

## Multi Manager, Multi Markets

*Managed with capital preservation in mind, the HSBC Open Global Distribution Fund aims to provide a high level of income by investing in the widest possible range of asset classes across global markets. The fund manager Nick Pothier is prepared to head well off the beaten track to uncover talented sub-managers with alternative investment philosophies and to combine those in ways which maximize diversification and reduce risk.*

**Q: What is your investment philosophy?**

**A:** We believe that our multi manager funds provide exposure to non-correlated alternative investment strategies and spread risk across various investment styles. Our multi-manager approach provides investors exposure to balanced investing with less than market risk.

**Q: What differentiates you from your peers?**

**A:** We focus on the qualitative side of manager research, while many multi managers would use performance and risk return screens as a primary tool for identifying managers. We believe that there are certain dangers in doing that mechanically as many of the manager databases are not current and are not an accurate representation of the fund manager's performance.

**Q: What is the main advantage of the multi manager approach?**

**A:** Investment styles go in and out of favor, managers stray from their investment styles, and industry sectors and market segments rise and fall. With the multi-manager approach investors are spreading their risk among various managers and different investment themes.

Basic modern portfolio theory tells us that combining different risks enables

a better risk return payoff within the portfolio. This extends to managers style, whether it's growth or value, small cap or mid cap, or contrarian. These styles can all be combined and produce a richer mix than any of the components on their own and deliver a better risk return payoff over time.

**Q: What is the philosophical starting point of the fund?**

**A:** In a nutshell, our philosophy is multi asset class as we think that low correlated assets produce a very good risk return mix. There are two funds in this range. The umbrella is called Open Funds and under it are the Open Global Distribution Fund and the Open Global Return Fund.

The Open Global Return Fund is designed to be a balanced fund of funds. In the UK market, where this fund range is domiciled, things are very peer-group oriented. Most funds are benchmarked against the peer group average in terms of asset allocation and performance. The balance managed sector in which the Open Global Return fund sits within, is actually not very balanced. It tends to be a mix of equity and fixed interest and it is too skewed towards the UK market exposure. So you'd typically have 45% - 50% UK equity exposure and most fixed interest exposure would be heavily weighted towards the UK bonds.



**NICHOLAS POTHIER** joined HSBC Multimanager in 2006 and is responsible for the research and selection of funds and investment managers. He focuses specifically on UK equities, Asia Pacific equities, commodities and energy. He also manages the HSBC Open Global Distribution Fund.

Prior to joining HSBC Pothier was a fund manager at AXA Multimanager Ltd., where he conducted fund and investment manager research and managed portfolios. He joined AXA in 1998, and before that was with Liberty Life in South Africa.

Pothier holds the Investment Management Certificate and is a CFA level two candidate.

**“As a multi manager our job is to identify differing philosophies and approaches to investing in our sub-managers and to combine those in ways which maximize diversification and reduce risk.”**

The starting point for the Global Return Fund was to make it a multi asset class fund in which we include as many different local asset classes as possible. It uses a significant number of relatively unknown managers that are difficult for retail investors to access due to minimum investment requirements. In this way there is a little risk of duplicating a client's existing portfolio.

The Open Global Distribution Fund which takes its philosophical lead from the Open Global Return Fund has the additional requirement of income distribution. This constraint led us to remove some of the lower yielding assets and put the emphasis on the yielding assets so it is not quite as multi asset class as the Open Global Return fund, but compared to the other yielding funds it is quite diversified. It has a wide range of asset classes via a good spread of funds which are globally invested.

**Q: How is your research team organized?**

**A:** We currently have a global team of 43 analysts based all around the world. Through our offices in London, Paris, Hong Kong, New York, and their satellites, we have a geographical spread of analysts who know managers in their local market.

We do use quantitative screens as part of our ideas gathering process but we don't emphasize it. We put emphasis on qualitative aspects of manager research to learn about the nuances of investment management approaches and the skill sets of particular managers.

**Q: Could you describe your methodology for selecting a specific manager?**

**A:** The decision has a significant judgmental component which is as forward-looking as possible. We are trying to identify a set of behaviors

that the manager has and we assess their talent, experience and original thinking abilities.

Our starting point as to what investment philosophy could be of use is quite open-minded and agnostic. We don't impose any beliefs on our managers or expect a certain philosophy when we meet them for the first time. The more they differ, the better. This helps us compose diverse portfolios.

When the asset class analysts visit the manager there are always two people involved in the interview and the decision. The original idea could be the result of an analyst's experience with the asset class and their view of the available managers and their histories. Job hopping among managers in the industry is quite high in London. The average tenure of our investment manager is in the region of 2\_ years, so you have to know your sector and managers and read various trade journals.

At some of the larger investment houses, whose investment process is more mechanical and rules based, it's possible that there'd be some talented manager who feels constrained and is not delivering his best. If he moves to a new investment boutique for example, and if they have a direct equity stake, then there would be an increase in motivation. So we'll visit the boutique, understand their business and the specific risks involved and decide whether to invest with them.

**Q: Do you invest in boutiques only?**

**A:** We have a mix of the larger well-known names together with boutiques which are not always accessible to the general retail public. When we invest in small funds we monitor them very closely because they bring additional risk.

**Q: Building a multi manager based product, how do you do the asset allocation?**

**A:** The starting point is our strategic benchmark. For the Open Global Distribution fund that has been skewed towards yielding assets so there is a greater emphasis on fixed income and a slightly smaller emphasis on equity. We still have exposure to property and commodities for portfolio diversification.

We also have an asset allocation view which is reviewed on a monthly basis. At the moment the view is broadly neutral equity, underweight fixed income, overweight cash and slightly underweight property. We interpret that positioning in our portfolio to make sure we are not contradicting the asset allocation model.

**Q: Who is involved in the allocation process?**

**A:** The asset allocation process involves internal economists and our UK Chief Investment Officer who chairs the decision making process. The multi manager portfolio managers are also part of that process. That gives us our position against strategic benchmarks. Within the sectors, for example, there can be quite a diverse spread of funds. The fixed income sector, for instance, crosses the range from developed government bond to emerging markets and tactical fixed interest funds.

We tend to use tactical fixed interest managers because they are far closer to the fixed interest markets than we are. So to an extent we are outsourcing fixed interest asset allocations to our managers.

**Q: How often do you value the strategic benchmarks?**

**A:** Performance is measured against the strategic benchmark on a monthly basis by our performance measurement team. Our overall ob-

jective is to generate absolute returns with low levels of volatility.

**Q: How many funds do you generally have in the Open Global Distribution fund?**

**A:** The number of funds can change depending on the investable asset classes. At the moment we have 18 funds. If we were to introduce another asset class which has sufficient yield then the fund count would probably increase. We try to hold managers who are doing something special and are different in the portfolio so we try to keep the fund count under control.

**Q: Could you give any breakdown of your asset allocation?**

**A:** Strategic equity weighting is 31.5% and fixed income strategic weighting is 44.2%. Alternative investments, which includes property and commodity, is 10.5%. Then we have a money market allocation of 11.9%.

**Q: What kinds of risk do you monitor?**


**A:** We have a dedicated portfolio risk team which analyzes the risk and provides various reports. They use the Barra system to assess risk primarily and we input our underlying manager's portfolios to conduct portfolio risk analysis. They produce correlation matrix amongst the funds that we hold so we are aware that if two funds are highly correlated, we can make an adjustment and either remove a fund or reduce holding in one of the funds.

Within the equity fund group, we use a system called Style Research, which is a holdings-based equity fund analysis system that compares the portfolio to certain representative style factors, for example large cap, small cap, value growth, momentum, beta and combinations of those, and gives us indication of the style bias of our equity funds.

**Q: Could you discuss one or two successful managers that you have held and explain how you have selected them?**

**A:** A good example would be the Schroder Commodities Fund. We have held the fund since inception with approximately 5% exposure and we haven't changed our target exposure since the launch of our Open portfolios last November. We have a tolerance range so we are not trading every day. It is an unusual fund as it is invested in the physical commodity markets using futures. It is a Luxembourg domiciled Part II Sicav and it allows the manager a lot of flexibility unlike most mutual funds in Europe which are quite limited in terms of the type of physical assets they can own. They cover a broad range of agricultural products and have a dedicated agricultural analyst who trades a wide range of commodities. We are talking about pork, live hogs, wheat, rice, soy bean, palm oil plus crude oil, coal and all the metals and energy. And it's a very active style.

We realized that there are some significant inefficiencies in the commodities markets and decided to use this very active fund which has a sensible risk control structure which will give us comfort that we are not going to be overexposed to any one commodity.

Another good example would be the Newton Global Higher Income Fund. Newton is one of only five equity income managers that we have targeted. They have a London-based global analyst team of 12 internal buy side analysts that analyze worldwide stocks. They do that for a number of different portfolios and the Global Income portfolio has a yield criterion which leverages off their research strength. They compose the portfolio which targets a yield in the region of 4%, whereas in the U.K. market most equity income managers have a yield in the region of 3% to 3.5%. 

## HSBC Open Global Distribution Fund

Symbol	GB00B1G3BF15
Fund Type	OEIC
Website	<a href="http://www.hsbcinvestments.co.uk">www.hsbcinvestments.co.uk</a>
Address	HSBC Investments (UK) Limited 78 St. James's Street, 1st Floor London SW1A 1EJ
Tel. No.	0044 20 7991 8888
Inception	30/11/2006

<b>PORTFOLIO</b>	
Total Net Assets*	GBP 7.6

<b>INVESTMENT INFORMATION</b>	
New Investment	Open
Min Initial Investment	GBP 1,000
Min Subsequent Investment	GBP 50
Min Regular Investment	N/A
UK ISA	YES
CAT standard	No
UK PEP	YES

<b>RETURNS VS. STERLING AGGRESSIVE BALANCED CATEGORY</b>		
	GB00B1G3BF15	Category
1 Year (Cum.)	N/A	N/A
3 Year (Ann.)	N/A	N/A
5 Year (Ann.)	N/A	N/A

<b>FEES AND EXPENSES</b>	
Initial charge	4.00%
Annual charge	1.25%
Exit charge	0.00%

<b>PORTFOLIO MANAGER</b>	
Nick Pothier	2006

\* millions  
Data through: 30/06/2007  
Source: Company Documents

**Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.**

**Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.**

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