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ISA special: Mulling the Multi-manager option

By Charlotte Banks, Analyst, Financial Express 11-Jan-2010

Awareness of multi-manager funds continues to grow, but how do they stack up in terms of cost?



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ISA season is upon us. However, this year could be unlike most previous ones in mind of two key factors: higher annual subscription limits have arguably already persuaded eligible investors to invest more; while massive global recovery in markets in the past 12 months have seen a considerable turnaround in risk appetite. Here is one of four articles outlining different views and expectations of the season.

Multi-manager funds have historically been seen as charging a higher price to achieve higher returns. However, reviewing annual management charges (AMC) and total expense ratios (TER) of multi-manager funds suggests this view may not necessarily be correct.

The *Financial Express* database was filtered using the [Analytics](#) tool to show all [FoFs](#), investing 75 per cent or more in UK equity. These were compared to funds from the [IMA UK All companies sector](#), also with 75 per cent or more investing in UK equity.

From the results came 18 multi-manager funds and 332 direct funds. The data suggest AMC on multi-manager products range from 1-1.50 per cent, while the TER ranges from 1.23-2.52 per cent. The AMC on non-multi-manager products stood at 1.50 per cent, with the TER varying from 1.64-1.78 per cent.

In the direct fund category, the clear winner on a performance basis is the [SVM UK Opportunities](#) fund returning 99 per cent over a one-year period and -13.95 per cent over three years.

The fund has an AMC of 1.50 per cent and a TER of 1.74 per cent, both higher than that of the best performing multi-manager fund, which returned 46 per cent over one-year and -13.26 per cent over three-years. This fund, the [Unicorn Mastertrust](#), has an AMC of 1.25 per cent and a TER of 1.41 per cent, meaning investors would have saved money while increasing their overall return.

Performance of SVM UK Opps fund vs Unicorn Mastertrust over 1-yr



08/01/2009 - 08/01/2010 © Data provided by Financial Express 2010

Source: [Financial Express Analytics](#)

[Tom Caddick](#), head of multi-manager at [LV= Asset Management](#) says multi-manager funds do still provide a good investment and insists the charges are not as much as intermediaries believe them to be.

"When looking at cost you should make sure you look at the TER and ensure it's incorporating all costs and also look at the objectives of the underlying client and underlying investor."

Caddick's main concern in the cost debate, is how investors are quick to say multi -manager funds are too expensive. He disagrees, saying some funds sit below 1.8 per cent bringing them in line with some single asset funds.

"From my perspective you are getting a fully managed portfolio as opposed to simply an actively managed fund. There are key differentials between the two and the risks that have been taken on are quite different, one is providing a solution the other just providing part of a jigsaw."

Intermediaries are yet to all be persuaded.

Martin Bamford, managing director at Informed Choice says he is yet to see conclusive research demonstrating that the extra cost associated with multi-manager funds results in sufficient additional performance. He adds it is less likely to happen in a low inflation, low interest economy, where returns are expected to be subdued.

"When the markets are roaring ahead, there is more scope for actively managed funds to outperform, but even in those times there is no guarantee that multi-manager will leave investors any better off," he says.

Graeme Mitchell, managing director of Lowland Financial is more positive, saying they make his life easier. "It means I can spend more time with clients concentrating on what makes them tick. They do tend to be a little more expensive, so we tend to have a mix of these and direct funds; however the multi-managed funds are always consistent."

Arthur Childs, managing director of Arch Financial Planning agrees cost can be overcome by looking around.

"If you are foolish and don't check things then the fees can be very expensive. However, if you do check ahead looking at documents to check fees, it's very easy to see where the cheapest charges are."

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