



Investor's Notebook

Stephen Cranston



Even though I am a firm believer in balanced funds, it is important to keep an eye on the equity-only options available to pension funds. I like the way in which the Alexander Forbes Equity Manager Watch is divided – and I wish the unit trusts did something similar. Equity watch is divided into three categories: enhanced index funds, benchmark cognisant and nonbenchmark cognisant. The enhanced index funds are not very popular. One fund dominates, the Kagiso Core Swix fund, in which there is R13,5bn under management and 12 clients. You might expect the enhanced index managers to be quite a homogeneous group but that is not the case. If you take the 12 months to March, Kagiso achieved a return of 8,6% compared with 3,6% from Prescient Equity Quant and 4,7% for Stanlib Enhanced Index. I tend to think that benchmarks are there to protect the managers rather than the client. When the market is down he can say at least he lost less money than that. It is up to the managers to decide whether they are benchmark cognisant or not. Some promise to offer just selected bets against the benchmark: no hot-headed extremists here. They can certainly point at a few reckless value destroyers in the noncognisant category (perhaps that should be noncognitive). In a year in which the JSE all share index was up 30,7%, Investec Value was down 4,8%. Its fund manager John Biccard is clever, but he can't make people's life savings hostage to his convictions. Be as stubborn as you like in your unit trust, where people are free to place their bets but not in pension portfolios where people might not have the option to pull out. And it is not as if the market has hurt all value funds. Prudential's deep value fund is up 31,7%.

It doesn't make sense to me that R250bn is invested in the non-benchmark cognisant category which is almost double the R141bn in the benchmark cognisant. I would expect funds to have the majority of their money in core funds. The two largest benchmark cognisant funds are Coronation Core Equity with R25bn – which is closed to new business, and Investment Solutions Pure Equity with R40bn. It is interesting to see how many black managers opt for the benchmark cognisant category: before you build a long track record it makes sense not to oversell your skills. Afena has two funds in the category which have been below-average performers. Mergence, in contrast, had two very good results from its funds which are close to the top performers such as Coronation, Prudential, Stanlib and Sanlam. Ask your consultant to investigate. ■