

The right products for the times

The managers of First State Investments are confident about their products and will continue to focus on global and large cap funds. Neal Underwood looks at their plans for the future.

FIRST STATE INVESTMENTS forms part of the consolidated asset management business of the Commonwealth Bank of Australia. It runs products across areas including Asia Pacific and global emerging markets, global resources, global equities, property securities and infrastructure, with assets under management of £15 billion.

First State Investments has been active in the UK market since 2001, during which time it has continued to build on its strong reputation in Asia Pacific ex Japan and global emerging markets equities. The company is part of Colonial First State, which is Australia's largest fund management business. Michael Stapleton, the regional managing director of EMEA [Europe, Middle East and Africa] at First State Investments, says it has used this relationship to take products and teams based in Sydney and distribute them into Europe, leading to offerings such as the Global Resources and Global Listed Infrastructure funds.

"In the London office we've also got a global equities team which was established three years ago," says Stapleton. "While Australia was seen as the principle market for us, that also has global application. We're having quite a strong focus on products that are global in nature, moving away from country and regional focus."

As well as global equities, he cites the examples of specialist vehicles such as First State's Global Property Securities and Global Emerging Markets funds. "We're seeing demand from both institutional and retail clients moving into more globally diversified portfolios."

First State's client base encompasses both institutional and retail markets across a broad number of regions. "The retail markets in the UK and Europe are critical for our business, and we have institutional clients in places such as North America and the Middle East," says Stapleton.

"In terms of inflows, First State in the UK is having a record year. Our focus is very much on the top end, the large fund of funds providers and platforms. We don't have a huge sales team. The key to our success is that there is no substitute for high quality product. We focus our product suite on what we do best."

Adrian Lowcock, a senior investment adviser at Bestinvest, is a big fan of Angus Tulloch, manager of First State's Asia Pacific and Asia Pacific Leaders funds.

"His track record over 20 years is, to be frank, pretty outstanding. We score the fund manager by rating them

on a monthly basis, and over his entire career he has our top rating of 100%. It's rare to get a manager with that strong a record over that length of time. First State Asia Pacific has been one of our favourite funds in that sector over a very long time."

Stapleton is also keen for investors to look beyond Tulloch to other senior members of the investment team, such as Martin Lau, Jonathan Asante and Alistair Thompson. He says First State has a good track record of hiring and retaining talented fund managers, considering it is part of a large banking group.

"We're trying to offer them a boutique environment within a larger organisation. They are largely autonomous in terms of managing their business. They also have a remuneration model that would be akin to what they would have if they ran their own business, with a share of the profits." That profit share is invested in the funds, with a vesting period of three years, which Stapleton says provides a strong alignment between the fund managers and their clients.

"You are very much invested with a team rather than an individual," says Lee Gardhouse, head of fund of funds at Hargreaves Lansdown. "To some extent that goes against what we do as we like to focus on individuals, but they've still got that boutique approach even though they're quite big."

Lowcock acknowledges First State's depth of experience in Asia Pacific equities, and highlights the Greater China Growth fund, which is run by Lau. "He has a slightly less perfect track record [than Tulloch], but it's still 98.6%. In China, he has outperformed consistently; he's been top percentile over three and five years. Performance has been very good in a sector in which it is very hard to get good consistent performance."

He also refers to the Global Emerging Markets and Global Emerging Market Leaders funds, with Asante, who manages both funds, having a strong five year track record in that area.

Gardhouse says the only First State funds he uses

FIRST STATE INVESTMENTS FUND RETURNS OVER ONE AND THREE YEARS

UK unit trusts/Oeics	21/4/08 20/4/09				17/4/06 20/4/09				IMA Sector
	% Chg	Rank	Qrtl	Mean	% Chg	Rank	Qrtl	Mean	
First State Asia Pac LDRS	-11.38	6/70	1	-19.6	30.54	3/61	1	5.04	Asia Pacific Excl Japan
First State Asia Pacific	-14.27	13/70	1	-19.6	21.07	6/61	1	5.04	Asia Pacific Excl Japan
First State Asia Pacific Sust	-13.82	11/70	1	-19.6	18.35	10/61	1	5.04	Asia Pacific Excl Japan
First State Asian Prop Sec	-29.87	17/35	2	-31.54	N/A	----	----	-36.38	Property
First State Greater China Growth	-9.65	2/70	1	-19.6	38.89	1/61	1	5.04	Asia Pacific Excl Japan
First State Glb Listd Infrast	-19.67	25/71	2	-21.64	N/A	----	----	-13.61	Specialist
First State Gbl Em Mkts	-12.2	2/28	1	-25.06	16.44	2/25	1	-2	Global Emerging Markets
First State Gbl EmMkt Ldr	-9.28	1/28	1	-25.06	22.91	1/25	1	-2	Global Emerging Markets
First State Gbl Prop Sec	-32.38	20/35	3	-31.54	N/A	----	----	-36.38	Property
First State Global Growth	-22.13	99/175	3	-22.43	-19.2	71/140	3	-19.37	Global Growth
First State Global Opps	-20.25	66/175	2	-22.43	-23.6	102/140	3	-19.37	Global Growth
First State Global Resources	-37.58	59/71	4	-21.64	2.21	10/42	1	-13.61	Specialist
First State Indian Subcont	-22.58	33/71	2	-21.64	N/A	----	----	-13.61	Specialist

Shows percentage returns, position in sector, quartile ranking and sector average, bid-bid, net income reinvested, over one and three years to April 20.

Source: Morningstar

are the Asia Pacific funds, which remain the jewel in the crown.

“They do what it says on the tin. When things are very exciting they just about keep up with the pace, but when the inevitable shocks come they tend to keep up downside protection. Overall, you get a smoother ride and good overall performance. Even though their assets have ballooned they’ve still maintained the process.”

Gardhouse holds the Asia Pacific Leaders fund and the Dublin-domiciled Asian Equity Plus fund, which has a focus on producing income. Hargreaves Lansdown, as a company, has also promoted the Greater China Growth fund.

Another fund Bestinvest recommends is First State Global Resources. The fund’s performance over the last year has placed it in the fourth quartile in the IMA Specialist sector, although it remains in the top quartile over three years. Lowcock says it is well positioned going forward. “It tends to be a bit more late cycle than JPMorgan Natural Resources. It has held up well. It’s a good alternative in that area and one you’d probably prefer now.”

Of the nine retail fund offerings with a three year track record, all but two of First State’s funds are first quartile over the period. The Greater China Growth and Global Emerging

Market Leaders funds are both ranked first in their respective IMA sectors, with Global Emerging Market Leaders also topping its sector over one year. Tulloch’s Asia Pacific and Asia Pacific Leaders funds continue to deliver impressive long-term performance, and are ranked at six and three respectively over three years in the IMA Asia Pacific ex Japan sector.

First State has recently launched funds within its existing Asia ex Japan and emerging markets businesses, including the Latin America fund and Global Emerging Markets Sustainability, which was announced just last week. The sustainability fund, managed by David Gait, targets companies which it calls ‘sustainability leaders’ with a strong focus on positive engagement.

“These are our mature businesses and we’ve done a lot of products recently in those areas,” says Stapleton. “On a long-term basis, we think the emerging markets generally offer great opportunities over the next few years. We’ve positioned the business around a long-term investment opportunity. We want to give investors a range of choice in terms of how they access these markets, for example the Sustainability fund.”

The Latin America fund, managed by Asante along with Millar Mathieson, could prove to be interesting, in

Lowcock’s view. “They’ve got a global emerging markets team anyway. It can be hard to meet the manager of Latin American funds, so this potentially could be a very interesting opportunity. They’re expanding in an area that their expertise is in.” The fund is currently awaiting review by Bestinvest.

One of First State’s major current initiatives is in infrastructure. While it already offers the Global Listed Infrastructure fund, the company is also building an institutional business that invests in global unlisted infrastructure and has plans to launch an institutional infrastructure fund later this year. “We are buying these assets in an unlisted form for institutional clients,” says Stapleton. “We’ve seen a lot of interest in the global market. We’re taking the lesson learnt in Australia and trying to apply it to the UK and Europe, taking a global approach to the sector.”

In terms of future product launches, there has been a great deal of interest from institutional clients in the company’s frontier emerging markets strategy, says Stapleton, with a couple of them seeding a strategy in segmented accounts. He also highlights the China A share market as one in which First State would like to offer products to investors.

Colonial First State’s ultimate parent is Commonwealth Bank of Australia, which is Australia’s largest retail financial services organisation. This relationship has been particularly helpful in terms of distribution, says Stapleton. “They’re one of the largest distributors of retail products into Australia. We launched our global equities team because of that strength of distribution. It’s a key competitive strength measure.”

Looking to the future, Stapleton says the challenge is to walk the tight-rope between maximising returns for the business and delivering investment performance, and the firm has capped a number of its funds in order to protect performance.

“The litmus test for us is investment performance. It’s about successfully balancing the conflict between asset flows and investment performance. Our institutional business has turned away a significant number of large institutional mandates.”

Stapleton says First State’s investment business has probably never been in better shape. “Every one of our teams is in a stronger position post the financial crisis than pre. Investors are putting their toe back in the water, and looking for conservatively managed funds such as Asia Pacific Leaders or Global Listed Infrastructure. We have the right product range for the times.”

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