

VIEWPOINT 1

Words of warning

Changing asset managers can cost fund members dearly, and unnecessarily. **BRANDON FURSTENBURG**, chief operating officer of Mergence Investment Managers, relates some all-too-common experiences.

Whether or not one likes to admit it, investment consultants lead many SA retirement funds by the nose.

Some argue that the persistent gap in knowledge between professional and employer trustees on the one hand, and employee-elected trustees on the other, provides added ammunition for the fund's consultant. Of course, this is a generalisation. But sometimes we must face these realities at the coalface.

So what should a trustee board do if it contemplates changing their fund's asset manager/s?

Firstly, a proper answer is needed to the hard question of whether a particular asset manager needs to be replaced at all. Remember, pension fund investing is for the long-term. Don't manage your fund on a short-term basis.

If a manager has underperformed for say six months, that's not on its own a good enough reason to fire him. At the retail level the story is well known: An individual who chops and changes investment managers and portfolios by picking the flavour of the month, is more likely to underperform another individual who simply makes a decent initial choice of portfolios and stays put.

Secondly, if you are intent on firing a manager and replacing him with another (or you are diversifying your selection of asset managers by introducing one or two new ones), the question of how is important. Fund consultants sometimes attach the pretty phrase transition management to this process.

In plain English: Are you going to liquidate what one of your current managers is holding and then hand over cash to another asset manager? Or are you going to go through the process of transferring assets from



**Furstenburg . . .
avoidable waste**

one manager to another? Neither exercise is a costless process, but trustees need to be aware that the first option (cash) can sometimes be expensive.

This is because, if a fund force-liquidates a portfolio into cash, trading costs (e.g. brokerage) are incurred. And if another asset manager buys many of the same shares as the first one held, trading costs are again incurred. Fund members have to pick up all these additional costs for little

reason.

Furthermore – and I have been exposed to this particular practice – where some of the investments being sold (in order to move money between managers) are less liquid or possibly highly illiquid, the costs of unwind are often large. The fund's consultant should make trustees aware of these likely costs and their possible magnitude, or he isn't doing his job as he should.

I have seen consultants issue blanket orders to asset managers to liquidate positions into cash, apparently unconcerned with cost and the extent of loss enforced on members. Such consultants are acting irresponsibly. Trustees must be alive to these issues so that they can call their consultants to order.

Equally, trustees must ask precisely what the consultant will charge to “manage” the transition process. And then they'd have to decide whether this charge is likely to be commensurate with value provided.

A blanket order to a set of asset managers, to liquidate everything into cash, is not rocket science. It should not be rewarded equivalently to the case where a transfer of assets between managers occurs.

At the end of the day, fund members must not suffer from their trustees' decision to change asset managers. ■