First impressions

BOUTIQUE VIEW

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First State hardly fits the usual boutique template as the fund management arm of the huge Commonwealth Bank of Australia but it meets many of the criteria for its UK operation, even slimming down a comprehensive fund range in 2003 to focus on its Asia and emerging market expertise.

Then known as Colonial First State, the firm first gained a foothold in the UK market in 2000 with its acquisition of old-school Scottish firm Stewart Ivory.

This purchase brought the group the Edinburgh-based Angus Tulloch and his veteran Asian and emerging team, around which it has built the UK operation.

Stewart Ivory had various other funds in its range but First State opted to close many of these in 2003 – exiting US, European and Japanese equities as well as healthcare and biotech – to concentrate on areas where it could realistically lead the market.

When the firm first entered the UK, it signalled major asset-gathering intent by hiring high-profile UK manager Derek Lygo from Dresdner to head the UK desk.

But it struggled to gain much traction in this competitive space and shut Lygo's British smaller companies and British mid-cap funds three years later.

It also closed a range of bond portfolios plus a balanced offering at a later stage, moving away from offering every product and attempting to compete with industry giants.

First State initially maintained two UK funds but left the local equity sector outright in 2007.

Its well-regarded small-cap specialist, Paul Jourdan, left for Noble Fund Managers, taking his British smaller companies portfolio and the firm's sole remaining VCT with him.

Later in the year, Caspar Trenchard departed to join Standard Life Investments and the UK opportunities fund was transferred to Cornelian.

Over recent years, the group has added various offshoot funds to Tulloch's Asian and emerging franchise, including a suite of China products and the just launched GEM sustainability and Latin America portfolios.

The sustainability offering, which is positioned alongside a similar Asian product, is run by David Gait and aims to capture the growing trend of emerging companies improving their business practices.

It invests in companies involved in renewable and cleaner energy, energy efficiency, waste and pollution management, water management and environmentally aware consumer products and services.

Of the £6.8bn in retail assets under management, Tulloch's team – which includes Martin Lau on the China mandates and Jonathan Asante on emerging markets – runs well over half.

It currently boasts four of the top nine funds in the 60-strong Asia Pacific ex Japan peer group over three years while its emerging funds are first and second in their sector over the same timeframe. This range has built its long-term track record via investing in companies with quality management, strong business franchises and healthy financials.

Another key business strategy has been to export the best and most appropriate products from the firm's Sydney headquarters into the UK. This has tended to focus on global thematic developments and has seen resources, listed infrastructure and property launches in recent years.

The group sees infrastructure, for example, as a long-term defensive sector that offers superior growth. Its fund in this area focuses on monopoly-type businesses which dominate their respective markets, boasting pricing power and high barriers to entry.

Another key team covers global equities, with Habib Subjally running the group's global opportunities and global growth portfolios. This was originally set up to meet strong demand for global products in Australia but Subjally has built a strong research team, with 12 analysts in place, and the funds are winning UK inflows.

The firm has a massive banking parent but it has also worked hard to maintain a boutique style of corporate structure and remuneration. Tulloch and team, for example, are given autonomy for their own franchise, with full control over launching and closing products and limiting inflows to protect against capacity issues.

Their individual compensation is also linked to profits generated, so they have the usual boutique manager's say in their own destiny.

Some of this remuneration is invested into the funds over a three-year vesting period, aligning manager and client interests via the traditional smaller company route.