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Podcast series
MyFolio and key differences with competitor funds

Podcast transcript

When trying to choose the right multi asset risk rated fund for your client they may all appear to be the same on the surface but when you drill down into the detail they're actually quite different.

I'm Stephanie Garrigan from Standard Life's Business Services Team and today I am joined by Judith Casey from our Investment Solutions team.

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Stephanie: Judith what factors should an adviser consider when comparing multi asset risk rated funds in the Irish market?

Judith: Unlike traditional managed funds, it's difficult to do a like for like comparison when it comes to risk targeted funds, because each fund has its own set of risk and return parameters and objectives.

On the other hand, managed funds which are managed to a consistent benchmark such as a sector average can easily be compared to funds in the same sector. One of the flaws of managed funds was that outperforming the sector average can sometimes lead to a manager chasing returns and taking on greater risks than what investors had originally expected.

With risk targeted multi asset funds, the risk parameters are clearly defined, they can address clients' needs more effectively than managed funds, particularly when it comes to investment volatility.

It may seem the obvious thing to do but it's not necessarily correct to compare multi asset funds from different companies. Just because they both have, for example the same number in their name such as Standard Life's MyFolio Active III and L&G Multi-Index III, iFunds 3 and Prisma 3 doesn't mean they are the same. They have different volatility range bands, different investment styles and different asset splits.

It's important that each risk targeted fund or family of funds are analysed in their own right, before making any relevant comparisons with competitor funds.

Stephanie: So what factors should an adviser consider when analysing these funds?

Judith: So there are a couple of factors to bear in mind. Firstly, what investment style are you or your client looking for? Some providers offer passively managed funds and some offer actively managed. And some like Standard Life offer a choice of both.

MyFolio Market are mainly passively managed by Vanguard - one of the world leaders in passive investing while MyFolio Active is actively managed by Aberdeen Standard Investments, the second largest active manager in Europe.

So depending on your preference you have a choice of either active or passively managed funds or you can blend both to have a mix of investment style and a mix of fund managers.

- So for example if you blend MyFolio Active III and MyFolio Market III you have a mix of passive and active investment styles, two investment managers – Aberdeen Standard Investments and Vanguard and a truly diversified portfolio with 28 underlying funds in the blended portfolio.
- Secondly advisers should look at how these funds are managed to risk – some funds for example Zurich's Prisma and Friends First Magnet funds are managed to strictly stay within the ESMA volatility bands. The ESMA bands use a seven point scale based on 5 year backward looking annualised volatility.

While other funds are managed to forward looking volatility – such as Standard Life's MyFolio and New Ireland's iFunds.
Standard Life's MyFolio funds volatility bands are set by Aberdeen Standard Investments in conjunction with Moody's Analytics and are based on 10 year projected volatility with a wide range of asset classes.

- A third factor to consider is the choice of funds within the range. Some providers offer 3 funds with 3 risk levels. Others offer a broader range with 5 funds. This makes it easier to match a client's specific risk appetite with the right fund. MyFolio funds have a range of 5 funds with MyFolio I being most suitable for low risk investors and MyFolio V for the more high risk investor.
- Fourthly advisers should look at who manages the funds - the size and depth of the team and their investment process is extremely important.

There is a team of over 140 investment professionals at Aberdeen Standard Investments looking after MyFolio.

Stephanie: When we hear about multi asset risk rated funds there is often a lot of talk around the investment process and strategic asset allocation – can you tell us a bit about the importance of these?

Judith: The strategic asset allocation for these funds is especially important as this helps to ensure the fund stays within its appropriate risk level.

Aberdeen Standard Investments has a very transparent and rigorous investment process which ensures the MyFolio funds never exceed their volatility bands over the longer term. Importantly, this ensures the clients' investments stay within the risk profile range they have selected.

The Strategic Asset Allocation for MyFolio funds is determined by Aberdeen Standard Investments in consultation with Moody's Analytics, a world leader in financial risk modelling and it is formally reviewed on a quarterly basis on completion of the Moody's Analytics analysis.

Stephanie: And the term tactical asset allocation is also used in relation to these funds – what does this entail?

Judith: So for MyFolio Active there is an additional step – Tactical Asset Allocation. This is where the Multi Asset investing team within Aberdeen Standard Investments apply their tactical investments views to fine tune the strategic asset allocation and take advantage of shorter term opportunities. What this means in practice is tilting the strategic asset allocation in the direction of the favoured asset classes over the shorter term.

The MyFolio funds are rebalanced regularly to ensure they remain in line with the chosen risk level. And quite simply, lower risk is always lower risk and higher risk is always higher risk.

Stephanie: Obviously price plays an important factor when advisers choose these funds.

Judith: Price is an important factor when comparing funds but we would always recommend that advisers compare these funds using the costs outlined in the Supplementary Information Document or SID, and not just the highlighted annual management charge. The SID costs are a true reflection of what investors are actually charged when investing in funds. They factor in ongoing costs such as portfolio transaction costs and other charges which can at times be missed by advisers and clients alike, but increase the overall cost to investors.

There is a misconception that MyFolio funds are more expensive than other funds in the market – but an analysis of SID costs will show that this is not the case.

Stephanie: Where are these documents found Judith?

Judith: So they are available on all providers' websites under Supplementary Information Documents.

Stephanie: Thank you Judith. There certainly is a lot to consider when recommending the right multi asset risk targeted funds for clients. Your Standard Life Business Manager will be able to take you through in more detail, the differences between these risk targeted funds. And all MyFolio information is on the MyFolio section on our adviser website brokerzone.ie.

And that's it. Thank you for listening to this podcast recorded on the 30 May 2019.

Note the value of investments within these funds may go down as well as up and may also be affected by changes in currency exchange rates. If your client invests in these funds they may lose some or all of the money they invest.

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