

Manager profile

Company overview

Wellington Management Company, LLP (Wellington Management) is a private partnership that traces its roots to the founding of the Wellington Fund in 1928. The firm is based in Boston, MA and has offices located across the US, and in Beijing, Frankfurt, Hong Kong, London, Singapore, Tokyo and Sydney.

Wellington Management serves as an investment adviser to more than 2,000 institutions located in over 50 countries. As at 30 June 2011, Wellington Management had US\$676 billion in client assets under management. It specialises in investments from global equities and fixed income to currencies and commodities.

Wellington Management describes itself as a globally integrated community of investment professionals with one mission: providing clients with superior investment results and outstanding service. It believes its most distinctive strength is its culture of open collaboration and respectful debate which enable its investors to broaden their perspectives and hone their decision-making. It is committed to independent research and continuous learning in its pursuit of the world's most compelling investment opportunities.

Investment process - fixed interest

The objective of Wellington Management's Global Aggregate investment process is to identify a diversified set of independent investment ideas, efficiently allocate capital to those investment ideas, and to transparently manage portfolio risk. This process can be broken down into the following three essential components.

1. Idea generation

Idea generation in Global Aggregate portfolios is a bottom-up process driven by individual portfolio managers on each of the five alpha teams. Wellington Management's portfolio managers look at the following key areas during the idea generation process.

- **Macro**
Wellington Management's macro team implements an opportunistic approach which generates investment ideas based on a thorough understanding of key global investment themes, rigorous fundamental macro-economic analysis and specialist research on individual government bond markets. This fundamental analysis combines a structural view on the critical macro-economic themes that will influence markets over the long term, with a cyclical view on the relevant near-term factors such as monetary and fiscal policies. Macro investment ideas are expressed on a currency hedged basis through developed market duration. Country and yield curve strategies are expressed on an unhedged basis through currency strategies.

- **Quantitative**

The core of Wellington Management's quantitative alpha source is a systematic, model-based country investment approach, designed to identify relative value opportunities across developed government bond markets in the US, UK, Europe, Japan, Canada and Australia. The exposures to different model types in this quantitative country approach are detailed as valuation (60%), volatility (30%) and trend (10%). These models generate signals through the portfolio manager's evaluation of over 500 data points, collected four times a day on a variety of market and economic data. The signals are then aggregated to determine an optimal set of country strategies which are expressed on a currency hedged basis.

- **Credit**

Wellington Management's credit team generates alpha through bottom-up security selection. The credit alpha source benefits from the integration of the research conducted by Wellington Management Management's 26 credit analysts and 47 global (equity) industry analysts, which provide superior breadth and depth of analysis on sectors and individual issuers. Credit investment ideas are expressed on a currency hedged basis through investment grade corporate, high yield and securitised investment strategies.

- **Currency**

Its dedicated currency team is distinguished by its synthesis of quantitative and fundamental approaches to evaluating the impact of capital flows on developed and developing currency movements. Over an economic cycle, approximately 50% of Wellington Management's currency investment decision is shaped by its quantitative models, with the rest involving qualitative judgments which focus on the analysis of long-term, structural and cyclical factors. Wellington Management's currency investment ideas are then expressed exclusively through currency strategies.

- **Emerging markets**

Wellington Management's emerging markets team implements a process that combines top-down quantitative and macro-economic analysis with detailed bottom-up sovereign credit research. The objective of this research is to identify key secular trends, assess cyclical risks and compare valuations across emerging markets, sovereign, local and crossover markets. Wellington Management's emerging markets investment ideas are then expressed through country, duration, yield curve and currency strategies.

2. Risk allocation

Allocating risk to investors in each of the five alpha teams is a critical component of Wellington Management's investment process. It develops a unique risk allocation for each client portfolio based upon the return objective, risk tolerance and guidelines of each client. The allocation determined for each client portfolio is a set of alpha targets and associated risk tracking requirements for each alpha team. Based on this, the investment strategies developed by each alpha team are sized to meet the specific performance objective for each client portfolio.

3. Portfolio construction and risk monitoring

Wellington Management's portfolio construction and risk monitoring process is designed to ensure the investment strategies identified through the macro, quantitative, credit, currency and emerging markets research processes are consistent with client return objectives, risk tolerance and guidelines. Before Wellington Management implements an investment strategy in client portfolios, the risk monitoring process evaluates investment ideas pre and post trade to understand each proposed investment idea's marginal impact on the interest rate, credit and currency sensitivities of the portfolio. In addition, the impact of each investment idea on the portfolio is evaluated through historical scenario analysis and stress tests. The objective of this process is to understand how each proposed investment idea may impact the performance of the portfolio across a number of possible market environments.

Reason Advance selected Wellington Management

Wellington Management is a well-resourced investment manager with high-quality personnel. We favour its focus on investment management and the diversity in the type of assets it has under management. Its Global Aggregate investment approach uses innovative models that consider fundamental, valuation and technical factors and we believe it also uses a good balance of quantitative and qualitative assessments. We also like its research-driven team culture and the high quality of its experienced credit analyst team.

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