A Spotlight On:
Multi-Manager Funds

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Introduction to Sector

Over the last few years there has been an enormous amount of cost pressure on the financial services industry and asset managers have largely felt the brunt of this, with many cutting their fees to remain competitive. No other genre of fund has felt this more fiercely than the 'traditional' multi-manager fund. When we refer to a 'traditional' multi-manager fund we mean a fund which invests predominantly in actively managed funds from across the whole of the market, not those which invest directly, or in passives or largely in funds from their own group.

Industry Themes

Some 'traditional' multi-managers now use passive funds in order to lower their OCFs and remain competitive but many have stayed true to the belief that active managers over the long-term can outperform passives and that they have the necessary skills to be able to identify these managers. What we have also seen emerge is asset managers building a range of solutions which meet a number of price points in the market and where investors can select the solution which best suits their needs.

These cost pressures for the industry have also coincided with a period when active fund managers have generally struggled versus their passive counterparts. This double-wammy effect has been a headwind for growth of the multi-manager genre of funds. Not only that, it has coincided with a period where advisers have been looking to de-risk their business and outsource or partner with investment managers who can build bespoke solutions tailored for their individual business needs. This has introduced further competitively priced alternatives for advisers to consider.

Sector Nuance

The natural home of multi-manager funds is the Mixed Investment sectors. Looking at one of the largest of these sectors, the Mixed Investment 20-60% Shares, a little under a third could be described as having a traditional multi-manager approach. Interestingly those funds only represent 25% of the total AUM of the sector which stands at around £56.5bn as at the end of August. As with many sectors a large number of AUM lies with a few multi- manager funds. The top 5 largest multi-manager funds in the sector accounts for c.57% of the total multi-manager AUM in the sector. Of these large funds a number have fallen in size over the last couple of years despite meeting their objectives. It is likely to come as no surprise that the largest fund in the sector is passively managed and of the top 5 funds by AUM none would be described as having a 'traditional' multi-manager approach. The average OCF for the sector is 1.09% however if you exclude multi-manager funds it falls to 0.95%.

Whilst the Mixed Investment sectors help categorise funds in terms of their aggregate level of equity exposure the sectors contain a broad range of funds which target different investor needs. This includes funds which aim to provide capital accumulation, a high level of income, a growing income and inflation beating returns as well as those targeting specific levels of risk. Therefore when selecting a fund investors need to make sure it matches their desired outcome. We have highlighted three multi-manager funds below which have different objectives and which have successfully met these over the medium to long term.

Funds in Focus

Jupiter Merlin Balanced

This fund aims to provide capital accumulation over the long term and to provide a return which is ahead of the IA Mixed Investment 40-80% shares sector. One of the key features of this fund is the conviction led portfolio that is built without reference to the benchmark. The team's investment philosophy is based on the principle of preserving investor's capital as well as growing it over the long term. This approach has proved successful for the team over the years. The portfolio will invest in a mixture of asset classes but will have a bias to equities. The team invest via other active investment funds and favour experienced managers with established track records of delivering strong risk-adjusted returns through the market cycle and who share their philosophy of capital preservation.

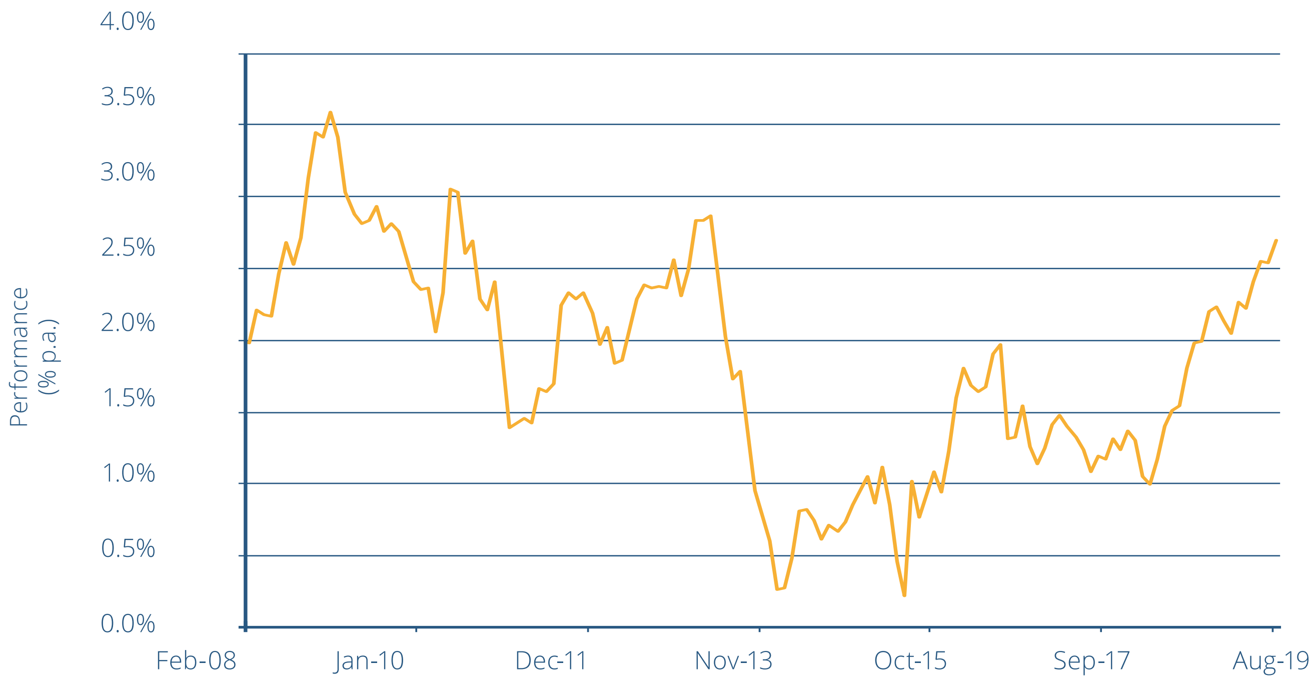

Figure 1: Jupiter Merlin Balanced 5 year rolling returns vs the IA Mixed Investment 40-85% Shares sector

F&C Navigator Distribution

The fund targets a high level of income and the team seek to provide a level of income that is in the top 10% of income generators (distribution funds) in the IA Mixed Investment 20% - 60% Shares sector. It should be noted, however, that the exact level of income paid out by the fund may vary. The fund has consistently met its top decile performance objective since 2009. The BMO multi-manager team is an experienced and close-knit unit. Lead managers Rob Burdett and Gary Potter have in excess of 20 years experience and have been working together for the majority of this time. Whilst they remain the figureheads for the team's strategies other senior and experienced members of the team are heavily involved with portfolio management and feed ideas into the investment process.

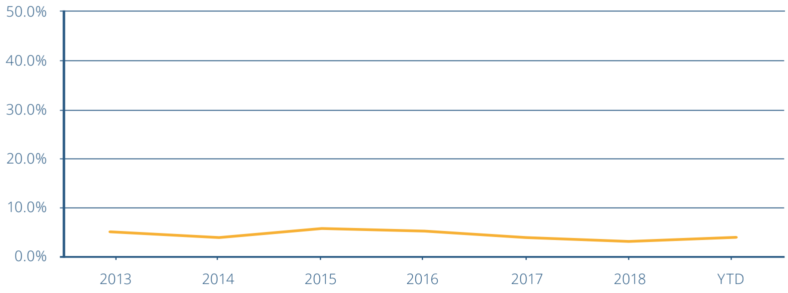

Figure 2: BMO MM Navigator Distribution and the percentile rank of its yield relative to the IA Mixed Investment 20-60% Shares sector

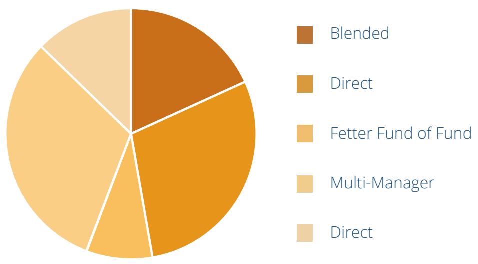

Figure 3: A pie chart showing the number of MM funds in the IA Mixed Investment 20-60% Shares sector by percentage along with the other multi asset fund categorisations

Premier Liberation V

The managers aim to provide capital accumulation over the long term from a mixture of income and capital growth whilst ensuring the portfolio's risk is aligned with Distribution Technology (DT) risk profile 5. This equates to a risk level which is broadly around 65% to 85% of equities. The managers will invest in a mixture of actively managed equity and bond funds. The team has an established investment approach and this has been implemented consistently for a number of years. Their valuation aware focus means they look to invest into assets at a discount to the current market value. This provides the potential for an element of downside mitigation, based on the lower point of entry. The team firmly believe in active investment management and the managers selected for the fund tend to build portfolios which bear little resemblance to their index.

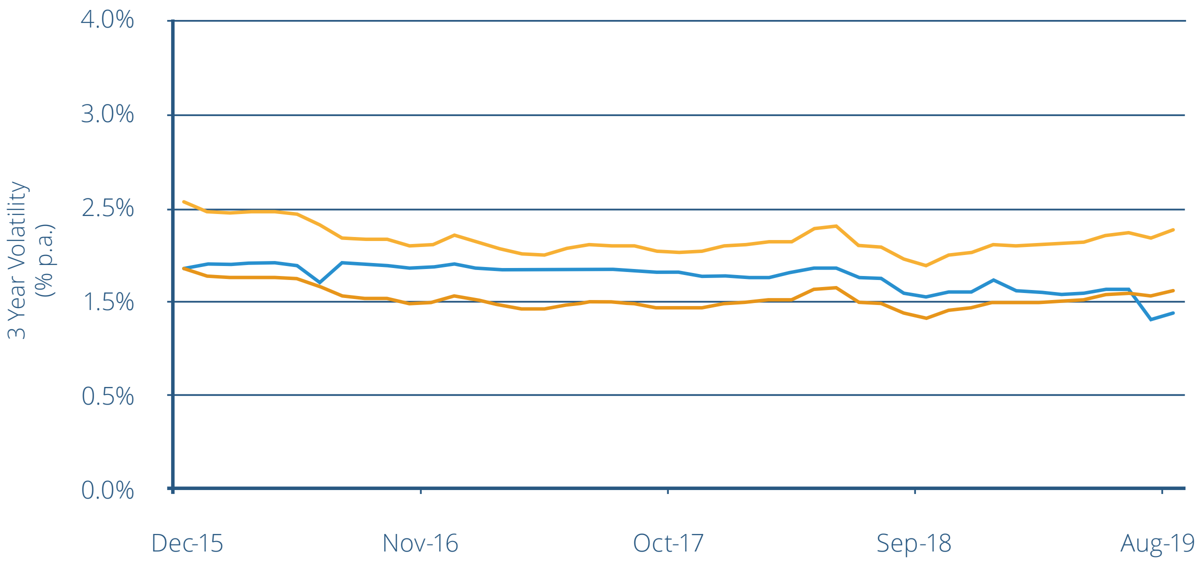

Figure 4: Premier Liberation V and its volatility relative to UK equities

Sector Outlook

Whilst we understand the pressures on multi-manager businesses we believe they continue to have a place in the retail market and remain relevant. Some funds continue to see growth and they remain popular with both advisers and investors. However with investors becoming even more discerning only those that can demonstrate that they continue to offer good value for money are likely to survive longer-term. The general trend over the last few years has been one which has favoured passive investing as their costs have fallen and performance has been strong. But, if market conditions change, the pendulum could once again swing back in favour of active management and investor preferences could switch once again.

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