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thoughtful investing for private clients

Making the right choice when selecting a fund manager is key to long-term gains

- Is this year's top performing fund manager the best choice?

A fund or investment manager plays a crucial role in helping individuals and families reach their financial goals. When trusting an investment professional to manage assets, it's essential to have a deep understanding of how the investment will be managed. This is according to Stuart Green, Analyst, Multi-Manager Solutions, at Platinum Portfolios, a boutique fund management company.

"This knowledge can help clients make informed decisions and ensure that their strategy is aligned with the overall financial goals set out by their advisor. Selecting the right fund manager is a critical decision that requires careful consideration," says Green.

Some factors that should be considered carefully, include:

1. Investment Philosophy

A strong appreciation of the philosophy and investment style of the manager is important so that it is understood how this investment strategy fits into a portfolio and the overall financial plan. Consistent evaluation of the investment will show if the manager is true to their philosophy especially when current market factors do not favour that particular style.

2. Experience and Expertise

Einstein said that the only source of knowledge is experience, and your appointed fund manager should be accomplished in their role. Experience in managing money is essential, -rather than only analysing stocks or bonds. In addition, the investment and operational support of the fund management business must be sufficient for the manager to do the work properly.

3. Track Record

A good fund manager's reputation will precede them, and they should have a proven track record of delivering strong returns. This should be evident, not only over an extended period – but through tough market cycles too. That said, it is vital not to simply choose last year's winners as these managers often underperform in subsequent periods. Protection from permanent capital loss carries enormous magnitude for any investor over the long term.

4. Fee Structure

The fee structure of the investment strategy is a necessary consideration, as it will impact the return that the investor receives at the end of the day. It's important to know the structure of how the fees are applied, if any performance fees are levied and if so, if the benchmark or hurdle is appropriate for the strategy.

5. Communication and Transparency

The fund manager should have a clear and open communication policy and be transparent about their investment strategies and decisions. Think of the Ponzi scheme run by Bernie Madoff as an example where the lack of transparency should have raised immediate flags. The fact that he was able to get away with many people's money goes to show that people were too quick to trust based purely on reputation, and as a result were easily hoodwinked.

6. Target Return and Risk Profile

Attention must be given towards the desired return of the strategy and the level of risk that the investor is exposed to. It is not advisable to invest into a return profile that will not achieve the financial goal, or one that exposes the investor to excessive risk that is beyond their tolerance.

Green adds, "By taking the time to carefully evaluate these factors, financial planners and investors can make informed decisions and select the right fund manager for their needs in order to maximise the probability of achieving their financial goals."

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