It’s crunch time for active fund managers

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The showdown has arrived for active funds management. Just last week DMP Asset Management merged with the highly regarded boutique funds manager, SGHiscock. Separately, JCP Investment Partners announced it would shut down its operations and return funds to investors. Meanwhile, Janus Henderson announced it would close its Australian equity funds.

What surprised me in Janus Henderson and JCP was how highly their strategies and investment teams were regarded.

Other funds announcing the closure of domestic Australian equity mandates in recent years were Colonial First State’s Global Asset Management “Core” Team, Altair Asset Management, AMP Capital Active Equities, Arnhem Investment Management and UBS Asset Management partnering with Yarra Capital for Australian equities. It’s an enormous rationalisation of a sector: Here’s why

● Industry funds bringing mandates in house.

Over the past two years we have seen major industry funds take the decision to bring mandates in house. This is most prevalent in Australian equities. It is not just happening in large-cap equities.

● The cost of running a funds management operation.

There has been huge growth in boutique funds management operations in the last two to three years. Many have set up under the incubator model such as the operations at the Steve Tucker-led Prodigy Investment Partners or the 28-year-old Pinnacle Financial and Investment Services. These arrangements allow an investment team to focus on research and portfolio management efforts.

● Rise of passive investing.

Deloitte’s 2019 investment management outlook of October 2018 reported that globally 16 of the top 20 funds by net flows were passive mutual funds and exchange-traded funds (ETFs) garnering $143 billion.

● Compression of fees.

While I have called for a cut in management expense ratios in the domestic equity market for nearly three years, and we have experienced this in international equities, we have only recently seen domestic managers coming to the party in this area.

● Asset allocation.

For nearly 10 years, investors have appreciated why asset allocation and international equities are crucial for providing growth in portfolio construction, and hence a reduction in domestic Australian equity weightings.

With Labor likely to form a government in May and potential changes to franking credits, the shift away from domestic equities towards international equities will continue. While many fund managers realise the disparity between global and domestic equities, there are those with heads in the sand.

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