FUND SELECTORS

by Indira Vergis | Sep 6, 2018

Thirdrock outlines how it selects funds

The Singapore-based investment firm's co-founder and head of discretionary portfolio management discuss their fund selection process.

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Starting off as a multi-family office, Singapore-based Thirdrock group has evolved to offer wealth management, fund management and corporate advisory to accredited investors and corporate clients globally.

Melvyn Yeo, co-founder and executive partner, and Vincent Ee, head of discretionary portfolio management, spoke to *AsianInvestor* discussed how the team chooses the funds on its platform and the thought process that goes behind approving and removing a fund.

Q Could you explain your fund selection process?

A Across all funds, public, private and hedge funds, we keep regular track of 40 to 50 names, with the names on the list changing depending on factors such as manager performance.

On the hedge fund side, we subscribe to 12 to 15 funds across strategies, while adding and trimming funds over the years.

Our selection process starts with understanding the fund strategy and meeting the team. Then we look at their performance track record, risk controls and processes. When we become comfortable with their entire process, we start modelling the fund exposure into various client portfolios and see how it impacts metrics such as Sharpe ratio as well the portfolio's diversification.

The last stage is operational due diligence, which can be time consuming and extensive, but necessary before we finally make the decision to invest in or recommend a fund.

Q How long does it take to add a fund? When do you decide to remove a fund?

A We could take anywhere from three months to a couple of years. It depends on whether we have had prior interactions with the fund house. If we already know them, the process is easier but when it is a completely new fund house or manager, the process can take some time because it is important to understand the investment process and whether the returns stream is sustainable.

We try not to make any decisions based on short term factors – for instance, we won't remove a fund simply because it has a bad couple of months. It's more important to understand the reasons why; was there anything that was inconsistent with our earlier

Vincent Ee

assessment of the investment process, for instance?

Different investment philosophies also work differently under different market conditions. Has there been a style drift?

There might have also been a discrepancy between what they said they do and what they actually do. For instance, if they said they are quick to cut positions to avoid a drawdown in a certain situation and yet the drawdown is much worse than anticipated, that could be a source of concern.

Other red flags could be the departure of a fund manager. That could lead to fund outflows and questions about whether the rest of the investment talent will stay. But we look at these situations holistically.

Q How do you see the role of passives in investor portfolios?

A When we construct portfolios, we chose exchange-traded funds for markets that are harder to access. We use active managers for markets with inefficiencies, that have the capacity to generate alpha.

Even with a fully passive portfolio, you still need someone to actively allocate within an asset class or sector or factor. Somebody needs to make those decisions. You can't just buy a basket of passive funds and then leave it for five years; you can't just let the portfolio go into autopilot mode.

This is the first part of an interview featured in the August/September issue of AsianInvestor *magazine. The second part will be released next week.*