BUSINESS UPDATE – JUNE 2021

QUARTER 2, 2021

I really did not expect in March last year to be writing this note in the middle of a third wave of the pandemic. Like many, my assumption was that some form of normality would return in 2021, and I really questioned those who said that we may only see normality in 2022/2023. Back then I would definitely not have projected 12-month returns to the end of June 2021 to exceed 20%. What we have learnt is that we should not take anything for granted, but rather look to manage one's risks as much as possible.

Risk management is critical in managing investments. Just as wearing a mask, practising social distancing and proper and regular washing of hands are key to limiting the risk of catching the Covid-19 virus, ensuring that effective risk mitigation steps are put in place in portfolio construction can assist in delivering acceptable investment returns. I must point out though that as Covid-19 precautions don't guarantee that one won't be infected, so too investment risk management does not guarantee a smooth investment ride.

The multi-manager approach to investing definitely adds significantly to managing investment risk. As the saying goes, "Don't put all your eggs in one basket." Multi-management by definition offers the diversification required by spreading the investments across a range of asset managers. However, just putting together a range of asset managers does not mean that one obtains the benefits of diversification or good risk management.

It is critical to understand the way in which each asset manager constructs their portfolios and what risk management they put in place, as well as the way in which the asset managers interact when put together in a fund of funds or multi-managed portfolio. This is where the qualitative assessment of asset managers, i.e. understanding the philosophy, the team and the culture, and the quantitative assessment, i.e. investment performance, style, risk analytics and holdings analysis, is critical. The blending of asset managers is important as you don't want to double up on the risk or diversify too much that in the end a passive solution may work just as well with a lower cost.

Diversification from an asset class perspective is probably even more important than manager selection and blending of managers. Here time horizon and targeted return are key factors to take into account. Due to market volatility it is easier to use shorter time horizons if the targeted return is relatively low. While setting a strategic asset allocation for a fund is an important first step, the ongoing assessment of asset allocation is critical to achieving the long-term outcomes.

At Old Mutual Multi-Managers we measure on an ongoing basis the value that we add from manager selection; tactical asset allocation and our risk versus return metrics to assess whether we are achieving investment success. Pleasingly, these metrics have shown the value add that the investment team has achieved. I will be very happy to share these metrics with you, so please email me at trevor.pascoe@ommm.co.za and I will send them to you.

Thank you once again for all your support and commitment. I hope and pray that you and your families stay well during these trying times.

All the best

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