MULBERRY BOW

PASSIVE VS ACTIVE: FINDING THE RIGHT BALANCE

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Mulberry Bow's clients are invested about 60% passive and 40% active in portfolios.

It is easy for advisers and clients to get hung up on arguments about actives and passives. It is more important to follow the five rules of investing: work out how much long-term capital clients can commit, diversify, rebalance consistently, manage tax and manage costs. If you follow these, you can be 100% active, 100% passive or anywhere in between.

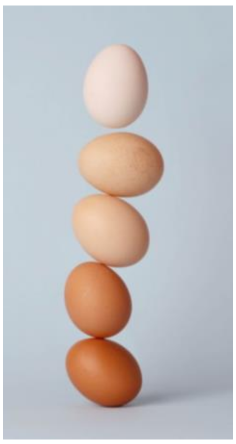
We believe that for smaller pots, such as junior ISAs or pension contributions for children or spouses, a global passive fund with regular rebalancing is often a good fit.

For core market exposure, we tend to focus on cost-efficiency.

For a specialist area such as infrastructure, emerging markets, or enterprise investment schemes, active management is valuable, though it can be more expensive. These areas are worth considering, particularly for larger clients, but they tend to represent a small proportion of an overall strategy.

The discretionary fund managers (DFMs) we use for clients with over £2m tend to have more active elements in their strategy. These include firms like Brown Advisory, Mirabaud, Rothschild & Co, Goldman Sachs and Saranac Partners. For smaller clients, we use managers such as Investec, Rathbones, Dimensional Fund Advisors, Vanguard, AJ Bell and Fusion Wealth. They have more passive options within that, particularly with the latter three.

The DFMs oversee day-to-day asset selection, portfolio rebalancing and diversification. Mulberry Bow monitors the big picture strategy and ensures it fits with the client's broader financial plan, tax planning and cashflow model.



The 60-40 split between active and passive has not changed in the last year, and the Covid-19 outbreak has not impacted the firm's view. However, we had already been talking to clients about setting aside two or three years of outgoings in cash to buffer against such downside market events.

We have also been talking to clients about the purpose of different pots – for example, many clients see their pension pot as earmarked for children and grandchildren. Those two areas of focus will come to the fore even more once we are through the crisis.

Another factor is that the active portfolio managers we use tend to buy mostly or wholly into direct securities. That way total expense ratios are kept at about 1.5%, rather than over 2%, which is still common with some DFMs.

For Mulberry Bow, the split between passive and active does not vary by risk profile but by size of client investment. Clients with larger pots are more likely to adopt a 50-50 approach, although there are a few exceptions, such as clients who are hedge fund managers. But for smaller client investments, the split is nearer 70-30 in favour of passive.

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