by Indira Vergis | 1 day ago

Thirdrock highlights key trends in fund investing

The Singapore-based investment firm's co-founder and head of discretionary portfolio management also reveal the top challenges faced by fund selectors.

Singapore-headquartered investment firm Thirdrock, which started off as a multi-family office, offers wealth management, fund management and corporate advisory services to accredited investors.

In an interview with *AsianInvestor,* Melvyn Yeo, co-founder and executive partner, and Vincent Ee, head of discretionary portfolio management, discussed the top challenges being faced by fund selectors how product focuses are shifting as the financial climate changes, and the role of technology in the investment process.

Q As a fund selector, what are the key challenges to selecting the best funds for clients?

A Getting funds that are consistent in performance is a challenge that many face.

We don't have any particular bias towards large or small fund houses. Having an on-the-ground presence in the region makes it easier in terms of sales communication but if the emphasis is on communicating with the fund manager who is in the US, they need to make time to do that.

Sometimes a large fund house with long-only funds might have a very rigid investment process, while a boutique might have a nimbler process. But a lot of fund managers in boutiques have cut their teeth in large fund houses.

Melvyn Yeo

Younger funds with assets under management (AUM) below $100 million tend to be hungrier and can potentially show slightly better performance, but we have to be convinced that their process is scalable. If a fund can't reach $100 million in assets under management in the first few years, it's hard to attract more AUM and becomes increasingly difficult for the manager to justify running the fund.

Investors will continue to demand good performance to justify the fees and given the growing competitive pressures, fee compression will continue unabated and managers will need to justify their fees against results.

Q What trends have investors been interested in over recent months?

A There is increased interest in environment, social and governance (ESG) investing across both funds and private equity. There are more discussions with clients about funds and strategies that are ESG focused as well as about incorporating ESG factors into the investment process.

Until the end of last year, some investors who invested solely in beta did very well compared to hedge funds, which have lower net market exposure. But now the environment is not conducive to long-only and they are warming to the idea of hedge fund investments.

For clients with long-only portfolios which don't permit shorting, the only way to reduce long delta bias is to go into hedge funds where there is much lower net exposure, which ensures lower volatility on the downside. There have been some high-profile hedge fund blow-ups that have made news, but investors should not judge the entire industry, which typically invests by managing risk more reasonably.

As we go through periods of volatility over the next two years or so, managers who trade in macro strategies could do well; quantitative strategies are also likely to do better. Long-short strategies could struggle and long-only strategies are likely to suffer. Thematically, we also like trade finance, which is relatively safer and a longer- term bet. Even during a market downturn there will be need for trade financing and structures. These are fairly good instruments that may not be as well known among investors.

Overall, we believe investors will likely be focused on instruments that provide safe income streams or have a quasi-utility kind of defensive quality.

Q How do you see technology impacting the fund selection process?

A We spend a lot of time looking at fintech start-ups and are interested in how we can use the deluge of data out there in a more efficient and robust way.

Many fund houses and hedge funds are spending a lot of money to develop their own technology arm to enhance their investment processes. Any data that can give them a competitive edge is being employed.

However, I think companies still have some way to go with regards to developing a technology solution to help with fund selection and perform the necessary due diligence.

For now, technology is useful in screening to give selectors first-level data – but not much more.

This is the second part of an interview that was featured in the August/September issue of AsianInvestor *magazine. Click here for the first part.*

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