

The local need for truly global investment expertise

The need for truly global investment expertise to support the local advice industry is more pressing than ever, but why?

In August last year, Discovery Group announced the launch of Cogence, South Africa's first truly global discretionary fund manager (DFM), with the ambition of significantly enhancing the business of wealth creation in the country.

Discovery CEO Adrian Gore contextualised the rationale for the new business by describing two key trends that are fundamentally transforming the global, and local, investment industry.

Firstly, investors need – and have been afforded – greater global reach. However, the global investment landscape is becoming ever more vast, complex, sophisticated, and volatile.

Secondly, the global shift to defined-contribution retirement schemes means that the investment, as well as behavioural and longevity risk, associated with long-term investing has been transferred almost entirely to the individual.

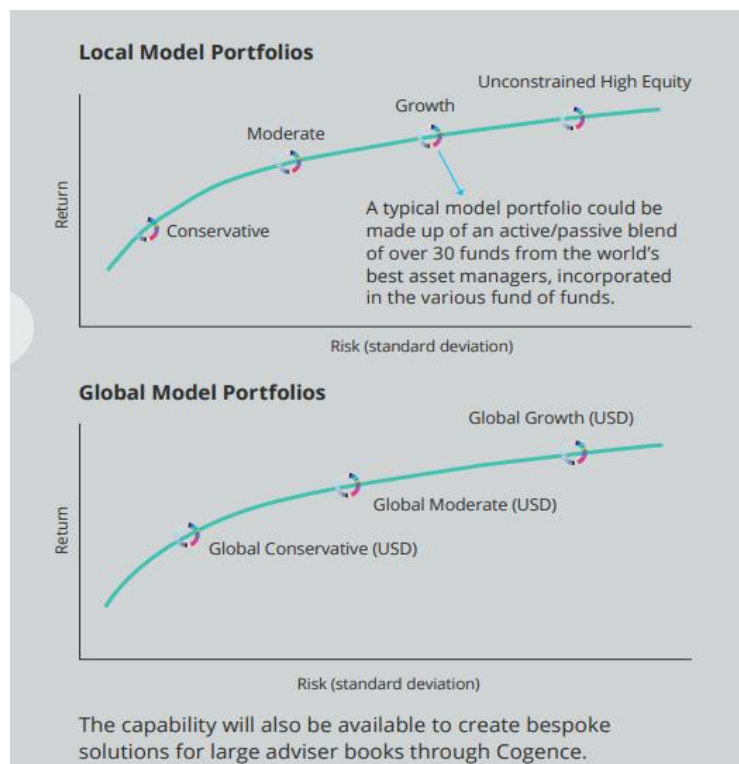
“Together, these trends create gaps in the local DFM market, necessitating a ‘step up’ in the burgeoning advice industry,” says Gore.

To best equip financial advisers and their clients to take advantage of the immense world of opportunity that comes with offshore investing, the local savings industry stands to benefit from truly global asset management expertise.

What's all this global investment interest, anyway?

While there are numerous reasons why individual investors might want to gain access to global markets, it ultimately boils down to diversification.

By diversifying a portfolio with an appropriate mix of assets, it is possible to maximise expected returns for a given level of risk.



Naturally, the wider the choice of assets, funds, management styles, markets, geographies, sectors and so forth available to construct a diversified portfolio, the better the theoretical risk/return balance.

With South Africa's market representing only 1% of the global equity market, it's easy to see that constructing a portfolio of purely local assets bucks the logic of diversification by limiting choice.

In fact, the logic for global diversification holds true, no matter where in the world you might call home.

Beyond optimising for risk and return, investing globally further provides investors with access to promising industries and themes that have little or no representation in the local market.

Think big tech, healthcare, or automobiles.

With the offshore limit under Regulation 28 of the Pension Funds Act having been relaxed to 45%, local investors are afforded an unprecedented opportunity to take advantage of all the world has to offer.

Says Gore, “No matter how you look at it, a rational investor would want exposure to global markets.”

Why the need for a ‘truly global’ DFM?

Discretionary fund managers assist financial advisers in enhancing the investment outcomes for their clients. In part, they achieve this by performing, or advising, on the strategic and tactical asset allocation required to construct diversified portfolios tailored to the individual risk tolerance and circumstance of the investor.

Gore says that while the rapidly growing DFM industry offers some investment choice, control, local advice, reporting and modern technology – there is a “need for change”.

The sheer scale of global markets suggests that for any local business to keep fully abreast of the fund and asset choices available abroad would be a daunting, if not impossible, task.

While it is possible for a local firm to monitor local opportunities – the local partner to Cogence, RisCura, conducts research on every asset manager in the country to inform its local manager allocations in the Cogence model portfolios – this scale explodes by orders of magnitude when looking abroad. Moreover, global markets are volatile and growing increasingly complex due to the rise of alternative asset classes such as private credit and equity and hedge funds.

There are few companies in the world that have the analytic capabilities and global presence required to carry out the research to develop a comprehensive understanding of the risks and opportunities that exist in such a vast, volatile, and sophisticated investment universe.

While some local DFMs have a global footprint, none previously have had a full global reach.

It is for this reason that Cogence brought the global model portfolio asset allocation advice of BlackRock, one of the world’s leading asset managers, along with its leading investment and risk management technology platform, Aladdin Wealth™, to the service of South African advisers.

As a truly global asset manager, BlackRock in September 2022 counted the expertise of over 2,600 investment professionals focused on research, portfolio management and trading from its offices in more than 35 countries to administer more than USD 8,5 trillion assets.

That is over 45 times the assets under administration of the entire South African unit trust industry.

“Cogence will leverage off the full scale of BlackRock’s investment research and global expertise, which is essential in such a complex world,” says Kenny Rabson, Discovery Invest CEO.

“BlackRock is uniquely positioned to help clients navigate this complex global environment and evolve client portfolios to aim to maximise the success of future outcomes,” believes Rabson.

To find out more about how Cogence can help take your business to the next level, follow us on LinkedIn: <https://www.linkedin.com/company/cogencesa/about/>