

Hexam aims to knock competitors for six

Bryan Collings, a partner and fund manager at Hexam, answers questions from Frances Hughes.

Q: What is Hexam?

A: It is a 50/50 venture between us and Resolution Asset Management. There are six partners, hence the name Hexam. We had been looking to do something for a while as we got tired of run-of-the-mill institutional structures. It is a unique proposition to be in a joint venture with a company that is so huge. The 50/50 split is important.

Q: The other partners at Hexam are Grant Shotter, John Payne, Stuart Richards, Marina Akopian and Wilfred Willwong. Is there a strong working relationship between you all?

A: The six of us worked together at Barings. There is a lot of continuity in the people and the products. It is the same process and product we had at Barings, but [we are] updating it for 2007.

Some of the guys have been together for 10-12 years. We have known each other in the market for a long time. The whole thing has been set up around friendship and mutual respect. It is a boutique style. We decide how it [Hexam] will be managed.

Q: Hexam offers four funds. The Resolution Global Emerging Markets and Emerging Europe funds were both launched last week. The Resolution EMEA Absolute Return fund was launched in August and the Global Resources Absolute Return fund launched in September. Do you expect the range to grow in the near future?

A: Enlargement will be steady. We would soft-close the absolute return funds at around £400m. The long-only funds would be higher than that. We are looking at £2.5bn assets under management for the whole team. It is not a liquidity issue; it is a team issue. The biggest size our team will be is about 10.

Q: Is the team aspect important to the way Hexam manages its funds?

A: Yes. We all look after the funds and we have lead managers and back-up managers. I am the lead manager on the Global Emerging Markets fund and back-up manager on the EMEA. We communicate across the complete range. Fund managers [at Hexam] are remunerated at the partnership level, not the fund level. That is important as we share all the revenues.

Q: Have you had much feedback from IFAs about Hexam's Global fund?

A: We have had good feedback. It is a type of product that is required. We have a good track record. The boutique structure is interesting and the people are incentivised in the right way.

Q: How many positions are there in the Global Emerging Markets and Emerging Europe funds?

A: There are 25 stocks in the Global fund at the moment. We may go up to as many as 80, but it is unlikely – that is turning into more of a core portfolio. We tend not to diversify our returns away by holding an extra 20 to 30 stocks. The Europe fund is likely to have 45 stocks maximum.

Q: Is the Global fund constrained by benchmark?

A: We are benchmark-aware but not benchmark-constrained. That is the success we have had in the past. That is our style. We are looking for a tracking error of between 5% and 10%. The Europe fund is more benchmark-related.

Q: Can you explain the investment strategy used at Hexam?

A: We are more oriented towards growth at a reasonable price. We do not have a market-cap bias because it varies, and there are no sector or country restraints. We look for growth at a reasonable price, quality companies and [we create] concentrated portfolios.

We have a universe of 850 stocks in Global Emerging Markets. We sift through them by screening for quality. That brings you down to 300-400 stocks. From there we look at our current themes. We are very theme-oriented.

Q: What kind of themes do you look at?

A: Two examples are higher-beta companies in markets exhibiting high liquidity and companies where dividend payouts are likely to increase.

Q: Emerging markets funds often focus on bottom-up stockpicking? Is this the case at Hexam?

A: It is not just bottom-up stockpicking; it is also about markets. We have a blended approach. We have concentrated country allocation – Brazil, for example. Brazil is special. Oil prices

and metal prices are high and the budget and current account side is very strong. It offers fantastic opportunities.

Q: In which countries are you overweight and underweight?

A: We are overweight in Brazil and Russia and underweight in Mexico, South Africa and Korea. In some markets we have no exposure at all, like Indonesia and the Philippines.

Q: What is your research process like and is it limited because of your size?

A: To cover Asia we would need five or six analysts. It is not necessary. We use secondary research. We have our screens and we generate the ideas.

Q: What makes Hexam different?

A: The experience and our track record in particular markets. We had the ability to build our prospectus from scratch and it was built by us, not a sales or marketing team. We can invest in bonds or large amounts of cash and there are no sector or country restraints. It is a lot more flexible than we have had before.

Q: Emerging markets funds are usually associated with higher risk. What controls do you use to limit that risk?

A: We look at sector exposure and tracking error. In terms of performance, we have a 15% rule. If a stock underperforms the market by 15% it comes under review. The rest is observation.

But one could argue that if you have no exposure to emerging markets, you are accepting too much risk, from a performance perspective. And risk in emerging markets has diminished quite substantially, as they have developed.

We are [about] high alpha. We are not all things to all people. It is [about] aggressive clients who want alpha and higher-conviction bets.

Q: What companies in the Global fund are you feeling particularly positive about at the moment?

A: Petrobras is one example. We believe oil prices will remain high. It does not have tax issues and the capex expenditure is very high. Samsung is another example. It is a great benchmark stock and we have an active position in it. It is not there for risk purposes as we really do believe it is still a great story.

Q: How often do you expect to trade the stocks you hold?

A: We are likely to have an [annual] turnaround of 150%.

Q: The charges for the Emerging Europe and Global Emerging Markets funds are 5% initial and 1.5% annual. Would you consider performance-related fees?

A: We would love to have performance-related fees, no question.



BRYAN COLLINGS joined Hexam in August. He is one of six Hexam partners and is lead manager on the Resolution Global Emerging Markets fund. Collings joined from Baring Asset Management, where he was head of the global emerging markets team. Prior to that he was at Deutsche Asset Management. He has 14 years' investment experience.