ASSET MANAGER OF THE YEAR

Barclays Capital Fund Solutions

Leveraging its local presence in Singapore, Tokyo, Hong Kong and Sydney, Barclays Capital Fund Solutions (BCFS) is a growing force in Asia-Pacific asset management. Since its inception in 2005, the UK investment bank's asset management business fund has attracted an Asian asset base of $1.8 billion and impressed wealth managers across the region with its ability to deliver many of the competitive advantages one might expect to flow from its parentage. Moreover, with clients increasingly cautious of sourcing product from investment banks, BCFS's value-added risk management practice has forged a committed following among wealth managers and fund distributors in the region.

"We are preoccupied by risk and its effective management at several different levels of the business," says Chris Faddy, head of non-Japan Asia distribution with BCFS in Singapore.

Like many modern asset managers, BCFS does not restrict itself to a particular investment style, but deploys a combination of fundamental and technical strategies depending on the behaviour of the underlying asset classes and markets. Unlike third-party managers, however, it has direct access to the market intelligence, pricing and product sourcing capabilities of a global investment bank, which gives it a potent competitive edge. "We have access to high quality information and research, which allows us to regularly and reliably test whether the market suits the types of risks we are taking," Faddy says.

BCFS uses the Black-Litterman variance optimisation model to gather market technical information to corroborate the fundamental signals generated by its core quantitative processes. The model is based on the theory that asset allocation should be proportional to the market values of the available assets.

Neither pure quantitative nor discretionary, BCFS instead takes a macro perspective by melding these two approaches, affording fund managers the ability to override automated processes to de-risk portfolios should they encounter challenges that algorithms do not analyse well. "It's all very well to have a model, but where we differentiate ourselves from the other fund managers using quantitative macro models is our investment committee that oversees that model. I would liken it to flying a plane – there is an autopilot that does a lot of the work, but you still need a human to take over the landing," Faddy says.

Chris Faddy, Barclays Capital Fund Solutions

Human intervention gives BCFS the ability to override algorithms that can miss subjective indicators. In 2010, for example, the pattern of headlines around the Greek riots, short-selling bans in Germany and the 'flash crash' New York stock market collapse on May 6 all had market-moving impacts. Compulsory investment committee meetings analyse and act on risk metrics that can be easily quantified, and internal compliance requires the portfolio team to take a view on whether to de-risk or not. In June 2010, concerns around US debt and the eurozone periphery economies led BCFS to de-risk several of its strategies, but also to add risk in anticipation of new market dynamics not implied by the fundamentals. Portfolio managers running its US Real Return Fund, for example, entered into a dollar steepener in anticipation of higher long-term interest rates.

Vix in the mix

Faddy points to limitations in the market's most widely cited confidence proxy, the Vix index. "Volatility indicators are only useful up to a point in identifying market inflexion points. We would argue a mixture of fundamental and technical indicators are more effective in getting both the direction and timing of markets right," he says.

Launched in April 2011, the Barclays RMB Bond Fund was the second retail RMB fund registered in Singapore, but the first Ucits III-compliant anywhere. Shortly after launch, two pieces of news emerged with the potential to upset the manager's credit strategy. A credit outlook downgrade for Chinese property developers was announced in June by rating agency Standard & Poor's, followed by the Ontario Securities Commission's ban on short-selling the stock of Hong Kong-Canadian forestry company Sino-Forest. Although BCFS was already 65% invested in RMB bonds ahead of the news, it was able to rebalance its risk exposure.

Asian investors and fiduciaries have been impressed by the results. Winston Teo, head of wealth management with HSBC Retail Banking Wealth Management Singapore, says: "We went for the Barclays RMB bond fund principally because it was available in Ucits III format. We have been impressed by the fund's credit risk management and its bond selection. Some fund managers are not clear on how they will source RMB bonds, with many relying on cash allocations. Barclays' ability to move between bonds, or different classes of bonds, has been very impressive." ●