The changes in Regulation 28 allowing investors to invest up to 25% of its assets with offshore investment managers and an additional 5% in African investments (excluding South Africa) has placed a renewed focus on offshore investment strategy and investment manager selection.

Outperforming the markets after fees consistently is not an easy task but it is possible and has been achieved by a select few investment managers. It is therefore crucial for investors to identify the handful of truly exceptional offshore investment managers for potential inclusion in their offshore investment strategy.

Many investors argue that because the markets are so difficult to outperform it is better to save costs and limit the potential for underperformance by following a passive investment strategy aimed at tracking the performance of the markets.

Although there is more than enough evidence to support a passive investment management approach there is also evidence that truly exceptional investment managers can beat the market which is an argument in favour of an active investment management strategy.

**HOW GRAYSWAN DOES IT**

GraySwan conducts monthly investment manager peer group surveys on a universe of global equity funds. We call these ScoreCards and they encapsulate more than 30 pages of various quantitative ratios to assess any investment manager’s skill. Our offshore ScoreCards range from Global Equity Funds to specialist Emerging Market Funds to Africa ex-South Africa Funds to regional specific funds such as China only Funds.

Funds that are eligible for inclusion in our offshore ScoreCards must meet at least one of the following criteria:

- must be approved by the Financial Services Board (FSB);
- the investment manager must have some presence in South Africa (i.e. a physical presence or a working relationship with a local provider) or are currently managing local client assets;
- have at least a one year track record and
- $100 million of assets under management.
GLOBAL EQUITY FUNDS

Academic research suggests that 85% of investment managers have and will continue to underperform the overall market. This is as a result of an active investment manager having to overcome the drag of 2% or more on annual operating costs. The problem is not that investment management is not done well, the problem is it is done well and by many and collectively they become the market.

WE TESTED THE ACADEMIC RESEARCH

We use our peer group investment manager ScoreCards as well as other quantitative techniques to filter the universe of investment managers to a select few which we believe should be assessed from a qualitative and operational due diligence perspective.

After filtering our global database of Global Equity Funds with the above mentioned criteria we are left with a universe of 44 Global Equity Funds which we analysed via our Global Equity Fund ScoreCard.

The performance (after fees) of each of the Global Equity Funds in this universe was compared against the MSCI World Index (only developed markets) and the MSCI All Country World Index (which includes developed and emerging markets).

THE RESULTS

The 3-year statistics of the surveyed Global Equity Funds (after fees) indicates the following:

- Of the 44 Global Equity Funds shortlisted, 42 Funds have track records in excess of 3 years.
- 15 of the 42 Global Equity Funds (36% of the Funds) have outperformed the MSCI World Index or MSCI All Country World Index over the past 3 years.

The 5-year statistics of the surveyed Global Equity Funds (after fees) indicates the following:

- Of the 44 Global Equity Funds shortlisted, 41 Funds have track records in excess of 5 years.
- 19 of the 41 Global Equity Funds (46% of the Funds) have outperformed the MSCI World Index or the MSCI All Country World Index over the past 5 years.

The 8-year statistics of the surveyed Global Equity Funds (after fees) indicates the following:

- Of the 44 global equity funds surveyed, 33 Funds have track records of 8 years or longer.
- Only 11 of the 33 Global Equity Funds (33% of the Funds) have outperformed the MSCI World Index or the MSCI All Country World Index over the past 8 years.

“An investment in knowledge pays the best interest.”

- Benjamin Franklin
SUMMARY

Outperforming Global Equity benchmarks after fees consistently is not an easy task but it is possible and has been achieved by some. Whilst academic research suggest that only 15% of actively managed funds outperform the markets, our research suggest that the universe which are available to South African investors, has yielded better results and approximately a third of actively managed Funds can outperform the market.

Therefore, we believe that there is a place for both passive and active offshore investment management in portfolio construction. Opportunities exist everywhere for those who are prepared to look and some investment managers do have the skills to outperform the markets.

GRAYSWAN’S APPROACH

We offer our clients a highly experienced and stable team which have over two decades of investment manager research experience. We have gained our competitive edge not only from our wealth of investment consulting experience where we advised to most of the largest institutional investors in South Africa but also from our offshore investment management backgrounds.

We believe our unique investment manager research techniques and process allow us to identify truly exceptional investment managers for potential inclusion in our clients’ offshore investment strategy.

We focus our investment manager research and selection process on in-depth qualitative, quantitative and operational research and on-site due diligence in order to guide you to select the optimal blend of passive and active investment managers that will lead to superior risk adjusted performance.

MORE INFORMATION

If you have any questions regarding our financial advisory and wealth management services, please contact us today.
UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

The core of our financial advisory and wealth management team has been working together for more than a decade. Our collective investment experience exceeds a 110 years of advising to and managing investors’ assets in South Africa. Since the inception of GraySwan we have not lost any financial advisors making us one of the most stable and experienced wealth management teams in the industry.

---

DUNCAN THERON
Chief Executive Officer
Financial Advisor
duncan@grayswan.co.za

TANIA THERON
Head of GraySwan Wealth
Financial Advisor
tania@grayswan.co.za

MART-MARIE DE JONGH
Head of Financial Planning
Financial Advisor
martmarie@grayswan.co.za

GREGOIRE THERON
Head of Manager Research
Financial Advisor
greg@grayswan.co.za

DAVID MAETLA
Head of PeerGroup Surveys
Financial Advisor
david@grayswan.co.za

KOBUS FOUCHE
Head of Reporting
Financial Advisor
kobus@grayswan.co.za

---

www.grayswan.co.za   l   021 852 9092 (CT)   l   011 431 0141 (JHB)