THE POWER OF **BALANCE**

Momentum Investment Consulting has rebranded with a new look and a brand-new name: Equilibrium. *Blue Chip* speaks to Florbela Yates, Head of Equilibrium, about the evolution of the discretionary fund manager.

Florbela, why are you rebranding? And why the name Equilibrium? The definition of equilibrium is "a state in which two opposing forces or influences come together to achieve a state of balance". Equilibrium is all about balance, two sides of the equation, and we feel that this encompasses what we stand for as a business.

Our business has always been about balance:

- Balancing the ability to scale our business by getting assets into our standard portfolios with the advisors requiring more bespoke portfolios aligned to their advice process.
- The balance between creating efficiencies in advice practices and producing simplified investment reports, while providing sufficient detail that our reports meet our internal governance standards.
- Balance between understanding which areas of our investment process we can adapt to be more client-centric and which absolutely need to be standardised.

As the business has evolved, our ability to balance the different elements has improved. Our business has grown significantly over the past five years and particularly the last two. We have built a sizeable and credible business and it seemed an appropriate time to rebrand to a name that better reflects our independence as a market-leading discretionary fund manager (DFM), while giving advisors the comfort that we're owned by one of the top five financial services companies.

At Equilibrium, we remain committed to supporting the financial advisor, so that they can do what really matters: building their business and spending more time with their clients. Our unique advice-led model portfolios are designed to be efficient and optimised through market cycles, so clients can stay invested and achieve their investment goals.

And importantly, finding the balance between building our own business while realising that we are only successful if the financial advisors build theirs.

As a business, Momentum has always believed in the value of partnerships. How does this translate to financial advisors?
Human collaboration. Equilibrium has a different human approach to collaboration and the establishing of long-term reciprocal relationships. The success of our business rests on the success of the financial advisor. Our model portfolios don't need to work for us – they need to work for advisors and their clients.

Efficiencies. Without exception, advisors tell us how much more time they are spending on reporting and compliance. The volume of new legislation and complexity in reporting and disclosures mean they have less time with clients, and this has only been exacerbated by the volatility and uncertainty in investment markets. We align various administrative processes that lead to operational efficiencies, thereby saving advisors time and money. The use of our Category II licence also unlocks other administrative efficiencies such as the ability to do "bulk-switches" across all investors in a particular portfolio simultaneously, doing away with the need for advisors to get each client to sign a switch form. This saves them a tremendous amount of time.

Investment management. We are an extension of a financial advisor's practice. A team of experts focused on knowing the advisor, understanding their needs and delivering solutions that help build their business.

Our understanding of both the investment management industry and the financial advice process allows us to narrow the gap between investments and advice. When an advisor partners with Equilibrium, we spend time understanding their process and which outcomes they are solving for. We can then make sure that the benchmarks are not arbitrary but rather that they align to the advice process and the outcomes that the advisor is trying to solve for.

How are these outcomes reached? Portfolios are constructed to ensure the best chance of reaching these outcomes. A financial advisor doesn't need to spend time worrying about which asset classes or funds to invest in, about timing the market or the continuously changing regulatory environment, but they can rather focus on their practice and giving the best advice to their clients.

How are your portfolios constructed? Our portfolios are constructed and managed using a three-tier approach: we determine the acceptable time horizon and acceptable level of risk, and then use these to deduce a reasonable return target.

Our portfolio construction process attains equilibrium using three main steps:

Firstly, we determine the optimal strategic asset allocation – blending the right asset classes for the optimal risk management process. Then, we use the optimal combination of investment styles, using the most appropriate investment strategies to ensure consistent returns in dynamic market conditions and enhance our probability of achieving the benchmark or outcome.

Our final step is to identify the optimal blend of managers or mandates to execute on the above.

And we look at the result at the total portfolio level. Understanding what each mandate brings to the whole portfolio makes it easier to ensure true diversification and avoids concentration in certain areas. It also allows us the flexibility to offer clients who need it a more bespoke solution without compromising the first two steps in the process.

How do you ensure that clients stay invested? By setting the acceptable levels of risk or acceptable levels of drawdowns, together with advisors, we build portfolios that make it easier for clients to stay invested through the cycle. And we don't stop engaging once we've constructed the portfolios. We engage with advisors regularly to ensure that our clients understand the drivers of historical returns but also have reasonable expectations of future returns.

We believe this is one of the key reasons that clients have remained invested even during periods of increased volatility and market drawdowns, and why clients in the Equilibrium portfolios have had a lower behaviour tax impact.

What about risks and returns? At Equilibrium, we set the acceptable levels of risk, or the acceptable negative returns, together with financial advisors to reduce the impact of any behaviour tax on clients' investments.

We also engage regularly with the advisors using our portfolios in their advice process so that everyone is up to date with the drivers of historic returns, and we ensure that their expectations of forward returns are reasonable.

How did Covid-19 affect business? We recently did an in-depth analysis of investor behaviour across clients invested on the Momentum Wealth Platform. Not surprisingly, 2021 was a year of record engagement between investors and their savings. The analysis revealed:

- A total of 27 994 switches with an average switch amount of R169 316.
- The range of under/outperformance was particularly wide (between -10% per year and 210% per year).

We then went even deeper to try to understand the impact of these 27 994 switches on actual client outcomes. The reality is that clients investing to meet a R1-million liability (or goal) in five years could have missed the goal by R390 000 purely due to continuously chasing returns and switching between investments. But those that remained invested in a CPI+5% outcome portfolio, reduced the range of returns to between -3% to 6%. So even in a particular difficult year for clients, they would have still done better and only missed the goal by R145 000. Managing the downside risk and drawdowns, instead of focusing only on chasing performance, can reduce this behaviour tax even further.

Please speak to us about split-funding. Most advisors believe that by split-funding, they are building diversified portfolios. But if the assets are being split-funded across managers with similar philosophies, size and other biases, one could actually be increasing the concentration risk in a portfolio.

While split-funding on its own can lead to more concentrated portfolios, diversification at portfolio level requires a full look-through analysis into:

- Asset classes
- Investment styles per asset class
- Investment manager execution and an understanding of multiple factors, including:
  - Cap biases
  - Segment biases
  - Portfolio turnover
  - Style factors and how these change through time
  - Any existing overlaps between the managers

What about fees? The truth is that fees detract from returns. The higher the fee you pay, the lower the real return you receive after fees. That's why at Equilibrium we follow two basic principles:

The first is that we adhere to the treat customers fairly (TCF) principles. We construct from an investment perspective – not a marketing angle. Our DFM fee is applied equally across similar types of portfolios on a cost-plus basis. This means that we never compromise on an investment decision based on fees. The second is that we continuously review the fees to make sure that we remain competitive and that where we can negotiate preferential fees, we pass these entirely on to clients.

The result is that clients benefit does from our relationships with managers, and we are aligned. As our assets grow, so does our ability to access better fees. All clients benefit, irrespective of how much they invest. ■

Florbela Yates, Head of Equilibrium

For more information visit, eqinvest.co.za.

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