

WHILE the recent financial crisis left many investors dismayed it also resulted in two realisations; firstly there is an increasing awareness among investors of the value of the professional asset manager; and secondly the balanced fund has made a return to investor popularity.

"If we look at how investors have allocated money over the last five years we see they have added around R10-billion to equity unit trust funds compared to R121-billion to balanced or multi-asset unit trusts," says Pieter Koekemoer, head of the personal investments business at Coronation Fund Managers.

By way of explanation, he says investors increasingly understand that needs-based investing is a better way to arrange their affairs and to match a portfolio to the outcomes they are looking for.

Secondly, over the last decade-or-so there has been a growing professionalisation of the way financial advisors operate and are governed, which has made it clear that managing investments is a very separate activity from the financial

planning process, requiring its own skill-sets and support processes.

Koekemoer explains that balanced funds are investment portfolios that make use of the full range of asset classes and are managed with an understanding of the portfolio positioning in relation to market conditions and the underlying risks.

He says experts agree that asset allocation and diversification determines the portfolio performance in both the long and short term. However, while asset allocation has made a consistent positive contribution to total portfolio out-performance and risk reduction over the past 10 years, it involves complex decision making skills.

"The asset allocation decision is important and because the optimal position will change depending on market conditions, we believe it is important that skilled, professional portfolio managers make the decisions, which involve the consideration of a vast number of different alternatives.

"The asset allocation and

Value of balanced funds recognised

risk management decisions are complex and need to be timely. The asset manager is best placed to understand the portfolio positioning and to react quickly," says Koekemoer.

He says one of South Africans' main reasons for investing is to provide for their retirement.

"In that environment one starts with the assumption that it is unlikely the capital base can be replenished and the primary purpose is to provide income security to keep pace with the inflation rate and retain the purchasing power

throughout retirement.

"What balanced funds aimed at retired investors try to achieve is to balance the need for an immediate income with growth to allow the income to increase with inflation over time."

Koekemoer says the average balanced fund portfolio in the post-retirement environment produced a return of inflation plus three percent over the last five years while the best performing portfolios produced returns of inflation plus five-to-six percent.

He informs that Coronation's Balanced Plus Fund is

the number-one balanced fund in the country over the five-year period to end March, ranked by Morningstar.

Koekemoer says the top-performing Balanced Plus Fund is the ideal one-stop portfolio for pre-retirement savers.

"The fund aims to achieve the highest possible long-term return achievable within the constraints of the statutory investment restrictions for retirement savings. As it complies with the Pension Funds Act Regulation 28, it is suitable as the complete investment portfolio for investors in retirement annuities,

Pieter Koekemoer, head of the personal investments business at Coronation Fund Managers.



express our best investment view on the optimal combination of different assets that, in our opinion, will maximise long-term returns at a reasonable level of risk. The fund can invest in a wide variety of asset classes such as shares, conventional bonds, inflation-linked bonds, listed property and cash, both domestically and internationally.

"Because it is managed to achieve good long-term results, it will typically have a strong bias towards equities – typically the asset class with the highest expected long-term returns. Shares may never comprise more than 75 percent of the fund's portfolio, while exposure to foreign assets is currently limited to 25 percent," explains Koekemoer.

He says the recommended term for this investment is five years and longer. The fund has a moderate risk profile as it will at all times hold a variety of different types of assets. These assets will not always move (up or down) at the same time, making the fund less risky than a pure equity fund. Some of the assets, such as cash and bonds, produce re-

turns that are not as turbulent as shares can be.

"We combine active asset allocation with bottom-up stock selection. In determining the optimal blend of assets we look at the expected return, risk premium and correlations between the asset classes in which the fund is mandated to invest," says Koekemoer.

"We employ a common-sense, valuation driven process to investing in the equity market. This identifies mispriced assets trading at discounts or premiums to their long-term business values. These business values are determined using a longer-term outlook (five years) and assumptions which ignore influences that we consider temporary in nature. Within the fixed interest arena we actively combine a top-down and bottom-up approach.

"We have one of the most talented investment teams in the country with a key focus on original investment research.

"Our capacity includes experienced fixed income and quantitative research teams and a London-based international multi-management team," concludes Koekemoer.

preservation funds, pension funds and provident funds."

He says Balanced Plus has a moderate risk profile and is suitable for investors:

- Building up long-term retirement capital;
- Requiring a moderate capital growth portfolio;
- Looking to preserve the purchasing power of their capital over the long term, but not prepared to accept the short term turbulence of the equity market; and,
- With a time horizon of five years or longer.

"In managing the fund we