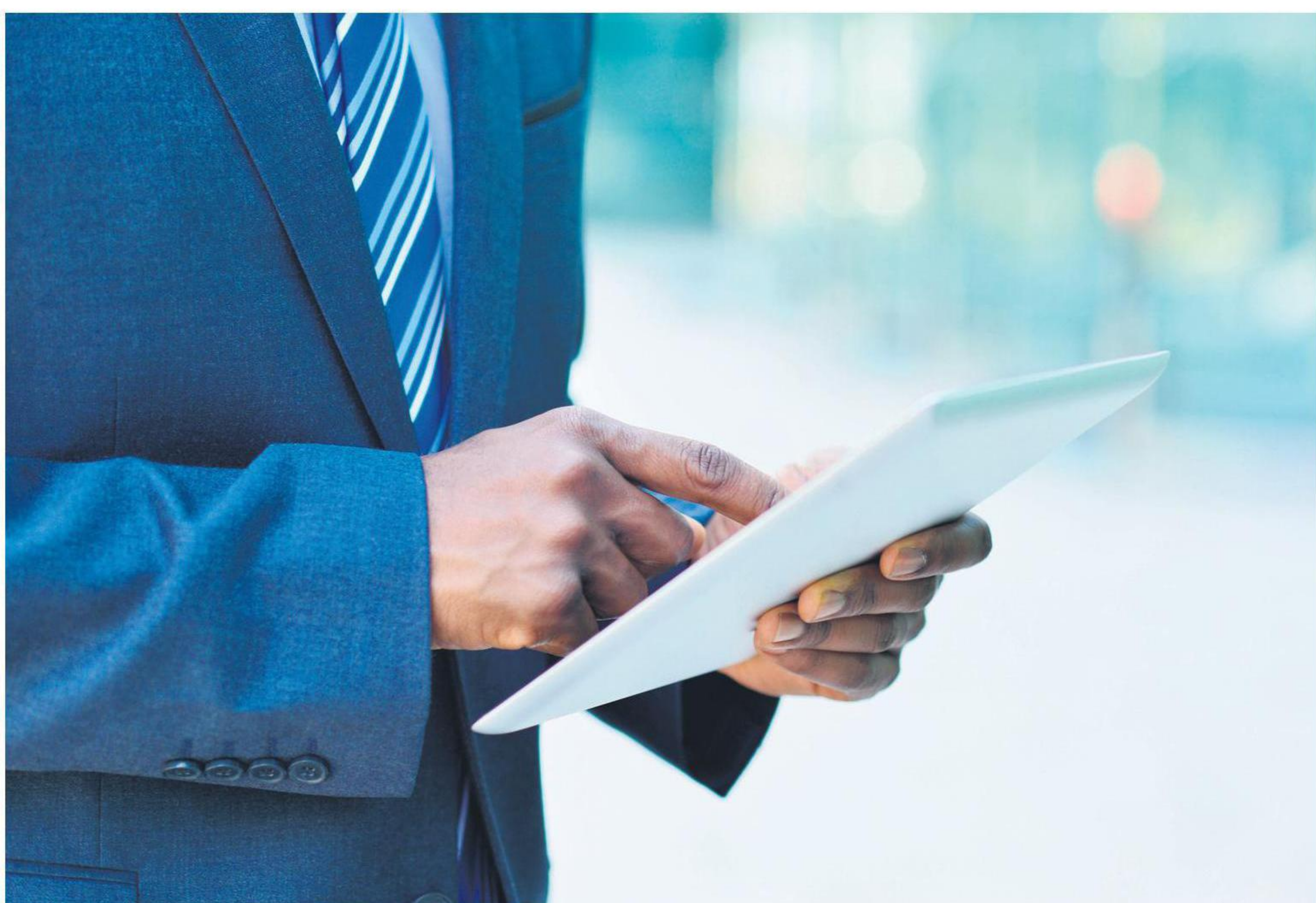




KEY FOCUS. Choosing the right manager has significant financial consequences, as it can impact the portfolio's ability to reach desired outcomes. Picture: AdobeStock

Benchmark for right manager

INVESTMENT: BEYOND EVALUATING PAST RETURNS

➤ **It's not a one-size-fits-all exercise – all the factors must be assessed.**

Marise Reinach

Investment management is a crucial component in achieving long-term financial goals. However, most investors do not directly hold securities but instead rely on intermediaries, such as pooled investment vehicles or separately managed accounts. These intermediaries entrust the services of professional investment managers who work to help investors meet their objectives.

This article will delve into how investment manager selection takes place in the context of an investor's personal needs.

The role of investment managers

Investment managers serve as intermediaries for investors who typically do not manage their own portfolios. Whether the manager operates within a hedge fund, private equity firm, or unit trust, their primary role is to make informed investment decisions on behalf of their clients to meet specified objectives. The selection of the right manager, therefore, has significant financial consequences.

However, selecting a manager is not a one-size-fits-all exercise. Investors have varying assumptions, preferences, and biases regarding their investments.

A key part of this evaluation is understanding the investor's liquidity needs, time horizon, tax considerations, legal factors, and any unique circumstances.

Determining the right benchmark

A crucial first step in selecting a manager is establishing an appropriate benchmark for comparison. The benchmark is typically aligned with the investor's asset allocation – whether equities, fixed income, or other asset classes – and serves as a reference point for the investor's return re-

quirements and risk tolerance.

Advisors begin the process by understanding the client's needs, which guide the selection criteria for potential managers. The goal is not simply to identify managers with the highest returns but to find those whose investment strategies align with the investor's objectives, timeframe, and risk tolerance.

Active vs passive management

One key decision investors and advisors must make is between active and passive management. Active managers seek to outperform a given benchmark by employing strategies to identify and exploit market inefficiencies. On the other hand, passive managers aim to replicate the performance of a market index with minimal costs.

The choice between these two strategies is influenced by the investor's outlook on market efficiency and the level of risk they are willing to assume. Those who believe markets are generally efficient may opt for a passive strategy, focusing on cost efficiency and broad market exposure.

Evaluating the manager's suitability

Once a benchmark is identified, advisors need to assess the managers based on their investment philosophy and ability to fit the investor's needs. This evaluation goes beyond just historical performance.

Key areas to evaluate include:

► **Risk management:** Can the manager effectively balance risk and reward? An investor's risk tolerance must be matched with a manager who understands how to control risks in varying market conditions.

► **Portfolio structure:** Does the manager's portfolio construction reflect the investor's goals? A diversified portfolio that considers both asset class and risk factor exposures is critical.

These evaluations aim to ensure that the manager can provide consistent, long-term value aligned with the investor's objectives.

► *Reinach is a certified financial planner at Brenthurst Wealth*