

**Interview** Gary Withers and Helene Williamson, First State Investments

## Search for advantage in a crowded market

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**W**hy launch an emerging market debt (EMD) strategy when there are already 40-plus institutional competitors in the market? First State Investments – which has just hired Helene Williamson from F&C Asset Management along with Jan-Markus May, Manuel Cañas and Philip Fielding to run the strategy – did not make the decision for short-term reasons, according to Gary Withers, the firm’s EMEA managing director.

First, he says, as a well-known emerging market equity manager with specialist strategies in Asia-Pacific, China and natural resources, First State is well placed to run other emerging market asset classes. First State is not new to fixed income, running global fixed income from Australia along with local Australian and Hong Kong fixed income.

“For us to bring these together and to do EMD we are leveraging knowledge on both sides,” says Withers. “It’s an area we have strategically identified for some time as an area we would like to develop.”

Second, emerging market debt is certainly seeing continuing institutional demand as pension funds and their kin seek to diversify yield. With lower debt-to-GDP ratios and economies still growing at 6-8% in some cases, the broad economic fundamentals of emerging countries speak for themselves.

Third, that demand is also stemming capacity, which is another reason to

launch the strategy now. “A number of [managers] who were early to the party are capacity constrained, as we are in our equities side,” Withers says. “So there is demand to see new managers on the roster, which I think would be different if all the existing managers were open for business.”

The Edinburgh-based Stewart Ivory business ran some £3bn (now €3.4bn) when First State purchased it in 2000 and was then 76% owned by 43 employees (the other 14% was owned by Scottish American Investment Trust).

The Commonwealth Bank of Australia owns First State, which trades as Colonial First State Global Asset Management locally in Australia, from where it runs global resources, listed and unlisted infrastructure. Together, the asset management entities run around £100bn (€115bn), although just €5bn for European institutions.

Withers is comfortable with First State’s bottom-up approach and along with many of his contemporaries speaks highly of his stint at Mercury Asset Management – “do the analysis, make the judgement and back yourself”, as he puts it. He sees markets generally open to “somebody to make the long-term judgement about where to allocate capital – not only for you but rewarding the [corporate] managers who are going to make the best use of capital and penalising the ones who are not.”

“We’ve been very consistent in philosophy, team and approach,” says Withers. “We’ve done that in the old fashioned way of running fund management.

We’ve hired good people and believed in the discipline of looking for quality companies and quality management.”

With a three-year track record yet to obtain in EMD, the rewards will not be reaped in short order. But given the current sell-off in emerging market debt, this autumn is not a bad place to start an emerging-market, hard-currency debt strategy with a view to a presentable three-year track record in due course.

“A lot of countries are very oversold,” Williamson, First State’s new head of emerging market debt, told IPE at the beginning of October. “The markets experienced a lot of inflows and that suddenly has reversed, so you have had some forced sellers and some bargains at the moment. Some countries have been unjustly sold off.”

Initially, First State will run global hard-currency strategies and the team will be based in London, although with two based in Asia as a research capability. The strategy will allocate around 10-15% to quasi sovereigns and corporates, Williamson says.

At some stage, First State will launch dedicated local currency and corporate strategies. “We have a global credit fund in Australia and have credit processes internally, so we would extend that,” Withers says. But there is no mad rush and the speed will depend on when the team is comfortable.

“I think there’s plenty of opportunity,” concludes Withers. “If we are wrong and it takes longer to build up, it doesn’t matter. We didn’t build the existing business in two years, we built it in 20.”