

Colonial First State Global Asset Management

Manager profile

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Company overview

Colonial First State Global Asset Management (CFS GAM) is the largest manager of Australian-sourced funds and is the consolidated asset management division of Commonwealth Bank, with a company history which goes back more than 20 years.

It provides asset management services to wholesale and institutional investors across a diverse range of domestic and global asset classes. As at 31 December 2009 CFS GAM's Global Fixed Interest and Credit team had \$24.6bn funds under management. Its Fixed Interest and Credit team of 30 members has an average industry experience of 14 years (21 team members have over 10 years' industry experience).

CFS GAM aspires to be a world class asset manager, delivering superior investment performance to both its clients in Australia and around the world. It aims to do more than just outperform its benchmarks and the performance of its peers, but also exceed its clients' investment objectives and their expectations of service, accountability and initiative. To achieve this CFS GAM believes it must ensure its interests are aligned with those of its clients and always act in their best interests.

Investment philosophy and style

CFS GAM is an active and value-based manager of fixed interest and credit portfolios, which operates with a longer term time horizon than most other managers. Its goal is to deliver superior returns by making investment decisions that seek to maximise the income earnings of its portfolios over time, while simultaneously balancing return prospects against investments risks. It believes that returns in fixed interest are ultimately derived only from interest payments, therefore its overriding goal is to maximise income.

It believes that although fixed interest is typically a defensive asset class, this doesn't mean risk is to be avoided but rather measured, managed and exploited to deliver superior returns for its investors. This means that all CFS GAM's investment decisions are process-driven, well-defined and well-tested, therefore its strategic and portfolio construction processes are all focused on delivering value for risk.

CFS GAM's core investment philosophy for credit is based on its belief that credit returns often overcompensate for credit risk and that diversification across a large pool of lowly correlated assets will generate reliable positive outcomes. It believes a well-managed credit portfolio will therefore offer a source of quality excess returns above cash, in return for relatively low risk. CFS GAM has a bottom-up approach to credit investments, whereby each and every issue in the portfolios is rigorously researched, internally rated by a larger credit research team and evaluated for portfolios by experienced portfolio managers.

Investment process

Each CFS GAM portfolio has an assigned lead portfolio manager, a backup portfolio manager and a supporting process team. Functionally the team structure involves splitting the team functions into strategic decision processes, portfolio management and construction processes.

The strategic decision process is then split into core investment decisions that CFS GAM compiles into portfolios detailing duration, curve, sector allocation and credit. Each core investment decision process is then assigned a team that focuses on this element of its process. This core team has ultimate responsibility for investment decisions and the head of each process team is responsible for ensuring the process is well developed, documented, followed and implemented.

CFS GAM's strategic processes are designed to ensure any active risks taken are well rewarded over time by earning higher income. Its approach is to actively manage duration, curve, sector allocation and security selection strategies by evaluating longer-term income earning potential and rigorously managing default risk, rather than speculating about short-term market movements.

To accumulate exposure to securities or market segments which are paying sufficient income to reward investors for taking that risk, the process focuses on comparing current market levels with longer-term hurdle rates. The key strategies in CFS GAM's risk category relate to portfolio duration, yield curve positioning and sector allocations.

CFS GAM ensures its portfolio managers understand the risk appetite of their portfolios and individual investment restrictions so they can ensure appropriately-sized trades are made to implement key strategies.

Within its sector allocation process, fair value spreads are determined for the various market segments based mostly upon credit and liquidity risk. Where the risk is essentially a default risk, its total emphasis is on credit risk management at the portfolio level through diversification, intense research and monitoring of individual exposures. Therefore the goal is to capture the credit risk spread premium that compensates for the risk taken. Credit portfolios are constructed in a bottom-up manner, with advanced systems and credit modelling tools used to manage credit concentration and correlation risk.

CFS GAM is an advanced user of the latest tools and techniques that enable it to measure the level of default and loss risk present in the portfolio. Its 'skill' is to capture credit spread while minimising the level of credit risk.

Reason Advance selected CFS GAM

CFS GAM's investment decisions are process-driven, well-defined and well-tested. It uses derivatives to manage the duration exposure of the portfolio, which allows the manager to focus on security selection separate to duration decisions that take advantage of the interest rate cycle. We like CFS's disciplined approach to corporate debt investment, which controls risk through careful selection and monitoring combined with broad diversification. The increased credit risk of corporate debt means these investments have the potential to deliver higher returns over the medium term compared to government bonds.

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