

# The Art of Multi-Managing



By Bill McQuaker, Head of Multi-Manager Funds at Henderson Global Investors

**Since taking over the Multi-Manager Fund range at Henderson back in 2005, Bill McQuaker has demonstrated a consistent investment approach that has yielded good results. In this Q&A Bill explains why Multi-Manager funds should be considered as a smart strategy for investors during turbulent markets.**

## **1. Can you explain the benefits of Multi-Manager funds, and why do they make such a good investment?**

Multi-Manager funds are great savings vehicles for people seeking a diversified investment portfolio but who perhaps don't have a savings pot large enough to invest across individual funds. With over 2000 funds in the UK alone, the range of options available to investors can be bewildering. Multi-Manager products therefore aim to ease the burden on investors, saving both time and money. We do the hard work for you by building well-balanced portfolios featuring some of the most talented fund managers – and some of the most sophisticated investment vehicles – available. We can also react faster to changes in market conditions in order to make sure that investment objectives continue to be met.

## **2. What main criteria do you apply when selecting funds in which to invest and is it important that Multi-Managers meet individual fund managers face to face?**

Creating a well-rounded investment portfolio involves assembling a number of different fund managers that you feel confident will give you the level of returns you require on a consistent basis. Sounds easy, but choosing the right fund managers takes time, patience and considerable effort.

Obviously you're looking for funds that suit your portfolio and managers that in some way reflect your views on markets, but there are no strict criteria when it comes to selecting funds, and there's certainly no checklist that can do the hard work for you. We make decisions based on satisfying whatever factors are of chief importance at any particular time, making sure that we

have our asset allocation right and ensuring that our portfolios are well balanced and diverse.

Meeting fund managers face to face is absolutely essential. At Henderson we conduct between 150 and 200 fund manager meetings a year, on average roughly 10 to 20 a month. That excludes teleconferences, meetings with sales teams and fund manager conferences that we attend over the course of the year. As our three Multi-Manager portfolios each contain only around 20 funds at any given time, competition to get into our portfolios is inevitably fierce.

We carry out a lot of quantitative analysis on a fund before we meet the manager. This background work is aimed at putting their performance into context and building as complete a picture as possible of how the manager likes to invest. Such analysis always draws out a number of areas of interest and potential questions, such as

- Can they make money in falling markets as well as rising markets?
- What is their attitude towards risk?
- Do they have a bias towards value or growth?
- What areas of the market are they more or less exposed to?

The analysis should help uncover what the manager's individual management style is like and the sort of returns we could conceivably expect them to produce in the future. But you learn more about managers during difficult markets than benign ones. Adversity draws out a fund manager's personality, and it's always interesting to how different managers react to events - or even better - how the best ones can anticipate events before they unfold.

## **3. What are the main areas of risks associated with Multi-Manager funds?**

As a diversified investment vehicle, consisting of a number of differently managed funds, Multi-Manager portfolios are generally considered to be less volatile than a single strategy investment, and of course this is no bad thing. Yet even in a well diversified fund of funds you cannot avoid some volatility, because you're investing in instruments that are subject to swings in market sentiment and instability – something we've seen in sharp detail over the last 18 months.

Also, a Multi-Manager team shapes their portfolios with views and biases – essentially taking a view on how the markets will move. When it goes right, you get good returns, and I'm pleased that since taking over in 2005, the funds' three-year

performance track record demonstrates we've outperformed a lot of competitor offerings, by taking a well-diversified approach to constructing a portfolio.

We spend a lot of our time thinking about the potential downside to our views, and how we can offset risks in case our view proves to be somewhat wide of the mark. It comes down to having the confidence to back the fund managers you're invested in, but being pragmatic enough to know that while some funds will perform well, others won't. A rich mix of the best funds gives clients the widest possible scope for achieving risk-adjusted returns.

#### **4. How does a Multi-Manager provider such as Henderson differentiate itself in this ever more crowded market?**

In a crowded market the best way to differentiate your funds is by offering genuine, visible, quality in three key areas: performance, communication and market knowledge. You need to be able to demonstrate consistent, dependable performance that meets or exceeds clients' objectives over the long-term. You have to communicate effectively with your clients, explaining your thinking in an honest, transparent way so that they have a clear understanding of what you're trying to achieve. If you have faith in your managers you need to be able to pass that faith on to your clients. It's all too easy for some managers to retreat into their shells when markets are against them, but these are precisely the times when they need to demonstrate their understanding of markets, strength of character and their ability to weather the storm. And, equally importantly, you need to be able to display a strong depth of knowledge of markets, which will give your clients some comfort during those inevitable periods of weakness.

#### **5. How do you respond to market volatility?**

We are fortunate in that the varied skill sets of our Multi-Manager team enables us to develop an understanding of what areas of the market we expect will outperform, and which will suffer from the weaker market sentiment. Whereas some multi-managers take large concentrated positions, we believe that a diversity of bets gives clients the widest possible scope for risk-adjusted returns. A greater level of portfolio diversity ensures that the portfolios are robust and are capable of generating returns in a variety of market conditions.

To illustrate this point, Henderson has two Multi-Manager funds in the Cautious Managed sector (**Henderson Multi-Manager Income & Growth Fund** and **Henderson Multi-Manager Distribution Fund**). It's not hard to see why the Cautious Managed sector has been seeing the greatest inflows this year, the investment outlook has become more uncertain and investors are understandably concerned with protecting their assets as much as possible during difficult market conditions. Our Income & Growth Fund is seeing particularly strong inflows at the moment. It is in the top decile over three years, returning 25.1%\* and outperforming the cautious sector average by 9.2%\* over that time period. Our Distribution Fund has a yield of over 4%\*\* and is close behind in performance terms, returning 22.8%\*.

In such volatile markets, outsourcing your asset allocation calls to an experienced Multi-Manager with a solid long-term track record makes a lot of sense. By offering simplicity and efficiency, backed up with rigorous research and fund analysis, Multi-Manager funds offer a compelling case for both investors and advisers. In turbulent times, it makes sense to let Henderson Multi-Manager do the hard work for you.

\*Source: Morningstar mid to mid prices, net income reinvested, net of fees, GBP, as at 30 June 2008

\*\*Current yield as at 30 June 2008

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