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# First among equals

**Multi-manager is a popular strategy, but some multi-manager funds are cut from a finer cloth...**

Multi-manager funds are a popular category with investors and for a reason: the ability to 'fire and forget' by investing in a one-stop investment shop is tempting for those of us without the time, experience and money to allocated and then repeatedly rebalance our own portfolios.

However, that doesn't mean these seemingly simple vehicles are a panacea. While investors look to these funds to invest across a range of stocks and asset classes, there is a risk that too much diversification can lead to sluggish or muted returns, or leave a fund open to criticism as an 'index-hugger' offering little more than a passive vehicle, but at higher cost.

At the same time, investors in mainstream open-ended multi-manager funds can face a serious downside, in the form of multiple layers of fees. While these funds charge a fee to manage your investment, the underlying funds they own will also be charging a fee. Although multi-managers can negotiate these underlying fees down from their 'street' rate, the cumulative effect can result in charges of 150 basis points or more, which over years of compounding become a serious outlay.

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## The right tools for the job

There is an alternative fund of funds option available to investors. Using the advantages of the closed-ended structure the team behind Alliance Trust has, since it was relaunched as a multi-manager vehicle in 2017, created a multi-manager model that counters the criticisms discussed here and seen a significant step up in performance.

Alliance Trust has for years focused on being the kind of fund that investors can invest in for years, or even generations, without having to monitor their investment too closely. However, three years ago the board took the decision to move the trust over to a multi-manager model, in a bid to counteract three key challenges: overdiversification, volatility and high charges.

The trust avoids being overdiversified by investing in ten portfolios, run by experienced fund managers selected by experienced institutional portfolio provider Willis Towers Watson (WTWT). While each underlying portfolio can have up to 20 stocks in it, meaning that Alliance Trust could in theory have a total of 200 underlying stocks, this approach avoids the risk of being an overdiversified 'closet tracker' portfolio because each stock has been actively selected by the underlying fund manager as one of their 'best ideas'.

Standalone funds are not typically this concentrated, due to liquidity and risk management concerns meaning that fund managers tend to run portfolios of 30 stocks or more. This can mean that fund managers are investing in stocks in which they do not have the highest levels of conviction. By taking the responsibility for liquidity and risk management out of the hands of its underlying fund managers, ATST is able to build a truly active portfolio of funds.

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## Managing the risks

The overall risk management of ATST's portfolio is another distinct feature of this approach. WTW keeps up to 20 managers on its 'bench' for possible inclusion at any one time, and constantly monitors the balance of the trust's underlying portfolios, adding managers in when it is deemed necessary to ensure the overall portfolio is not leaning too far towards one style or returns driver.

This means that investors can get exposure to an 'active' returns profile which has also been carefully balanced to try and limit volatility – and means they can avoid being reliant on a single manager, sector, region or style for their investing future. The benefits of this approach were demonstrated in 2019, when Alliance Trust performed well throughout the year, during which the 'growth' stocks lost ground to 'value' in the second half; a situation which would see a fund dedicated to one of these styles perform less well when the other was in the ascendant.

## Keeping costs down

Due to its size and the economies of scale that brings and its efficient management model, using WTW to oversee the management of ATST's underlying portfolios allows the trust to keep its costs down. The trust's OCF is just 0.65%, considerably less than the AIC Global sector simple average of 0.71% (both figures as at 1 January 2020). The comparison by KID RIY is even more striking, with ATST sitting at 1.0%, among the lowest in the AIC Global sector – however, it is worth noting that calculation methodologies vary among companies.

As we discussed earlier, these charges compare very favourably to those on offer from many of the trust's open-ended multi-manager competitors, which can often charge upwards of 100bps. Indeed, the three largest multi-managers in the UK currently charge upwards of 1.5% in OCF terms, excluding transaction costs showing how ATST's approach has uniquely kept a lid on its fees.

## A fund for all seasons

While multi-manager certainly serves a purpose for investors, not all of them are made equal. ATST's approach to multi-manager investing centres on making truly active investments, enshrining risk management at its core and keeping its costs efficient. This approach has paid off - since launching the new strategy just under three years ago. On an annualised basis over three years the trust has returned 11.39%, against a FTSE World TR return of 10.84%.

**Read our full research on Alliance Trust here...**

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