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RADAR ALERT – HEXAM GLOBAL EMERGING MARKETS

Group prepares for 2009 by stepping up marketing efforts, countering yearly offshore losses with imminent launch of onshore mirror of GEM fund

Hexam counters downturn with GEM onshore mirror

By Gary Shepherd

Bryan Collings is looking forward to bringing an onshore version of his newly branded Ignis Global Emerging Markets fund to market in the coming months.

Given the downturn in emerging markets and subsequent volatility, it is no surprise the offshore fund lost 43% in the 12 months to 31 October, according to Lipper.

However, Collings, who leads the fund alongside Grant Shotter, Marina Akopian and Stuart Richards, remains confident his regions will recover, much as they did following the Asian crisis of 1998, particularly those markets with the highest savings.

He says: "For people in the UK, the risk is not having emerging markets, it is not having enough."

Collings explains the wider financial crisis has wiped 60% off the value of emerging markets.

"A massive amount of developed world money is leaving emerging markets in very short order – we have had five years' worth of outflows leaving in a matter of three months. Flows to the tune of \$50bn have left emerging markets, and that is just mutual funds," he adds.

He says clients ought to recognise timing is fraught with problems, which is why managers not drifting from their style sometimes suffer short-term performance in order to capture something really big.

"Our view is simple – we tend to buy in tranches. As the market falls, we wait in a disciplined manner and concentrate our portfolios, and we buy more of the stocks that we feel have been inadvertently and unjustifiably smacked. We do not hold cash and continue to buy stocks that are underperforming relative to indices that have been really hard hit."

The portfolio is highly concentrated compared to its sector peers, which hold on average

between 120 and 140 stocks in their portfolios, as against to Collings' 36 positions.

"Considering the benchmark has 1,000 stocks in it, when things go nuts, we have positioned the portfolio to bounce quite significantly. That is what our clients expect and why we have been getting inflows."

The team pools up to 130 stocks with which it is very familiar. The stocks are chosen from this pool, depending on circumstances and price.

In term of coverage, Webster and Akopian look at Emea while Shotter and Collings focus on Asia and Brazil.

In terms of fund mechanics, Collings says the weakness is short-term underperformance.

"We do not chase the market down. We selectively buy more stock we like that will stand the test of time. Our debt equity ratios on the fund are running at about 17%."

The fund's reach is about to be broadened as the team plans to bring a UK version to

market, set up as a mirror of the existing portfolio.

"There is only one way to manage the Global Emerging Market fund, and that is this way. Every other vehicle we set up will be exactly the same as the one we have now. I cannot differentiate.

"I suspect we can launch another two funds over the next five years but they will be client-driven and they will be subsets of what we already do."

The team has set its capacity as \$3bn, therefore it plans to close the Emerging Market fund, and its mirror funds, to clients at \$1bn. It is currently at around \$100m.

"I do not want to acquire twice the number of clients. That is the killer for boutiques. I am targeting \$1bn, which will be just a fiftieth of the money that has left emerging markets in the past three months."



BRYAN COLLINGS

- Manages the Global Emerging Markets fund and is managing partner of Hexam.
- Joined from Barings where he was head of the Global Emerging Markets Team.
- Joined Barings in 2004 from Deutsche Asset Management.
- His experience includes stock selection and asset allocation for Global Emerging and regional Emerging Europe, the Middle East and Africa (Emea) products.
- Has an MA in Economics.

