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Previously Investec
Asset Management

When to sell?



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Investors are encouraged to stay the course, but look out for warning signals to re-evaluate a fund.

Generally, you should not alter your investment strategy or its execution unless it was incorrect at the outset, or your personal or financial circumstances change. At crucial points, such as when you get married, have children, get retrenched or retire, we strongly recommend that you consult a qualified financial advisor. Absent such change, the basic rule is: “Do not let shorter-term market fluctuations and negative market commentary sway your commitment to your long-term investment goals.” There is much research that supports the view that investor behaviour is a destroyer of investor returns¹, and that investors should “stay the course”.

Having said that, we believe that you should re-evaluate a fund in which you are invested if one of the following warning signals is triggered:

- Change in the portfolio manager(s) and/or the supporting analyst team
The portfolio manager is the key individual responsible for delivering on the fund’s stated investment objective. Prior to making your investment, you (together with your financial advisor) would have evaluated the portfolio manager’s ability to deliver on the fund’s mandate. A change in portfolio manager necessitates an evaluation of the new portfolio manager’s ability to continue to do so. In most instances, a portfolio manager is supported by a team of investment analysts. It is likely that these analysts play a significant role in the fund meeting its investment objective over time. Therefore, changes to the analyst team also necessitate the re-evaluation of the fund.
- Evidence of investment philosophy drift
When selecting a fund to assist you in meeting your long-term investment objectives, you may have done so based on the portfolio manager’s investment philosophy, for example value, growth or momentum-focused. It may be that after a period of underperformance because the investment style has been out of favour (value underperformance comes to mind over the past eight or so years), the portfolio manager starts to drift away from his stated investment philosophy. This style drift will likely result in the fund neither meeting its investment objective over time nor fulfilling the role for which you selected it. This should therefore trigger the re-evaluation of the fund.

1. Dalbar’s Quantitative Analysis of Investor Behaviour Study has been analysing investor returns since 1994 and has consistently found that the average investor earns much less than what market indices would suggest.

A fund such as the Ninety One Diversified Income Fund aims to participate when the bond market outperforms cash and protect when the bond market underperforms cash. As illustrated in Figure 1, the fund has been able to consistently deliver on its cash plus objective over time. It is this sort of consistency through various market regimes that is important when considering which funds to include in your portfolio, as you need to be confident that the fund will continue to behave as you expect into the future.

Figure 1: Ninety One Diversified Income Fund: average rolling 12-month excess returns over cash



Source: StatPro and Bloomberg. Returns are calculated on a true daily time-weighted basis net of fees. Periodic returns are geometrically linked. Data from 30 September 2010 to 30 June 2019.

Asset manager corporate action

Change in the ownership structure, particularly where the asset manager has been acquired by a third party can be very distracting for all staff, including investment professionals, if not managed correctly. Portfolio managers and investment analysts are only human, and a change in ownership could result in an inward focus. Independent, focused asset managers with significant staff ownership are well aligned to delivering on client expectations through time.

A better alternative emerges

While the fund selected may continue to meet its investment objective over time, it may be that a better alternative emerges. It is important then that financial advisors (and their support team / fund selection partner) continue to research the peer group. If an alternative fund consistently delivers better risk-adjusted returns, it may make sense to introduce this fund into your portfolio.

Value for money

It is important to ensure that you are sufficiently rewarded over the long term for the fee that you pay. A lower fee may not necessarily be an indicator of a better net return outcome. On the other hand, a higher fee needs to be scrutinised to ensure that you get value for money.

Luck rather than skill

When you made the initial investment your analysis suggested that the portfolio manager had a demonstrable skill. But over time it now appears that, for whatever reason, this outperformance proved to be because of luck not skill. A re-evaluation is warranted given that luck is not enduring through time.

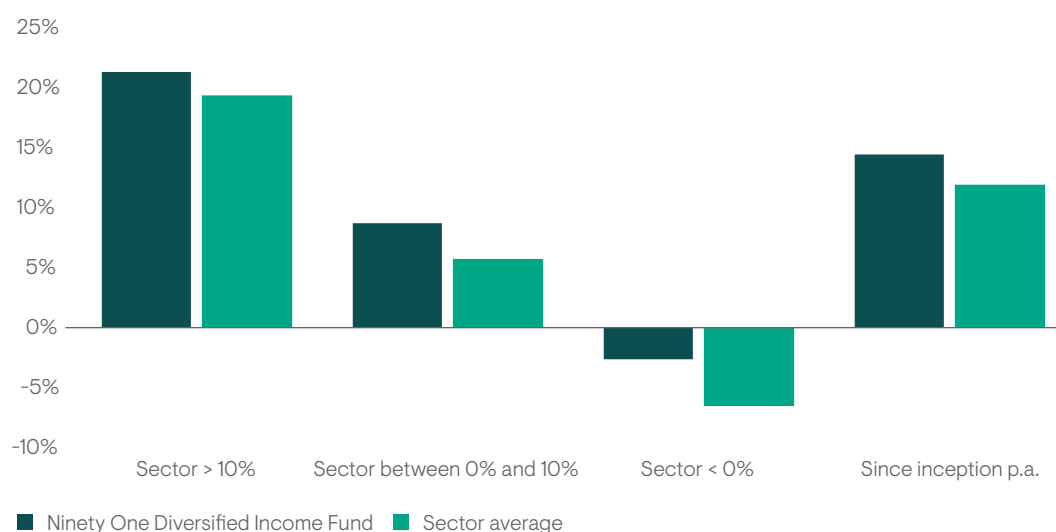
Material changes to the economic and investment environment

Over time economies are expansionary and investment markets deliver positive returns, but both may become over heated. At this point it may make sense to de-risk your portfolio by reducing exposure to high beta funds (funds that follow a momentum investment philosophy, for example) and

introducing more defensively-positioned funds (for example, funds that follow a quality investment philosophy). Unfortunately, timing such a move is extremely difficult and therefore it makes sense to include a defensively-managed fund to which you maintain exposure through the cycle.

While funds such as the Ninety One Cautious Managed, Opportunity or Global Franchise Funds meaningfully participate in strongly positive markets they demonstrate the true strength of the Quality team's approach in sideways-moving and negative markets. The result is that they outperform through the market cycle, as illustrated in the following graph of the Ninety One Opportunity Fund. This enduring performance signature has benefited long-term investors.

Figure 2: Ninety One Opportunity Fund – relative strength in sideways to down markets



*Data since May 2000. Source: Morningstar, dates to 30 June 2019, NAV based, inclusive of all annual management fees but excluding any initial charges, gross income reinvested, fees are not applicable to market indices, where funds have an international allocation this is subject to dividend withholding tax, in South African rand.

Conclusion

While this list is not exhaustive, it provides some warning signals that should trigger the re-evaluation of your current fund holdings. Importantly, any change should be carefully considered in the context of your overall investment objectives and any potential capital gains tax consequences, which we will consider in a follow-up article. Again, we would recommend that you consult with a qualified financial advisor.

Important information

All information provided is product related, and is not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information without appropriate professional advice after a thorough examination of a particular situation. This is not a recommendation to buy, sell or hold any particular security. Collective investment scheme funds are generally medium to long term investments and the manager, Ninety One Fund Managers SA (RF) (Proprietary) Ltd, gives no guarantee with respect to the capital or the return of the fund. Past performance is not necessarily a guide to future performance. The value of participatory interests (units) may go down as well as up. Funds are traded at ruling prices and can engage in borrowing and scrip lending. The fund may borrow up to 10% of its market value to bridge insufficient liquidity. A schedule of charges, fees and advisor fees is available on request from the manager which is registered under the Collective Investment Schemes Control Act. Additional advisor fees may be paid and if so, are subject to the relevant FAIS disclosure requirements. Performance shown is that of the fund and individual investor performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. There are different fee classes of units on the fund and the information presented is for the most expensive class. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Where the fund invests in the units of foreign collective investment schemes, these may levy additional charges which are included in the relevant Total Expense Ratio (TER). A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The ratio does not include transaction costs. The current TER cannot be regarded as an indication of the future TERs. Additional information on the funds may be obtained, free of charge, at www.ninetyone.com. The Manager, PO Box 1655, Cape Town, 8000, Tel: 0860 500 100. The scheme trustee is FirstRand Bank Limited, PO Box 7713, Johannesburg, 2000, Tel: (011) 282 1808. Ninety One SA (Pty) Ltd is an authorised financial services provider and a member of the Association for Savings and Investment SA (ASISA). A feeder fund is a fund that, apart from assets in liquid form, consists solely of units in a single fund of a collective investment scheme which levies its own charges which could then result in a higher fee structure for the feeder fund. The fund is a sub-fund in the Strategy Fund, 49 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, and is approved under the Collective Investment Schemes Control Act.

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