

FUND OF FUNDS FEES SMALL COMPARED TO ACTUAL GAINS

Managing costs in any portfolio is an integral part of managing wealth portfolios. This is, however, not the only benefit derived from investing in a multi-managed fund like our PSG Wealth Solutions.

Fund of funds (FoF) benefits

There are a range of advantages. These include:

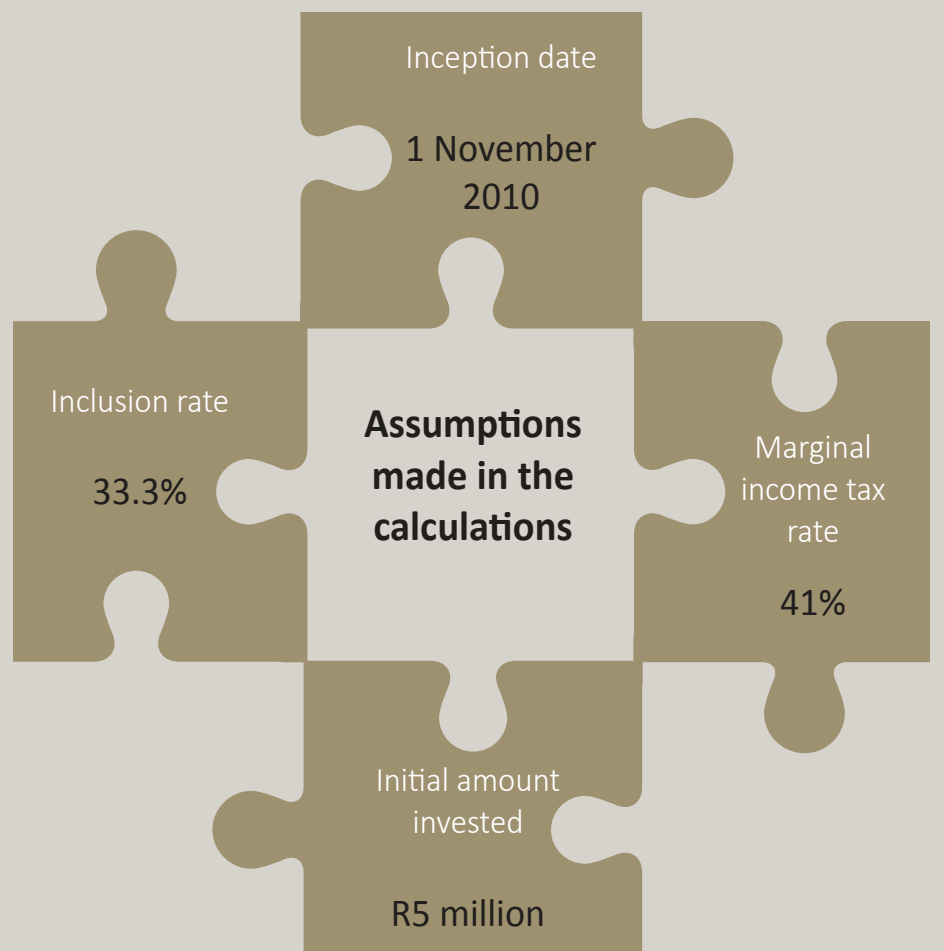
- A FoF manager is able to seamlessly switch underlying portfolios as the market dictates. This makes a FoF flexible.
- Most FoF negotiate rebates with the Collective Investment Scheme (CIS) they choose to invest in, which is passed on to the fund.
- Diversification across asset classes (cash, bonds, property, shares in multi-asset classes FoF across investment managers (with different investment styles, mandates and risk profiles).
- Diversification reduces volatility and may even increase returns.
- Can combine more than one FoF in a single product.
- Robust governance and processes undertaken by the multi-manager, including research, selection, risk management and due diligence.
- FoF are important 'watchdogs' to ensure proper downside protection.
- FoF managers can provide their investors with state-of-the-art reporting (nowadays increasingly available online) that reduces the administrative burden of the advisers.
- Ongoing monitoring and adaption of the portfolio to ensure optimal returns at reduced risk levels.

Measuring benefits other than cost savings

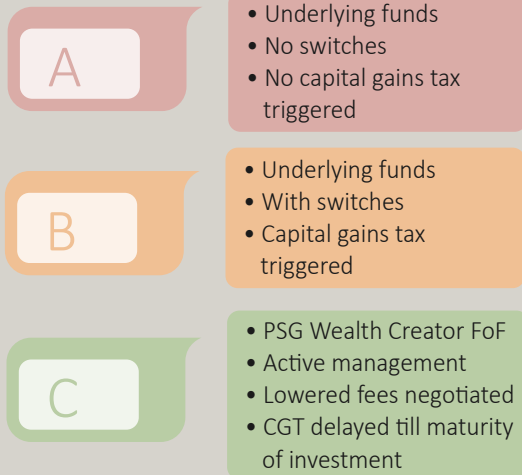
Measuring the benefits associated with the cost of products can be achieved quite easily, but how would one measure the effectiveness of the other benefits – risk management and only paying capital gains tax (CGT) after the investment period?

Using calculations to determine investors' capital gains tax, one can show what advantages (in capital growth) a prospective investor could gain when investing in for example the PSG Wealth Creator FoF, compared to investing solely in the underlying funds this solution consists of.

Our comparison considers other investors who try to avoid amongst others adviser's fees and decides to invest in the same underlying funds represented in the PSG Wealth Creator FoF and perform the same switches the fund manager makes on the FoF solution. In our example all three people invested R5 million over five years.



Impact of FoF investments



**CGT = capital gains tax

Source: PSG Wealth research and investment team calculations

What does this mean?

CGT usually gets triggered when an investor moves his money (switches) between funds before the life of the investment ends. In scenario B the investor paid R323 250.05 due to switches in underlying funds before the five-year-period. Due to growth he paid a further CGT of R343 194.52 at the end of the five years.

Effectively this means that investor B lost R228 527.91 due to higher management fees and the earlier realisation of CGT on switches. Investor A paid R575 790.12 in CGT at the end of the five-year period and lost growth on his initial capital amount of just under R900 000 (R872 899.59) due to higher fees and the absence of active portfolio management.

However, investor C who invested in the PSG Wealth Creator FoF benefitted from active portfolio management and lower agreed fees which enabled his initial capital investment to grow more vigorously than that of investors A and B.

From this scenario one can see that even though investor C paid more CGT after five years due to higher growth, his investment grew about a quarter of a million rand (R228 527.91) more than investor B, and almost R900 000 more than investor A.

The bottom line

So even though the fees associated with investing in FoF need to be taken into consideration, there are many other benefits that need to be taken into account. Seeing as fees are easy to explain, most people focus on them – perhaps too much. It is, however, important to illustrate the other benefits that multi-management solutions offer clients. Benefits that assist clients in achieving long-term wealth.