

## Introduction

The multi manager concept has been around for more than ten years but then there were just a handful of such funds available for investors. Now multi manager is **one of the fastest growing investment products** with news of new providers entering the market almost every month.

According to the Investment Management Association there is currently **more than £7bn invested** in multi manager funds.

## What is Multi Manager?

In broad terms the multi manager product is the **modern day equivalent of the stockbroker** managing a portfolio of stocks and shares for his client. However, whereas the stockbroker would have tended to be employed only by wealthy investors, the minimum investment into a multi manager fund is usually around £10,000. In fact, by using fund supermarkets **an investor with £1,000** can now invest into a multi manager fund.

There are **two main types of multi manager fund**. The most common is referred to as **'fund of funds'** and the other is referred to as **'manager of managers'**.

## Fund of Funds

Fund of funds describes an investment which consists of **a portfolio of existing funds each of which has its own fund manager**. The portfolio is managed by an overall fund manager or team of fund managers who decide which funds to hold in the portfolio and when to buy and sell funds.

This type of multi manager product is then divided into funds of funds which are restricted to one investment house, known as **'fettered'** funds and those which can choose from the whole investment market, known as **'unfettered'** funds. Fettered funds are also sometimes referred to as **'closed' portfolios** and by the same token unfettered funds are sometimes referred to as **'open' portfolios**.

The promoters of unfettered funds naturally argue that they have **vastly more funds from which to choose**, and they can pick from among the top fund managers in any particular market sector.







The promoters of fettered funds argue that they **work closely with all of the in-house fund managers** in their organisation and understand more clearly their strengths and weaknesses. They are also quickly aware if there is a change of strategy within a fund, or indeed if the manager is leaving the company.

## Manager of Managers

Manager of managers describes a somewhat different investment. Here the overall fund manager or team of fund managers does not choose the underlying funds in the portfolio but **allocates sectors of the portfolio to different fund managers**. These individual sector managers invest directly into stocks and shares rather than in off-the-shelf funds.

## The Benefits to Clients

There are a number of benefits for clients of using multi manager funds:

-  the added security of **an additional layer of professional fund management**
-  the concentration on **good asset allocation** rather than simply picking individual funds and the ability of the fund manager to adjust this at any time to suit the changing economic outlook
-  the ability to **choose an overall level of risk** for the portfolio as a whole by using a cautious managed, balanced managed or active managed portfolio, or indeed by choosing from a wide range of other sectors such as far east or socially responsible etc
-  **reduced administration** compared to dealing with a large number of individual investments
-  more **straightforward income tax reporting** rather than collecting a large number of dividend tax vouchers from different investment houses
-  simpler **capital gains tax (CGT) calculations**. In addition, depending on the way that the multi manager portfolio is arranged, **taper relief gains for CGT are applied from the date of the initial investment**, not from each new fund purchase.

## The Changing Role of IFAs

If you have used the services of an independent financial adviser (IFA) for some years you may be wondering why IFAs are actively promoting multi manager funds when this is part of the service that IFAs already provide to investment clients.

The truth is that **this is an area that IFAs are glad to outsource to professional fund managers**. IFAs have found that the use of multi manager funds gives them more time to service their clients' needs better.

With the abrupt end to the bull markets of the late 1980s and 1990s when most investments only seemed to increase in value, **investors have discovered that investing is a highly skilled job.**

IFAs too have realised that managing investments on behalf of their clients now takes a lot more research and effort. This is at a time when administrative and regulatory burdens have seriously reduced the number of hours that can be spent looking after clients in an IFA's working week.

The skills and experience of an IFA are more about the 'big picture' of a client's investment planning rather than the day-to-day detail of investment management. Such skills are **best used in determining the overall shape of a client's investment portfolio**, commensurate with his or her age, attitude to risk, capital growth/income needs and tax position.

Having chosen what amount should be invested in income producing or capital growth investments **the IFA can then outsource the day-to-day running of the portfolio** to one or more multi manager services.




The time saved in not having to review and change that part of a client's portfolio in such a detailed way can be put to better use in advising the client in other strategic areas of his or her financial planning.

## Using Multi Manger funds

It is important to realise that multi manager funds are designed to be **part of a client's overall asset allocation** and not the whole thing.

In general terms we would feel that the best use of multi manager funds is for the **higher risk parts of the client's portfolio** - those parts which need monitoring more closely. IFAs would generally still feel comfortable handling a lower risk portfolio of corporate bonds, distribution funds and property funds within, say, a fund supermarket.

Multi manager funds can also be particularly useful where there is to be **limited contact between the client and the IFA**. For example:

-  where the client is **working overseas** for a number of years, or
-  where we are dealing with **investments for a trust** and the trustees do not want to be actively involved in making investment decisions, or
-  where substantial amounts of money are to be **invested by parents or grandparents** for children.

## Tax and Multi Manager Funds

Depending on how the portfolio is set up, the sale and purchase of holdings within the portfolio by the manager **may or may not incur a liability for capital gains tax (CGT)**.

In the situation where there is no CGT on the internal transactions within the portfolio there will be a liability for CGT on the overall gains made by the portfolio when all or part of it is encashed.

It is possible to arrange for **regular withdrawals of capital** from the portfolio which will then provide a known 'income'. If this 'income' is within the annual CGT allowance it will not be taxable.

## Choosing the Most Appropriate Multi Manager Provider

As indicated at the outset, there is now a wide choice of multi manager providers from which investors can choose. With many providers coming into this market within the last two years, however, **there is limited performance data for many of them**. The skill and experience of the overall investment manager or team of managers will therefore play a big part in the decision.

Major investment houses such as **Artemis, AXA, Credit Suisse, F&C** (formerly ISIS), **Fidelity, Gartmore, Henderson, Insight, Jupiter, Merrill Lynch, New Star, Skandia, Schroder** and **Winterthur** all now offer multi manager funds. However, this is an area where clients should not overlook smaller investment groups such as **Mitton, Premier, Seven, T Bailey** and **WAY** as they often try harder to provide better multi manager products.

Groups offering 'manager of manager' multi manager funds are fewer in number and include **Abbey, Frank Russell, MLC** and **SEI**.

## Wide Choice of Fund Types

The original multi manager funds consisted almost entirely of **equity** (ie stocks and shares) funds. Investors can also now invest in funds that include **cash, bonds** (ie fixed interest securities), **gilts** (ie government securities), **property** (ie commercial property) and **investment trusts**.

One of the most recent additions to the market from Close Finsbury has widened the scope of funds further to include **natural resources, hedge funds** and **structured investments**.

## Charges

One of the big issues with multi manager funds can be the higher level of charges applied. The simple fact is that investors have to pay charges for the multi manager service on top of the charges of the underlying funds in the portfolio.

When markets are racing ahead providing double figure returns this is not much of an issue. However, **when markets are fairly flat those additional charges may remove any benefit** that might be derived from the extra layer of professional fund management.

To counter this, the multi manager product providers point to the **huge buying power that they have when dealing with investment houses**. For example Tom Caddick, fund of funds analyst at F&C, has said 'we pay nothing (ie to the underlying fund managers) front-end and never will. On the annual management charge we negotiate aggressively. In many cases we will be paying half.'

Bambos Hambi, the lead fund manager of the Gartmore multi manager funds has said 'With £370m under management we can get the AMC (ie Annual Management Charge) down to one third of what investors would pay.'

## Total Expense Ratios

It is not always easy to find out what the real charges are on a multi manager fund because **the literature will often just refer to the charges made by the multi manager product** and simply say that these are in addition to the charges made by the underlying funds.

Increasingly, however, multi manager products are declaring their total expense ratios (TERs). **These tend to be in the range of 1.5% pa** (lower than many single manager funds) **to 3.5% pa** with the higher charging product having to produce a consistent 2% pa out-performance just to equal the ultimate return of the lower charging product.

Some multi managers such as Fidelity promise to cap the TER at 2% pa.

It is important to bear in mind that charges are just one aspect of the overall picture and **higher charges may be justified** in view of the demonstrated skill and experience of a particular fund manager or management group.

## Income Funds

Many investors wish to receive income from their multi manager portfolios and this can be achieved in three main ways:

**A** setting up an income portfolio and **receiving the dividends** as and when due. The advantage of this is that we are dealing with a **real income** and the number of units held in the portfolio is not reduced to produce the income. The disadvantage, depending on the investor's tax situation, is that **income tax is deducted from the dividends and this cannot be reclaimed** by a non tax payer and **a higher rate tax payer has to pay a further amount of tax** through their annual tax return.

**A** setting up a growth portfolio and **selling units at intervals** to provide an 'income'. The advantage of this is that the 'income' is effectively withdrawals of capital and liable for capital gains tax. For the majority of investors such withdrawals may be covered by the annual CGT allowance (currently £8,200). The disadvantage is that units will have to be sold in a falling market as well as a rising market thus compounding the fall in value of the portfolio at such times.

**A** using a **specific income vehicle such as the WAY Income Fund**. Here the portfolio is split so that the 'income' withdrawals are made from a cash fund. Although withdrawals of units are made from the growth fund these are taken only after a period of capital growth as they do not have to coincide with the need for income of the investor. The withdrawals from the growth fund are used to top up the cash fund. The process is extremely tax efficient.

## Risk Factors

- Past performance is neither a guide to, nor a guarantee of, future returns.
- The value of your investment is not guaranteed. This, together with the income from your investments, can go down as well as up, and you may not get back the amount you originally invested.
- Where the portfolio invests in overseas markets, changes in currency exchange rates may mean that the value of your investment goes up or down.
- Where the portfolio invests in developing overseas markets, the arrangements in relation to regulation, dealing, liquidity and custody may be less secure than in the UK.
- Where a yield is quoted by a multi manager fund the level of yield will be subject to fluctuation and is not guaranteed.
- Some, or all, of the annual management fee may be charged to the capital of the fund. Whilst this increases the yield, it will restrict the potential for capital growth.

### For Further Info

If you would like to discuss whether an investment into a multi manager fund might be appropriate for you please ask your usual Arch adviser or contact us via one of the following:

Tel: **0845 3700 661**  
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