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BRIEFING NOTE – FOR IMMEDIATE RELEASE

MULTI-MANAGER FUNDS: HIGHER CHARGES...BUT DO THEY DELIVER?

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Financial Express, the leading data collector and solutions provider for the UK fund industry has shone the spotlight on multi-manager funds and poses the question “are Multi-Manager funds worth the charges they command?”

Multi-manager funds are increasing in popularity both with investors and providers alike, with fifty new Multi-manager funds launched in the last three years. These funds are designed to make an investor's life easier by packaging together teams of specialist investment managers into a single fund.

Much of this increase in the supply of Multi-Manager funds is due to the increase in demand from financial intermediaries. As more and more advisers are choosing Multi-Manager funds for their clients, the FSA (Financial Service Authority) has been keen to investigate the reasons for the growing popularity of this type of fund product. The FSA has surveyed a number of advisers in an effort to determine whether Multi-Manager funds are being chosen because of what they offer the investor or because of what they offer the adviser.

There can be no doubt that a Multi-Manager fund reduces the analysis and research that an adviser has to do, but these benefits come at a price; the most expensive funds in 15 of the UK Unit Trust and OIEC sectors are Multi-Manager funds. Multi-Manager funds tend to have higher charges than other funds and they are justified on three grounds:

- they provide access to the investment skills of the underlying funds' managers.
- they provide access to the specialist expertise of the Multi-Manager in selecting and monitoring those managers.
- they consolidate the administration of sophisticated investment strategies conveniently into a single package for investors.

But are these high charges actually justified in the results of the Multi-Manager funds? Do these funds offer good enough returns and low enough volatility to mean that advisers should be recommending choosing a Multi-Manager rather than a 'normal' fund?

Firstly, let's look at some of the 'expensive' funds. Are their charges (TER) justified by the returns that they achieve? The Credit Suisse MM UK Income Portfolio has a TER of 2.36% compared with 1.61% for the sector average. Perhaps these added charges would be justified if the returns of the fund were suitably higher than the sector average. However, this fund underperformed the sector over the past year by almost 3%. Moreover, the fund is more volatile than the average for the sector and a negative Information Ratio shows that the management team are taking risks which are not paying off.

Similarly, the WAY Professional Global Growth fund has charges which are double the average for funds in the Global Growth sector, whilst also being more volatile and having a worse performance than the sector as a whole. Such statistics would strongly suggest that a TER of 3.47% is in no way justified by the results achieved.

However, in contrast, there are Multi-Manager funds whose high charges seem to be justified in their results. For example, the New Star American Portfolio and the Fidelity MM Special Situations Portfolio have achieved returns of 11.24% and 17.27%, respectively, over the past year. These returns are significantly higher than the average for the respective sectors, and whilst the TERs are higher than the sector averages the returns over the past year imply that these charges are more than justified. Moreover, these funds also have great Information Ratios (1.42 and 1.36, respectively), which shows that the teams responsible for choosing the funds for the portfolio are taking risks which are more than paying off.

Financial Express data shows that there are many Multi-Manager funds that, whilst not being 'cheap', are far from being the most expensive funds in their sector. In many cases these funds also offer excellent returns and the benefits of Multi-Manager funds are clear. Funds such as the Jupiter Fund of Investment Trusts returned 20.64% over the last year compared to the sector average of 13.3%, and all this was for a TER a fraction over the average for the Global Growth sector.

So, whilst some caution should be employed when choosing a Multi-Manager fund, the cost of investing in these funds is in many cases justified by the returns achieved. The adviser and the investor benefit from the specialist expertise in fund selection and the convenience of a complete portfolio in one fund. However, as has been seen, there are many Multi-Manager funds where the returns are not good enough to justify the high charges. A financial adviser should not assume that Multi-Manager funds absolve them of a full responsibility in selecting the best options for their clients. With good research the adviser should be able to gain from the knowledge of the fund managers and provide an excellent, value for money service to their clients.

TABLE: Multi-Manager Fund Performance and Total Expense Ratios

Fund Name	IMA Sector	Fund TER	Sector TER	Fund 1yr TR	Sector 1yr TR	Fund Ann. Vol. 1yr	Sector Ann. Vol. 1yr
iimia Growth	Active Managed	3.25	1.93	15.31	15.30	4.58	3.80
iimia Growth & Income	Balanced Managed	3.09	1.81	15.72	12.91	3.08	3.32
IMS Select Income	Cautious Managed	3.01	1.89	9.45	8.02	3.34	2.41
WAY SPPM Equity High Inc	UK Equity & Bond Income	2.73	1.63	16.21	11.82	5.42	3.93
New Star European Portfolio	Europe Excluding UK	2.71	1.58	22.07	21.83	6.51	5.64
New Star Asia Portfolio	Asia Pacific Ex Jap	3.02	1.68	40.97	36.23	5.72	6.67
Credit Suisse MM Emerg Mkts Portfolio	Global Emerging Markets	2.82	1.75	37.77	32.88	6.22	6.84
Credit Suisse MM Global Bond Portfolio	Global Bonds	2.53	1.26	3.23	-1.65	1.98	3.35
WAY Professional Global Gth Portfolio	Global Growth	3.47	1.71	14.58	15.38	4.79	4.54
Credit Suisse MM Japanese Portfolio	Japan	2.90	1.63	-11.98	-7.73	10.95	7.56
Credit Suisse MM Cash Portfolio	Money Market	2.01	0.81	2.08	3.4	0.08	0.26
New Star American Portfolio	North America	2.73	1.64	15.05	9.81	7.14	7.54
Credit Suisse MM Sterling Bond Portfolio	UK Corporate Bond	2.26	1.13	1.58	-0.95	2.72	3.55
WAY Lawrence House UK Equity	UK Equity Income	3.06	1.61	15.54	16.61	4.42	5.59
M&G UK Growth Portfolio	UK All Companies	3.88	1.52	17.48	17.74	4.11	5.32
Capita Financial GHC MM Fixed Interest	UK Gilt	2.37	0.81	2.04	-1.52	2.52	4.27

Source: Financial Express Analytics. All data to end June 2007. TER = Total Expense Ratio. TR = Total Return performance (bid to bid, net income reinvested). Ann. Vol. = Annualised Volatility

Daily fund performance tables, charts and factsheets for UK Multi-Manager funds can be viewed on www.trustnet.com//ut/general/multimanager.asp.

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NOTES TO EDITORS

Financial Express

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