PRUDENTIAL **INSIGHTS**

Pieter Hugo
MD Prudential Unit Trusts

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Investing is all about returns after fees

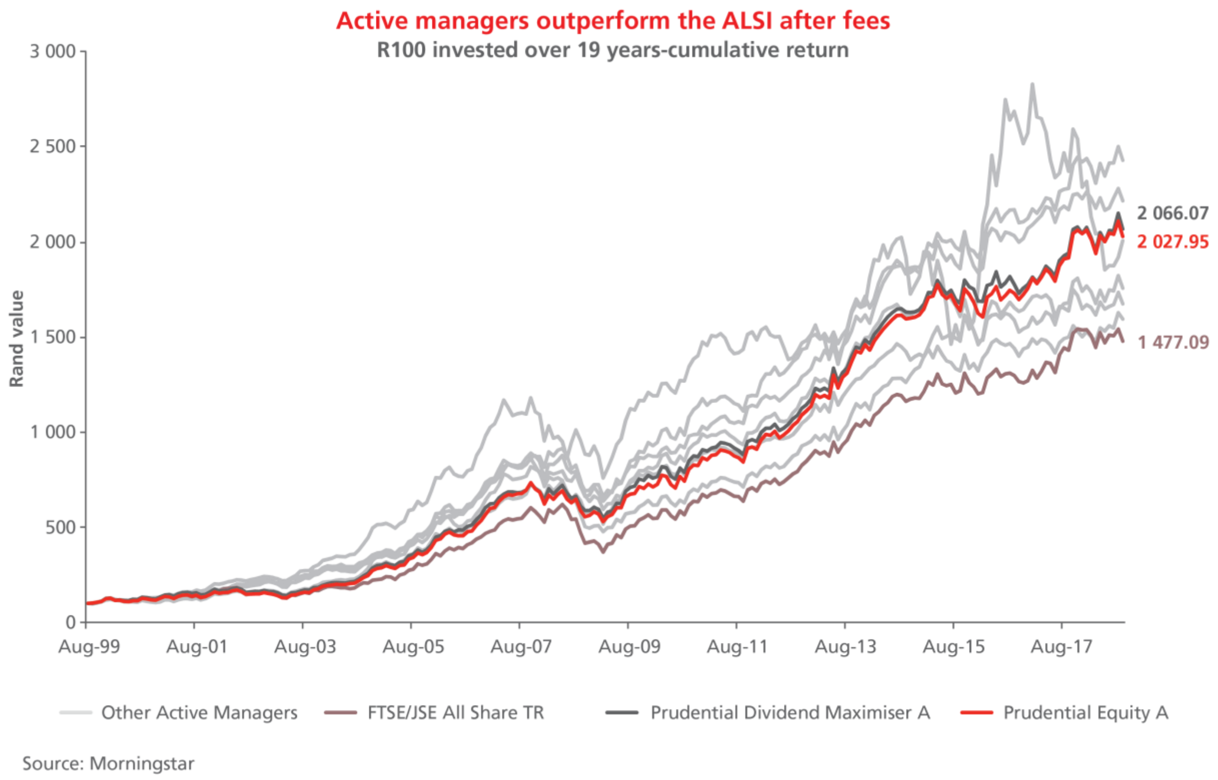
When you're investing, the absolute fee level you pay is an important consideration, and becomes even more so in a lower-return environment, as has been the case recently. However, beware of focusing solely on fees – investors shouldn't lose sight of the fact that the ultimate return you receive from your investments is much more dependent on overall investment performance than on the fees you are charged. A lower fee does not guarantee you superior after-fee returns. This, after all, is what matters in the end.

Generally it is true that actively managed funds are more expensive than their passive counterparts, largely because they charge for research and portfolio construction which doesn't exist for passive funds. However, we have seen a marked decline in active management fees in the last few years. According to Morningstar, the average total expense ratio (TER) of ASISA General Equity unit trusts is now 1.5% p.a. Additionally, most retail assets under management have shifted to discounted classes (or "clean" classes) of these funds on LISP platforms, where the average fee level tends to be roughly 0.4% lower.

Today's "passive" commentators stress how a certain number of active unit trust funds in South Africa are underperforming the equity market; meanwhile they selectively choose a uniquely created or obscure equity index against which to measure that performance. What they are ignoring (perhaps conveniently) is the broader picture of total assets under management (AUM) in equity funds across the unit trust industry. South African investors know what they are doing, so give them credit: they are voting with their money and consistently placing their assets with those active managers who do outperform their funds' benchmarks over the long term.

Here's the proof. If you look at the total AUM in all SA retail equity unit trusts (represented by the ASISA General Equity category), an analysis shows that a relatively high percentage of assets outperform their benchmarks after fees over five years, an appropriate period for measuring equity performance. Taking the top seven largest funds in the category aggregated with Prudential's equity funds as a sample representing over 50% of the total value of assets in the category, 78% of these nine funds outperformed their own benchmarks after fees over five years to 31 July 2018. This clearly highlights that active managers in South Africa do add value to clients above their fund benchmarks on an after-fee basis.

Prudential's active equity funds in the category, meanwhile, have outperformed not only their own benchmarks, but also the FTSE/JSE All Share Index (ALSI), the FTSE/JSE All Share SWIX Index and the FTSE/JSE All Share Capped Index (three of the market's most widely recognised and understood indices) since their respective inception dates after all management fees, as have equity funds of numerous other top active investment managers. The accompanying graph illustrates this outperformance versus the ALSI.



To learn more about the fees associated with our funds, speak to your Financial Adviser, contact our Client Services Team on **0860 105 775** or email query@prudential.co.za.

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