

Multi-manager funds web chat transcript

On Wednesday 9 June 2010, we hosted a live web chat with investment experts Andy Parsons, Advice team manager at The Share Centre, and Tony Lanning, Head of Multi-manager at Gartmore, to discuss how investors may benefit from Multi-manager funds.

Thank you to everyone who joined in and asked questions. Here are the responses.

Q: What makes the perfect balanced multi-manager fund?

Tony: Balanced-managed funds have to have no more than 85% of their assets in equities, and at least 50% needs to be UK. The best funds are those that can not just identify the best underlying managers but also have the appropriate tools to work out which funds to marry with each other to create the appropriate profile for the fund's mandate and the client's risk profile.

Andy: I would add, it's also important for the investor to identify and understand the difference between those that are fettered and unfettered. By that I mean the fettered fund of funds will only invest in funds within their own fund house. Whereas an unfettered fund has the ability to look across the entire spectrum.

Q: Is Tony going to invest in the BlackRock European fund?

Tony: We have just invested in the BlackRock European Dynamic fund for our Cautious, Balanced and Active funds. Although we are still nervous about Europe we think the recent sharp sell-off represents a good long term buying opportunity.

Q: What are the main points to look out for when comparing portfolio investment funds?

Andy: In general most investors will go for straightforward performance. However performance is historic and not necessarily guidance for the future. An investor should look at where a manager has sought returns, ie which asset classes and geographical regions. This helps give an indication of the risk being taken. They should always look at a fund's factsheet and take note of the risk ratio measures such as beta and alpha volatility.

Tony: Make sure you compare apples with apples, so many of the comparisons sites will have all the companies in the UK together. Some of those funds will invest in the FTSE 100, some will be tracker funds, some will be funds of best ideas. So it is important that you compare like for like.

Q: If you were bearish about the market that your fund was invested in would you move to cash or stay invested?

Tony: Generally speaking, most fund managers will hold very small amounts of cash, irrespective of how they are feeling about the market. Multi-managers however, have much more flexibility to utilise cash as part of a more defensive strategy.

Additionally, I run a multi-manager absolute return fund which is a portfolio of more defensive assets designed to participate in upwards movements in markets. Most importantly it aims to protect capital during different market environments.

Q: I currently have around 30% of my portfolio invested in Europe, despite the eurozone situation and threat of a double dip. Should I increase it?

Tony: The average multi-manager balanced fund would currently hold about 15% in Europe. Therefore, a weighting of 30% would imply a very positive view of a region we are less certain about. Having said that, in our funds we have been taking the opportunity to increase our exposure to Europe given the sharp falls we have experienced recently.

Q: How do the costs of a multi-manager fund compare to those of a single fund?

Andy: This is a question / issue that is regularly raised within the wider media circles and there are a variety of issues, that need to be considered. In no particular order, one would need to consider the investment wrapper as the holding of many individual funds that outside of the wrapper could potentially give rise to CGT when each is sold. A single multi-manager fund would only give rise to CGT upon its sale. In addition many multi-manager funds or fund of fund managers through the size of their underlying investments are able to negotiate discounted terms, and access variations of share class offering lower charges.

Tony: We own a number of funds at the moment that are more expensive than average but we believe you get what you pay for and these funds give us access to some strategies that are much more difficult.

Q: What's the difference between multi-manager funds and fund of funds please?

Tony: Multi-manager funds are also referred to as fund of funds but these should not be confused with manager of manager products. As a multi-manager, I'm in the privileged position of being able to invest in the best managers in the particular regions that I wish to gain exposure to. If I'm wrong or if the fund exceeds my expectations, I have the ability to change funds at a moment's notice. Conversely, manager of manager products tend to be products with longer term allocations with individual managers.

Andy: They also give an individual private investor the opportunity to generally hold an investment which is well diversified across all asset classes. With the flexibility of the manager being able to buy and sell as he sees fit, the investor does not have to make those decisions personally and can leave them in the hands of a trusted expert.

Q: What impact do you expect RDR will have on retail investor demand for multi-manager funds?

Andy: Over the past six to nine months there has been growing interest and sums of money flowing towards fund of funds and this is likely to increase post 2012. IFAs are not always able to fully access and dedicate the time to research the vast arena of funds. However, experts such as Tony are able to meet fund managers and draw upon the expertise available through the resources at Gartmore.

Tony: I've been spending a lot of time meeting IFAs this year and there is unquestionably more demand for multi-manager funds as RDR gets closer to fruition.

Q: What does the term 'Absolute Return' mean?

Tony: I actually run the Gartmore Multi-Manager Absolute Return fund and my fund aims to produce a positive return irrespective of market conditions. This means that in strongly performing markets my fund would not be expected to participate in all of the rise. However in difficult market conditions, such as those we are currently experiencing, the fund will protect investors from sharp falls in the market.

Q: Given the volatility of the current market, which areas would you avoid? Latin America seems to be garnering a lot more interest, is this something to look to for future?

Tony: Given the current uncertainty, it's perhaps understandable why investors would be nervous about investing in the perceived higher risk areas of the world. In fact, year to date, Asia and emerging markets have been the worst performing stock markets. For longer term investors, emerging markets offer an exceptional growth opportunity and therefore, after such a difficult start to this year, may represent a good long term buying opportunity. As we saw in 2009, when investors' appetite for risk returns areas such as Latin America do very well.

Andy: It's very difficult to decide which areas to avoid as investment must always be considered in conjunction with an investor's attitude to risk, investment objectives and time horizons. Volatility in the market will offer opportunities for certain investors whilst not for others. Any investment must always be carefully considered taking into account the risk associated with it.

Q: Does Tony think he was right to take profits and move away from Asia? Does Andy have a view on this?

Tony: We were very overweight in Asia and emerging markets in 2009, and our funds did very well as a result. I felt as we came into the start of this year, that whilst I'm still a believer in the long term growth story for Asia, there was an opportunity to take some profit and reinvest that into the US and Japan. So we are still overweight in Asia, but not to the same extent we were last year.

Andy: I would concur with Tony in that I personally feel Asia still offers opportunities. However, investors should be aware of bubbles forming in certain areas. Over the long term, for which fund investment should be seen, I personally feel Asia will offer opportunities.

Q: How does Tony go about picking which funds to include in his fund? Is there an optimum number?

Tony: I have a very tried and tested investment process which combines both quantitative and qualitative factors. In brief we start by looking at the past performance of funds with the same investment objectives, and then conduct a great deal of due diligence in understanding how those returns have been achieved. This includes face to face meetings with the underlying managers, analysts and other key personnel. Finally, we want to ensure that when we are buying these funds on behalf of our clients we do it at the most competitive prices available. The benefits of multi-manager are they provide a diversified portfolio of both funds and asset classes but its certainly possible that you can over-diversify. My funds typically hold between 20 and 26 holdings.

Q: I want to invest my ISA allowance for good income.

Andy: Unfortunately, I am unable to give you any specific personal recommendations as an investment decision needs to take into consideration attitudes to risk, investment objectives and time horizons. We would always recommend you seek the services of a financial adviser or the services of a retail stockbroker.

Q: When considering which areas and economies to invest in what other factors should we consider ie: political instability.

Tony: A whole range of factors can influence the performance of stock markets but an important consideration is that markets can go up even when the macro environment is horrible. The stock market is a very effective discount mechanism.

Andy: Investors can take some comfort from the knowledge that a fund manager and his analysts will have conducted extensive due diligence on their investment decisions and will be fully aware of the bigger macro issues that may affect those decisions and investments.

Q: What's the panel's view on BBVA Asset Management news that it has added a commodities fund to its fund of funds portfolio? One for us to keep an eye on?

Tony: At Gartmore, I run all our funds with a multi asset approach. This means I'm not restricted to investing only in equities and bonds. I believe this is a sensible way to invest money because this widens the investment opportunity set. Like BBVA, we currently have some exposure to commodities in our funds in the form of gold.

Q: Are bonds part of multi-manager funds? What is the future for the bonds market?

Andy: This all depends on the investment objectives and mandate of the multi-manager fund - some will, some won't!

Tony: In our Gartmore portfolios we have exposure to fixed interest investments. We are nervous about sovereign debt so own no gilts, but we do own a number of strategic bond funds with a preference for high yield. I think bonds should always be part of a well diversified investment portfolio.

Q: Which multi-manager funds would you suggest make good funds for my pension? I currently put away £200 a month with Aviva and invest in a middle risk (I have exposure to China) selection of funds.

Andy: I am unable to give any specific advice or recommend specific funds. However the arena of fund of funds is now vast, with a large number to choose from.

Given the scale of the universe, there is a wider variety of differing options between those offering cautious, balanced and more aggressive investment strategies. The choice needs to be taken in consideration with all your financial circumstances.

Q: Other than commodities, where else do you seek to gain uncorrelated returns from in your portfolio?

Tony: In reality during periods of stress, investments do tend to become more correlated, fortunately this tends to be for relatively short periods of time. The Gartmore multi-manager funds are diversified across a wide range of asset types. For example, fixed interest equities, hedge fund strategies and commodities. The portfolios are then further diversified by carefully selecting funds within those asset types that are run in different ways.

Q: How have multi-manager funds performed against other investments such as ETF's, over the last 5 years?

Andy: To clarify, multi-manager funds are generally based on the principle of being asset allocated, such that a proportion will be in equities, a proportion in bonds etc.

Generally, exchanged traded funds have been designed to merely replicate an index. Therefore, it is very difficult to compare as it is not comparing apples with apples.

Tony: ETFs can be a very useful investment vehicle. In fact in our multi-manager absolute return fund we own a gold ETF.

Q: The BP disaster is a very public example of how a mighty company's financial status can be afflicted almost overnight. Do you take a long-term position with companies with known liabilities like this - or do you bail?

Tony: A number of the UK fund managers that we own have long term exposure to BP and have no plans to sell this position, and others have no exposure. I think examples like BP highlight the risks in investing in individual equities whereas by definition multi-managers are diversifying that exposure and risk.

Q: Can multi-manager funds deliver better income than traditional income funds?

Andy: When comparing a multi-manager fund with an income fund, the investor needs to appreciate and understand the multi-manager fund's objective and stated aim, as not all multi-manager funds will look to generate an income.

Tony: Equity income funds are often managed in very different ways, and therefore a good way of generating income can be to marry a number of these managers together.

Q: Is Fund of Funds a better approach for an investor than Manager of Managers?

Andy: They both have merits and the decision as to which is most beneficial for an investor will come down to their personal investment appetite, attitude to risk, time horizons and investment objectives.

Q: Where are the most underperforming markets currently? I'm thinking America is showing good short term value currently.

Tony: I agree. The US is currently our highest conviction region.

Year to date, Asia and emerging markets closely followed by Europe, are the worst performing equity markets. Interestingly, these were some of the best performing markets in 2009.

Our Gartmore funds, are still overweight in Asia, but have been taking profits in favour of the US.

Q: Are there any tools or websites that assist in fund selection?

Andy: There are many providers of tools and websites to assist investor's researching the market, including ourselves at The Share Centre. We have a dedicated Fund Centre, including our preferred Platinum 120 range of funds, details of our own in-house OEIC and also further information on Tony's range of multi-manager funds with Gartmore.

Q: I am cautious by nature - do multi-managed funds offer more security to the risk-averse or more exposure? I appreciate it is hard to generalise but some thoughts welcomed.

Tony: Multi-manager cautious funds and our own absolute return fund would typically offer a lower risk exposure to financial markets. These multi-manager funds tend to be more diversified by asset and underlying funds.

Andy: If an investor is particularly looking at the cautious managed sector, say, the fund of fund manager is limited to no more than 60% in equities.

Tony: The Gartmore multi-manager cautious fund has approximately 50% in equities, and the multi-manager absolute return fund has no more than 10%. However, our multi-manager active fund, our highest risk product, is 100% invested in equities.

Q: What do you think of the Ucits revolution happening at the moment?

Andy: The flexibility of Ucits III has allowed fund managers the ability to access and invest in asset classes that were previously forbidden by legislation. This flexibility allowable to a fund managers is not one that is available to the individual private investor as some asset classes are still not available directly, i.e unregulated investments.

Tony: We have embraced Ucits III and own a number of funds across our product range. Given that this is a new concept, investors need to appreciate that there are good managers and bad managers and you still need to carry out your due diligence carefully.

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Don't forget, investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.