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ASSET MANAGEMENT CEOS: DFMS AND ASSET CONSULTANTS INCREASINGLY IMPORTANT

Written by Patrick Cairns.

The investment landscape has become so complex that managing client portfolios is asking more and more of financial advisers.

During a panel discussion at the 2021 Investment Forum hosted by the Collaborative Exchange, leaders of four local asset managers expressed the shared view that this is making the role of discretionary fund managers (DFMs) and investment consultants increasingly important.

PRODUCTS

Sygnia founder and former CEO Magda Wierzycka said that the increasingly complex product set available to investors is a vital consideration.

She said the flow of money into passive strategies has led to an explosion in the number of indices being tracked around the world, and identifying the most suitable is challenging.

'We happen to be big believers in thematic investing, while others believe in different styles,' Wierzycka said. 'So, how you structure portfolios with the highest probability of delivering a reasonable return has become complex.'

'Financial advisers have now tended to move toward obtaining professional advice on portfolio structuring. That is where the model of appointing DFMs and investment consultants comes into its own, because the complexity out there is increasing rather than reducing.'

She added that there is also a growing need to consider the opportunities in unlisted markets.

'That is where the potential for really high returns lies,' Wierzycka said. 'Again, the level of knowledge that a financial adviser is required to have to invest there is a whole new toolbox of skills.'

TECHNICAL PORTFOLIO CONSTRUCTION

Sanlam Investment's chief executive, Nersan Naidoo, agreed that putting portfolios together from the incredibly wide opportunity set available to investors was an increasingly specialist skill.

'If you have to think about how you can most effectively dampen volatility, it is through diversification,' he said. 'And if you want to do that properly, you want a really technical portfolio construction and asset allocation skill set.'

He added that the current balanced fund model does not sufficiently meet the diversification needs of many investors.

'It has tended to become a very South Africa-centric model with four primary asset classes,' Naidoo said. 'And that model does not suit us for what we need for the next five years.'

'We need to diversify portfolios more, and we need to find different opportunities. The current environment does not really foster for that to happen, and current asset management models are not suited to that.'

VOLATILITY

John Green, chief commercial officer at Ninety One, noted that just dealing with the growing volatility of returns from markets, and fund managers, is a challenge.

'I would argue that even if you're looking at a multi-asset portfolio today that is managed consistently and with a philosophy that allows its investment team to be consistent in the way they execute that portfolio, you are still going to go through significant periods of under-performance and outperformance,' Green said.

'The volatility we have experienced worldwide in the last five years, and particularly the last 18 months, tells you that volatility is here to stay. Managing portfolios in a way that allows for that is critical.'

MANAGING CLIENTS

Jeanette Marais, CEO of Momentum Investments, added that the changes in flows within the local unit trust market over the past few years showed that something was lacking in the way that client portfolios are currently managed.

'In the South African market, following the herd is alive and well,' Marais said. 'We saw that in the last few years with all the money going into balanced funds, and then that changing and all of the money going into income funds.'

'That shows you there is a fundamental problem in how incumbents have set up. But it also shows that there is a missing link between what we do and what advisers do. We are not equipping them well enough to handle portfolios.'

That missing link is a role that can effectively be filled by quality DFMs and investment consultants.

'I think how the medical industry has shifted from managing symptoms and diseases to managing the patent, is exactly what needs to happen for advisers,' Marais said. 'The days of advisers managing these complex portfolios – to consider everything we have spoken about in investment markets and bring that into client portfolios – are over.'

'The adviser role is shifting from portfolio construction and asset allocation to managing their clients.'

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