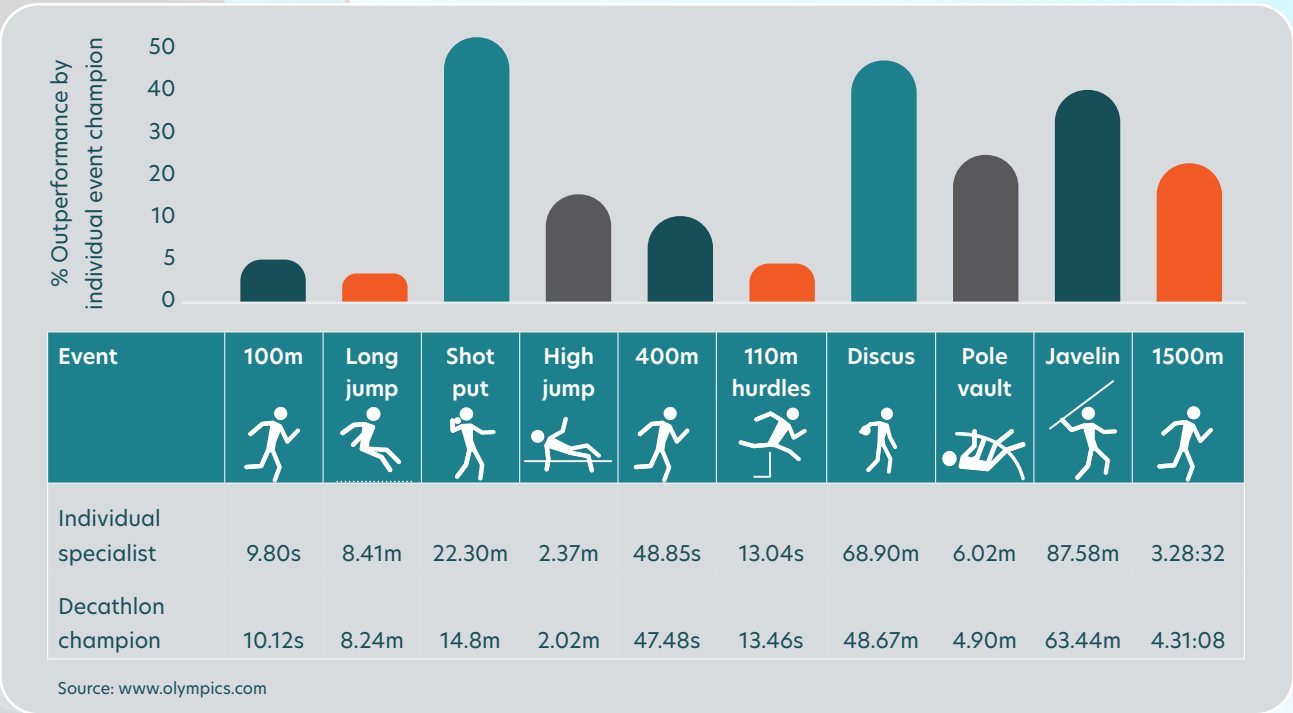
A useful way to explain the benefits of a multi-manager investment approach is to compare the difference in performance between two athletes, a decathlon champion and an individual champion, competing in the same events at the 2020 Tokyo Olympics.

The individual champion or specialist, is skilled in his or her specific event. The decathlete is a generalist who must be skilled in all 10 of the different events that they participate in. They require:



While the decathlete has all-round capability, they are frequently beaten by the specialists in each of the 10 events that they compete in.

As illustrated below, the difference in performance between the gold medal winning individual specialist and the decathlon champion in each event is quite evident:



Performance at a glance

It is clear from the ‘% outperformance’ displayed above that the individual specialist performed far better in each event, compared to the decathlete. In fact, it is fair to say that the specialist was far superior in each of its respective categories. Understandably, however, it is also fair to say that while the specialists produced gold medal winning performances at the 2020 Tokyo Olympics, replicating those performances consistently year after year, tournament after tournament, would be extremely difficult.

The world of investing is no different. While an asset manager may provide general coverage over many different asset classes and markets, they cannot be skilled or excel in all of them. A generalist asset manager may give you a good return but finding the best individual performer in each of those markets, consistently, is what ultimately rewards.

For the mere fact that an asset manager is skilled at managing SA equities, for example, you would not expect them to be as successful at managing Chinese or UK equities.

Equally so, an asset manager cannot invariably be ranked number one in terms of performance in its category, year after year. We must also appreciate that asset managers may specialise in a certain style of investing, and these styles move in and out of favour according to economic and other factors. They will therefore produce impressive results in certain conditions, but below average ones in others.

Blending asset managers, and providing solutions that are oftentimes better than a ‘master of one’, is where multi-management adds value for investors. It is similar to blending the best specialists together to produce an outcome that is better than a generalist approach and more consistent than a specialist approach.



Multi-management with Alexforbes

As a multi-manager, Alexforbes seeks to identify not only managers who have shown an ability to consistently outperform over a market cycle, but when combined, provide diversification that may lead to more consistent alpha over time.

Let's look at some of the benefits of combining asset managers:

Diversification

If one asset manager struggles, the other complementary asset managers should minimise the impact of its underperformance. This helps produce more consistent, less volatile (smoother) return streams over time, irrespective of market or economic conditions.



Managing expectations and comfort levels

Experience shows that investors' actions, not the market, are the biggest factor that determines if they will achieve their investment goals or not. The consistent and smoother return streams offered by multi-management can help to mitigate emotional responses to market volatility because investors have more confidence that their savings are well-diversified, even in challenging market conditions.



Responsiveness

Portfolios that are responsive to market changes are better positioned to participate in market opportunities or protect during market shocks. By deploying different asset classes, investment strategies and asset managers at different times, multi-management can offer flexibility to quickly modify and enhance underlying investment line-ups, to protect against inherent risks or take advantage of emerging growth opportunities.



Why you should choose multi-management

While multi-management sounds like a simple concept, the reality is that a lot of hard work goes on behind the scenes to build a well-diversified, multi-managed portfolio. To realise the full benefits of the multi-manager approach, choosing a provider with a well-thought-out process for identifying the right asset managers and a demonstrable capability of blending them together is key.

Reverting back to the 2020 Tokyo Olympics analogy and the world of athletics, individual champions can easily change from year to year, and the same can happen with asset managers. Alexforbes' manager research team is designed to find the next champions. They constantly monitor the portfolios so that managers can be changed as and when necessary to improve performance for our clients.

Multi-manager investing is not designed to attempt to win a gold medal in just one particular season. Rather, it aims to produce consistent, superior risk-adjusted results, season after season, over the long term.

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