Growth of Multi-Manager Portfolios

In the last 20 years, many investors have moved from investing directly in shares to investing in mutual funds or unit trusts to seek professional expertise and diversification. Based on data from the Investment Company Institute (USA), there were more than 54,000 funds with close to US$14 trillion in assets at the end of 2003. Investors wanted to invest with professionals who can pick the right shares.

In recent years, multi-manager funds or portfolios have been increasing in popularity. These portfolios comprise of funds managed by different investment managers specializing in different regions and asset classes. In a typical multi-manager portfolio covering many regions and asset classes, the main variation is the proportion of equity and bonds to cater to investors with different risk tolerances.

At PhillipCapital, we offer such portfolios through the Managed Unit Trust WRAP Account.

Why Consider Multi-Manager Portfolios

The rationale for investors of multi-manager portfolios is simple. An individual fund manager cannot be all things to all people at differing points in the economic cycle. While it is important to pick the right shares, it may be more important to pick the right managers who are good at what they do.

An investor can put together a portfolio of funds by himself. However, this requires time and expertise, and not everyone has the inclination or interest to use them. In addition, he would need to constantly monitor this portfolio of funds, as markets, funds and even their managers, change. The portfolio needs constant refreshing to reflect such changing circumstances; it is just not good enough to “buy and hold” any more.

A good manager of a multi-manager portfolio would be able to help investors select good fund managers, as well as, shift money from under-performing fund managers to better ones. This process of active management of funds provides a mechanism for managerial Darwinism by allocating assets to the ‘best of breed’.

Factors Contributing to Growth

There are several reasons why growth in multi-manager funds appears to be gathering pace worldwide.

Firstly, financial markets are becoming more complex and harder for investors to extract gains from. When markets are rising, investors are happy to manage their funds themselves. In more difficult times, they feel they need all the help they can get, and have looked to multi-manager discretionary services or managed products to fulfill this need.

Secondly, the occurrence of fund managers hopping from employer to employer or setting up their own fund management companies have left clients unsure of who exactly is managing their investments.

Thirdly, with increasing competition in the marketplace, companies managing multi-manager portfolios are able to eliminate sales charges for the underlying funds, benefiting investors in these portfolios.

Lastly, investors in multi-manager portfolios find it easier to administer their investments, as they will receive a consolidated statement of their investments.

Investors should not expect exceptionally high returns with a multi-manager portfolio. However, it does prevent you from being your own worst enemy by chasing after the hottest sector or latest best performer.