OUR TWO CENTS

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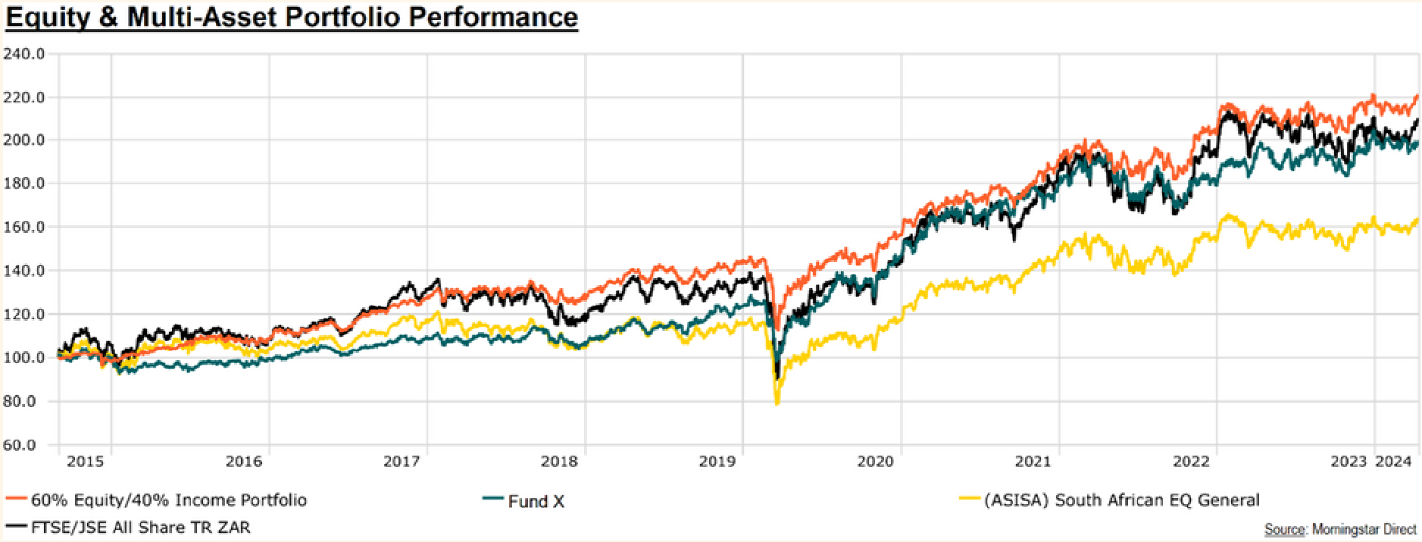
Michael joined as an investment analyst and has an MPhil (Financial Management Sciences) cum laude specialising in economic psychology and has passed the CFA level 3 exam. Prior to starting at New Road Capital, he worked as assistant lecturer at the University of Pretoria assisting with quantitative investment analysis. He has built and traded on models using CFDs. Outside of work, he enjoys flying motor gliders from Springs airfield as well as sailing his Laser class sailboat.

The Value of Multi-Asset Funds

By Michael Caroline

When considering investments, it's often tempting to focus on a single asset class, such as stocks, to try and generate as high a return as possible through stock picking. Although selection within an asset class might add value, it is important to not overlook the benefit of holding multiple asset classes.

The following example illustrates this by comparing a simple multi asset portfolio to Fund X, the FTSE/JSE All Share Index and the (ASISA) South Africa General Equity category average. Fund X is an equity fund that doesn't include any offshore equity and aims to beat the All Share and ranks very highly in the country in terms of returns, as illustrated by its performance relative to the category average. The simple multi asset portfolio is composed of two funds, a passive local equity tracker and a local multi asset income fund.



This example shows how the simple multi asset portfolio added value both in terms of returns, 9.57% per year, compared to Fund X which returned 8.37% and the ALSI which returned 8.94%, and in terms of risk by having a maximum drawdown of 23.05% compared to 23.49% for Fund X and 35.20% for the All Share. In addition to this, the cost of holding Fund X is 2.12% per year whereas the cost of the multi asset portfolio is only 0.42% per year. This portfolio is not only more efficient in terms of performance but offers far better value for money in terms of TIC!

This shows how a simple portfolio of only two assets gives both a return and risk benefit in addition to having a lower TIC relative to a well-managed fund that focuses on a single asset class. In practice, there are many more asset classes which offer their own unique benefits, and far more sophisticated ways to combine them that take advantage of how asset classes move relative to one another through the business cycle. Using the available asset classes efficiently can provide investors with a cost-effective portfolio that gives them the best odds of achieving their financial goals.