



NEWS RELEASE

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MULTI-MANAGERS ADAPT TO NEW MARKET CONDITIONS

Having recovered during 2009 by participating in the strong rally in most local asset classes, multi-managers have started the new decade in good shape.

Financial markets experienced one of the most tumultuous years on record in 2008 as most asset classes suffered significant losses, which contributed to multi-managers globally suffering a 30% fall in assets. However, South African multi-managers recovered during 2009.

According to Melville du Plessis, senior investment analyst at Novare Investments, "Almost all multi-manager portfolios delivered strong double-digit returns for the full year to December 2009. Portfolios with higher weightings in equities did particularly well as multi-managers proved themselves adept at making tough asset allocation calls. As a result, multi-managers delivered significant positive alpha by not shying away from risky asset classes."

During 2009, the JSE All share index returned 32% to investors and a massive 56% from the lows reached in March 2009.

Following a 30% fall in global assets in 2008 to US\$2.6 trillion, multi-managers around the world adapted business models to suit lower revenues by, amongst others, cutting staff, creating pooled funds and by increasing information technology efficiencies to reduce costs.

These were amongst the findings in Cerulli Associates' most recent survey on global multi-managers, which examines multimanager products and trends worldwide. Cerulli defines a multimanager product as invested in long-only traditional investments and held in one of two types of vehicles: manager-of-managers products (MOM) or funds of funds (FOF).

According to the survey: "In South Africa, investors moved towards perceived brand and balance sheet safety in the wake of the global financial crisis, with multimangers under pressure to justify their value proposition of delivering superior risk-adjusted performance, or else be forced to reduce fees.

"There is however scope for growth in the domestic market as a result of pension fund and regulatory reforms, as well as increased usage of manager-of-manager products by existing pension funds –

particularly smaller pension funds which can't necessarily afford the expertise of dedicated consultants."

In terms of future asset allocations, when asked to list the top three asset classes under consideration, half of MOMs reported that listed equity managers would be their first choice, expressing interest in both large-cap and smaller-cap managers. Exactly 30% of MOMs named bonds as their top choice for asset classes where they plan to hire managers in the next 12 months, with the remaining 20% a blend of other asset classes.

In terms of manager selection criteria, multi-managers rated the tenure of portfolio managers as the most important consideration, slightly ahead of performance in the specific asset class.

According to Novare Investments' du Plessis: "This highlights the fact that many multi-managers appoint managers who have proven themselves, irrespective of the management company they are associated with. The importance attached to long term consistency of portfolio management expertise shows that multi-managers aren't only chasing returns.

"Risk management and previous institutional experience are also critical considerations for multi-managers looking for managers with a deep understanding of risk as well as the risk-return interaction in today's dynamic financial markets."

According to the Cerulli Associates' survey, portfolio manager turnover and changes to investment process were the most common reasons multi-managers changed managers. Prolonged underperformance was also a factor.

"Asset managers serious about being considered by multi-managers should have a clearly defined investment process to ensure repeatability of outperformance, while at the same time seeking to foster stability amongst their staff," said du Plessis.

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