The Invisible Contract: Why Consistency Matters

Over the past few weeks, South Africans have found themselves in a national debate - about breakfast cereal. ProNutro, a staple in local households for decades, was reformulated by its manufacturer, PepsiCo. The updated version, positioned as a healthier, "new generation" product, introduced changes to sugar content, texture, and most noticeably, taste. What followed was immediate consumer backlash.

For many, ProNutro is more than just a cereal. It is part of a daily rhythm. From rushed weekday mornings to late-night convenience and a familiar pantry staple, it has become a consistent presence across generations. That familiarity carries an expectation: that the product will remain consistent. When that expectation was disrupted, the reaction was not just about taste, but about trust. While the packaging did signal a change, many consumers felt it wasn't quite enough. The issue wasn't just the reformulation itself, but how it was introduced. Most would have preferred a bit more warning, and perhaps even the opportunity to give input, rather than feeling as though a decision had simply been made for them.

Operationally, the reformulation is reported to have been driven by practical necessity; ageing infrastructure and unreliable equipment that would inevitably force change. But consumers weren't responding to the reasoning, they were responding to the result. The product they trusted no longer felt the same. And that is the point: when trust is built on consistency, even a well-intentioned change can feel like a breach. This disconnect highlights something deeper: the importance of what can be thought of as an invisible contract.

In manager research, we spend considerable time understanding a fund manager's philosophy, process, and people. But what we are really building, beneath all of that, is a picture of what a manager will do when conditions are difficult and the temptation to deviate is real. This is the invisible contract: the reasonable expectation, built over time, that a manager will behave in the future in a manner consistent with how they have behaved in the past. Like ProNutro, most managers do not set out to break this contract. Yet it can happen gradually and without any single obvious trigger. A key portfolio manager departs. Ownership changes hands. A strategy begins to chase performance. All can alter the way decisions are made within a strategy while the label remains unchanged. The role of manager research is to identify these changes early before they are reflected in performance.

When Seed selects a manager, we are not simply buying past performance. We are making a considered judgement that the team, the philosophy, and the process that generated those returns remain intact. This is not a judgement we make once. It is one we revisit continuously. Manager research is not an event; it is a relationship. And like any relationship built on trust, it requires consistent behaviour from both sides over time. The firms that have endured in South Africa's asset management industry have understood this. Their clients stayed not simply because of strong returns, but because those returns were delivered in a manner that was consistent with what had been communicated.

Kirsten Campbell *B.Com*

Investment Analyst

If you have any questions, Kirsten and our team would love to hear from you on investmentteam@seedinvestments.co.za.