Seed – Not Your Average Multi-Manager

Beyond traditional Fund of Funds, Seed Investments employs a versatile array of investment vehicles to access diverse markets, optimize returns and shedding light on our strategies and the evolving landscape.

In this article Mike Browne, Seed Portfolio Manager will explore the distinctive approach of Seed Investments, shedding light on our strategies and the evolving landscape of multi-management in the investment industry.

Unveiling Seed Investments - Pioneers in Multi-Management Strategies

When I get asked about my line of work, my first response is that I work in the investment industry. On further probing I'll say that I'm a portfolio manager at a boutique multi-management company called Seed Investments. The word 'multi-management' often evokes a raised eyebrow and an enquiry as to what exactly a multi-manager does. The simple answer is that I manage Fund of Funds (FoF) and research and build portfolios of investment managers rather than companies.

While this is a satisfactory response to the layman, at Seed Investments, we are a lot more than FoF managers. At our core we are multi managers, but when we construct our unit trusts we don't just limit ourselves to using other unit trusts as building blocks. We're firmly of the view that there are many ways to access the intellectual capital of other asset managers, and for each investment we'll determine the best way to access it.

Unit Trust Funds

We don't like to limit ourselves to using only **Unit Trusts**, but they typically form the major component of our Funds as they are efficient investment vehicles with many advantages. Unit Trusts pool a range of investors into one vehicle and provide daily liquidity for investors to invest or disinvest as and when they want. There are economies of scale that are achieved through the management of unit trusts and smaller investors, in particular, are able to build diversified portfolios by using Unit Trusts.

Segregated Account

When we have a high degree of confidence in a manager/investment strategy and where that strategy is a material component of our Fund (typically more than 10%) we might look to invest via a **Segregated Account**. The easiest way to think of a segregated account is that it is a Unit Trust for one investor – in this case one of our Funds. Segregated Accounts can sometimes be cheaper than Unit Trusts as there is one less layer of administration and there is also greater transparency with the investment. On the negative side, it can take a while to set up the necessary agreements and accounts to have a Segregated Account – hence why we typically reserve them for managers we expect to hold in our Funds for years ahead.

Exchange Traded Funds

Exchange Traded Funds (**ETFs**) are pooled vehicles, like Unit Trusts, with the key difference being that they are listed on stock exchanges. Liquidity is available throughout the day (rather than just once a day as is the case with Unit Trusts) but investors need to be aware of the bid/ask spread and broker commission when investing into ETFs. We typically use ETFs to gain cheap exposure to specific markets/indices. Across the Seed Funds, we have ETF exposure to US treasuries, US equities, gold and global smart beta (factor-based investing).

Other Trusts

There are **Other Trusts** that pool investor assets and provide investors with diversified access to assets that might not otherwise be investable. In our Funds we have access to closed end trusts and business friendly trusts that allow us to get exposure to private equity, clean energy and other infrastructure opportunities. Again, these vehicles have their pros and cons, and each investment is made only once an assessment is made of the various pros and cons of that specific vehicle and what the potential alternatives are.

Direct Securities

Our Funds also allow us to invest into **Direct Securities** (for instance, listed instruments be they equities, bonds or cash). While we typically wouldn't look to do this as a matter of course, there may be reasons for it. If the opportunity for active managers to add significant alpha is absent, and the cost of active and passive alternatives is prohibitive, then we can and will look to access vanilla exposure to a specific asset class directly.

Structured Notes

Finally, we can invest into **Structured Notes**. Structured Notes don't neatly fall into the basket of your typical multi-manager, but we see them as a way to add an element of asymmetry to our returns (more upside than downside participation). Structured Notes are generally linked to the performance of an index, or a basket of indices, so there are certain similarities in terms of how we assess them when compared to assessing an ETF that tracks the same index. Notes do bring with them a level of illiquidity when compared to some of our other investments and there is always the credit risk of the issuer to consider. However, when all is said and done, these risks are included in the assessment on whether including a note will contribute to, or detract from, the Fund. We will only look to invest in them when there are clear net positives to investing.

Next week I will take a closer look at the allocation to different investments vehicles within our Unit Trusts. I will also drill down a bit more into the less understood world of Structured Notes and how they fit into our Funds.

Mike Browne *CFA*
Portfolio Manager

The Seed team looks forward to assisting you on your investment journey. Do not hesitate to take full advantage of our expertise by emailing any questions to investmentteam@seedinvestments.co.za.

On behalf of myself and the team, take care.
