

Black asset managers putting their best foot forward

One of the first myths I sought to bust was the one that investing with black asset managers meant lower returns. Since its inception the Motswedi monthly manager performance survey has demonstrated that black asset managers are delivering competitive returns. There are some above the market average and some below... much like what we see with the household names. Myth Busted.

Responsibilities

Now that we have Busted the poor performance myth, lets move onto matters of the business of managing an emerging asset manager. I frequently speak about the responsibilities of asset owners and asset allocators to open their minds to the opportunities of investing with black owned asset managers. Also I often opine about the important role allocators play in engaging and researching these black owned businesses, not only desktop research, but in person on-the-ground due diligence meetings - the proverbial kick-the-tyres type meetings. So then, what are the responsibilities of the emerging asset manager in this relationship. What is it that these asset managers are doing to make the job of the would be asset allocators or asset owners that much easier.

Articulation of your value proposition

One of my observations of some, fortunately not too many, black asset managers is the complexity of their investment process – almost like we are compensating for something. I like the adage, explain it like you would to your grandmother. If she understands it, then you are onto something. Many of the entrepreneurs who start these black owned asset management businesses, were once investment professionals working at the large incumbent asset managers and life companies managing billions of Rands in assets. For many of them all their time was taken up managing assets and making investment decisions – which is exactly what we want.

However, the reality is that many of the entrepreneurs did not necessarily sit in the committees of these large business having to make difficult decisions about monthly management accounting, actual vs budgeted spending, use of scarce resources, strategic business planning, etc. These nuanced discussion in businesses are generally kept separate to the investment decision making. This is the very reason why many asset allocators are hesitant to support emerging businesses. Does this excellent investment professional have the same acumen for business

Mark's musings



management and people management that they do for investment decision making.

Demonstrate operational discipline

An area which requires clear articulation in due diligence engagements with asset owners and asset allocators is the demonstration of operational discipline. This discipline comes in many ways, the articulation of the businesses strategic plan for the growth. This includes the value proposition, the key resources needed, where and who will be targeted based on what relationships and partnerships. What are the cost structures of the business relative to the revenue streams and how will these be stuck to over time. These are only some of the key points for emerging managers to be crystal clear about. Plan ahead for equity holdings of founders and future staff. In cases where the founders have unequal shares to start with, plan for the equitable and fair distribution as the business grows and all are contributing to its success.

The disciple of sales

Then of course there is sales. The discipline of sales is too often underestimated by entrepreneurs, many thinking their reputation from the days they delivered stellar performance at the large corporate will automatically open doors. Sadly the reality of going it alone without the “backup” of the established large asset manager behind you, will give many potential asset allocators or asset owners cause to hesitate when you call. Having a well thought through and disciplined sales process is critical to best direct your limited resources.

Asset allocators do your part

Generally one would think that asset allocators or asset owners would take note of these embedded disciplines as black asset management businesses grow. Sadly looking at the retirement fund industries low allocation to black asset managers which are ticking all these boxes, it is not enough. Asset allocators or asset owners – if entrepreneurial black asset managers are consistently managing their business well and at the same time delivering good performance, it would make sense for you to be open to the idea of allocating assets to these managers to manage. Use your due diligence processes to manage and mitigate risk and be the anchor tenant or the early client through the door for some of these managers.