"Do as I say, not as I do"

As investors we are told to invest for the long term. But do the managers to which we entrust our savings do the same? History tells us 'no'.

Of the 27 unit trust fund managers operating in SA in 1998, less than 20 years ago, only 11 of those are remotely recognisable today. Others have come and gone, with the point being that investment managers – those offering long term savings services - have a lower than 50% chance of sticking to the promise they sold almost 20 years ago. Our fund research points to this as a material negative for prospective investment returns.

Since 1998, these 27 managers have been joined by a further *143 fund management businesses, managing almost R1.8tn in unit trust investments alone.* This is a staggering escalation, and even excludes the swarm of fund of funds solutions (283 of them) which characterise our market today.

Given fund managers tendency to change, merge, divest, restructure and simply collapse, is the trust we place in our fund managers misjudged? Is the single thing they survive on (trust) not evident in their own businesses?

The table below provides some context. Interesting points to note: Compared with 1998, local investors now have:

- 3 times the number of equity funds to choose from
- 6 times as many income funds
- 16 times as many balanced funds
- 55 times the number of property funds (Ok there was just the single fund – Marriott's – in 1998. Who would have thought a property boom was coming in 1998?)

Summary of the SA Unit Trust Industry: 1998 - 2016

	1998		2016		Growth	
	R'bn	# Funds	R'bn	# Funds	R'bn	# Funds
Equity	R45	109	R322	293	7 X	3 X
Property	R0.1	1	R70	55	921 X	55 X
Income	R20	38	R562	246	29 X	6 X
Balanced	R7	38	R778	615	108 X	16 X
Total	**72**	**186**	**1 732**	**1 209**	24 X	7 X
Fund of Funds	R0.5	12	R214	283	428 X	24 X
# Management Companies		27		170		6 X
# Investors		2 470 455		2 749 338		1.1 X

Source: Association of Collective Investments / ASISA

With the result we now have over 1200 investment options in our local market. Unbelievably, we have a seven-fold increase in funds, a six-fold increase in fund managers, and a measly 10% increase in the number of investors. Same pie, more slices.

Of the 170 fund managers in operation today, how many can we expect to survive, in their current shape or form, over the next 10/20/30 years? And are your savings invested in the majority who, based on past evidence, are destined to be shuffled, rejigged and juggled to suit various business objectives, taking you and your savings along for the ride?

Think back if you can - who remembers these names? African Harvest (acquired by Cadiz, which has been partially acquired by Stellar who has also decided to buy into Prescient); Brait (now a private equity business owned by a retailer, Christo Wiese); Fedsure and Norwich (recall the collapse, 2002); Syfrets (lost in the midst of Nedgroup. Nedgroup is a perennial culprit, having swallowed/amalgamated no less than 6 separate fund managers in the 2000's); Metropolitan (first became the original set of Investec funds, later bought by Momentum). The list goes on: Prodigy, Appleton, Infinity amongst a long list of 1990's "boutiques" no longer with us. And the one that was there at the beginning of it all in 1965, the South African Growth Equity Fund (SAGE) – now going by the name of the Momentum Equity Fund, which has recently split into a business called Aluwani.day.

The proliferation of 'boutique' managers appears to be a cyclical trend which repeats every 10 years or so. Out of each cycle one or two quality managers survive. Examples of these include Allan Gray (tough times in 1998) and Coronation (wholesale changes in 2004, and started with a Syfrets walkout in 1993). Of the current crop of boutiques, who will be around managing your money 10 years from now?

Is it normal for an industry to have this level of corporate change? The answer in part lies in the numbers in the table above. Growth in equity funds is low at 3x (equity investors are a fickle bunch, which makes for an unreliable revenue stream, bad for business); growth in balanced funds exceptionally high at 16x (great for business, investors leave their money in!). This makes businesses vulnerable to performance downturns.

Property fund growth (55x) highlights the industries tendency to construct and sell current trending funds. Historical examples of this include the tech boom in the late 90's (think Coronation New Era Growth, Sanlam Future Trends or Sage SciTech). All too often, this move to thematic performers ends badly and the funds 'disappear'.

Given the low barriers to entry as well as immense economies of scale, asset management is an attractive industry, but can be lost quickly. What is the secret of those managers who stack the odds in your favour, with long term oriented businesses which enables them to efficiently go about the task of managing your money?

The traits we seek out in the business and shareholder aspect of our manager assessments include:

- A culture of client centricity
- Investment leadership driving the business, not corporate leadership
- Strong succession management
- A diversified client base with strong servicing and brand
- Strong investment process and the ability to attract and retain high calibre individuals
- Conservative by nature in the decisions they make
- Avoidance of fads and product proliferation

Finding managers who exhibit these traits will mitigate the inevitable corporate change and the potential for negative impact on your savings. These are the select few managers deserving of client trust. It's a surprisingly short list.

30 November 2016

Sector		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol[1]	10yr Vol[1]
LOCAL MARKET INDICES (In Rands)									
FTSE/JSE All Share Index (ALSI)	ZAR	-3.9%	1.6%	-0.1%	6.9%	12.2%	10.8%	10.6%	15.1%
FTSE/JSE SA Listed Property	ZAR	-1.8%	5.7%	-0.8%	13.5%	16.8%	15.6%	14.4%	15.6%
SA All Bond Index (ALBI)	ZAR	1.7%	13.7%	6.1%	6.7%	7.2%	8.0%	7.9%	7.5%
SA Cash Index (SteFI)	ZAR	1.9%	6.7%	7.3%	6.5%	6.1%	7.3%	0.2%	0.6%
Balanced Benchmark [2]	ZAR	-3.2%	2.7%	1.9%	8.8%	12.8%	11.1%	6.3%	6.3%
SA Inflation (1 month lag)	ZAR	0.6%	6.0%	6.4%	5.6%	5.6%	6.2%	1.4%	1.4%
GLOBAL MARKET INDICES									
Global Equity (MSCI World)	USD	0.0%	5.0%	3.2%	3.7%	9.9%	3.8%	11.2%	16.5%
Emerging Markets Equity (MSCI EM)	USD	-3.1%	10.9%	8.5%	-3.1%	1.0%	2.3%	16.2%	23.5%
Global Bonds (Barclays Global Bond Index)	USD	-6.1%	2.6%	3.1%	-0.2%	0.4%	3.2%	4.6%	5.9%
Global Cash	USD	0.2%	0.5%	0.5%	0.3%	0.3%	1.1%	0.0%	0.5%
MAJOR INDICES BASED TO RANDS									
FTSE/JSE All Share Index (ALSI)	ZAR	-3.9%	1.6%	-0.1%	6.9%	12.2%	10.8%	10.6%	15.1%
Global Equity (MSCI World)	ZAR	-4.7%	-5.0%	0.3%	15.4%	22.6%	11.0%	13.4%	13.8%
Emerging Markets Equity (MSCI EM)	ZAR	-7.7%	0.4%	5.5%	7.9%	12.7%	9.4%	12.2%	15.7%
SA All Bond Index (ALBI)	ZAR	1.7%	13.7%	6.1%	6.7%	7.2%	8.0%	7.9%	7.5%
Global Bonds (Barclays Global Bond Index)	ZAR	-10.5%	-7.2%	0.3%	11.1%	12.1%	10.4%	12.6%	14.6%
COMMODITIES									
Gold (US Dollars)	USD	-9.2%	12.7%	12.4%	-1.6%	-7.1%	6.4%	18.0%	19.3%
Gold (Rands)	ZAR	-13.4%	2.0%	9.3%	9.5%	3.6%	13.7%	19.1%	21.8%
Currencies (positive return = Rand weakening)									
Rand / Dollar	ZAR	-4.3%	-9.3%	-3.0%	11.3%	11.6%	7.0%	14.3%	16.5%
Rand / GBP Pound	ZAR	-9.0%	-23.2%	-19.5%	1.7%	6.6%	2.2%	14.1%	15.2%
Rand / Euro	ZAR	-9.1%	-11.5%	-2.8%	2.4%	6.4%	4.6%	12.9%	13.7%

Spot Rates

30-Nov-16		6-Dec-16	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Rand/US$	Rand	13.64	13.72	13.82	8.09	7.74	4.54
Rand/GBP	Rand	17.28	17.59	20.93	12.60	14.51	7.08
Rand/EUR	Rand	14.62	15.42	15.46	10.83	9.84	5.39
Rand/Aus $	Rand	10.20	10.51	9.68	7.82	5.79	3.60
Libor 6m $	US$	1.29	1.24	0.53	0.56	5.37	N/a
Prime	Rand	10.50	10.50	9.50	9.00	11.50	19.50
Repo Rate	Rand	7.00	7.00	6.00	5.50	8.00	N/a
All Bond Index Yield	Rand	8.99	8.79	8.54	8.62	10.00	14.03
Gold ($/oz)	US$	1,169.64	1,312.00	1,115.05	1,624.40	598.30	378.40
Palladium	US$	747.00	722.00	661.00	614.00	315.00	118.75
Platinum	US$	935.00	1,026.50	906.50	1,525.50	1,140.50	382.50
Oil (Brent Crude) $	US$	53.82	50.00	48.54	105.94	60.76	23.36
SA Inflation	Rand	6.40	6.10	4.60	5.70	5.30	8.40

data provided by Profile Data Analytics and INET BFA