Schroders

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Fund Focus
Schroder GAIA Helix

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The launch of Schroder GAIA Helix provides investors with an efficient, single access point to an optimal blend of Schroders' internal alpha. To find out more about this new market neutral, multi-strategy/multi-manager fund, we spoke to Robert Donald.

Can you tell us a bit about why Schroders has decided to launch an alternative multi-manager product like Helix?

There is strong interest from clients for liquid alternatives especially, as the cycle matures, for market neutral strategies. We have been looking at ways to expand our current alternatives offering and this fund has been almost two years in the making.

Schroders had a build vs buy decision and concluded that building a multi-strategy / multi-manager hedge fund from in-house talent is the best way to offer investors a single access point to a string of alpha streams that the group knows well and has confidence in.

Schroders is seeding Helix with $200m as it believes it has the talent and resources to build and deliver an attractive proposition for clients over time.

What does Schroder GAIA Helix offer investors?

Schroder GAIA Helix is designed to produce consistent, attractive risk-adjusted returns, with low volatility, moderate drawdowns and low correlation to traditional risk assets. It uses a market neutral approach and aims to generate positive returns on a 12-month rolling basis, across almost all market cycles. We aim to achieve this by tapping into the skill and diversification that Schroders' strategies can offer.

What is the fund's investment approach?

Helix actively blends different strategies exhibiting low correlation in a levered structure within a robust risk management framework.

It combines long-only equity alpha strategies, with conventional long-short and some non-equity strategies that are diversified across geographies, assets, and styles.

Our long-only equity alpha strategies extract alpha generated by selected existing Schroders long-only strategies where we remove their beta. This is achieved through hedging market, factor, a blend thereof or other specific exposures.

It is the consistent excess returns that these strategies generate, especially in down markets, which make them strong building blocks for the fund.

The active blend of strategies provides asset diversification, leading to attractive returns, low volatility and modest drawdowns.

The fund will follow a market neutral approach, with an expected gross exposure of 200%-550%. The central team will use leverage, derivatives and hedges dynamically to manage risks, skews and convexity. The fund will be factor aware, rather than factor neutral, to capture the alpha of managers who actively rotate their factor exposure as part of their investment process.

How do you select strategies for inclusion and what is your investment process?

The investment universe for Helix is diverse, tapping into our in-house global talent pool, with over 150 strategies across equities, Fixed income, multi-asset and alternatives.

The selection process starts with an initial screening which splits the investment universe into two groups. Firstly, strategies which have a significant track record at Schroders, use UCITS compliant instruments and have available capacity. Secondly, to 'strategies to watch'. These may be new strategies or new managers with a shorter track record, long-only strategies that are interesting but currently expensive or complex to hedge, or hard closed strategies which may have future capacity.

Meet the manager

Robert Donald

Chief Investment Officer,
Schroder GAIA Helix

Robert Donald has 30 years of experience in the capital markets. Robert has worked in corporate finance, equity research and fund management within the alternatives market. He started at NatWest Markets in corporate finance and moved to equity research where he was ranked number one in numerous surveys (Extel, Reuters, and Institutional Investor) in his sector of coverage. In 1997 he joined Schroders Securities which was acquired by Citigroup in 2000. He moved to the buy side in 2003 where he joined GLG Partners. He was a Portfolio Manager from late 2003 and became co-manager of a multi-manager fund within GLG Partners. He then joined Soros in 2010 and Brummer in 2014; where he worked as a portfolio manager. He joined Schroders in early 2017.

There are five stages to the fund selection process.

1) Scorecard (with risk contribution of 60%-80%)

An internally-developed scorecard that ranks all funds within our universe. It uses more than 100 metrics across 10+ key categories to identify strategies with consistent alpha generation and appropriate correlation to other strategies in the fund.

2) Economic regime (5%-20%) and
3) Market regime (5%-20%)

We use internally developed tools and algorithms to identify the current economic and market regimes. We then tilt our proposed manager selection to strategies which typically perform best in those conditions.

4) Qualitative assessment (5-10%) and
5) Tactical assessment (5-10%)

We look for potential shifts in strategy returns and correlations and consider mean reversion opportunities.

It is also within the tactical assessment that we may consider allocating modestly to emerging strategies. This could be allocating to a new joiner with a modest track record at Schroders, a new strategy for an existing manager with a long track at Schroders or an allocation to an experienced analyst who has demonstrated particular skill in their area. An allocation to an emerging strategy will start small and could grow over time.

Why should you consider Schroders for a multi-strategy/multi-manager product like this?

We feel Schroders is ideally placed to offer such a product, for six key reasons:

1 Schroders has a strong culture of long-term active management, and by developing the fund in-house we are able to access this proven talent pool. We have over 500 investment professionals across five continents, 30% of which have been at the firm for over 10 years[1]. This creates diversity and stability. The strategy also uses the wider firm infrastructure, with strong support from risk, research, economics, and data insights.

2 Helix is able to access talent which has already proven its alpha generating capability within the firm. This significantly lowers the risk commonly associated with on-boarding new strategies and new managers.

3 At Schroders we do not employ a house CIO view. This effectively allows us to operate as a 'collection of boutiques', which promotes diversity of thought, independent processes and varying styles across the firm. We feel this is an important ingredient behind the fund's ability to deliver a high weighting to idiosyncratic return streams.

4 The quality and breadth of our strategy offering is also important. We have major investment centres in Asia, Europe and the Americas (mainly fixed income) and 150+ strategies across equities, fixed income, multi-asset and alternatives. Add to that the quality of our fund range, with over 74% of Schroders' funds outperforming their benchmark over 3 years[2], then we have the ideal building blocks for Helix.

5 Our managers tend to outperform in falling markets. On average our managers tend to deliver a positive excess return 73% of the time that the wider equity market is weak[3].

6 In addition, the central team has unique access to the underlying positions and portfolio managers of the underlying strategies. This means we can get a depth and quality of dialogue not easily replicated externally. We can also react quickly if necessary. Our awareness of risks (factors, crowding, tilt, sectorial etc.) are real time and we are able to deploy additional hedging as necessary.

Schroders has a culture of generating long only alpha, attaining a high hit rate in down markets and takes a longer-term outlook. This gives the fund characteristics to help differentiate it from its peers. We expect the fund to exhibit modest correlations to other multi-manager funds.

Who will be involved in managing the fund?

The fund will be managed by a central team, led by Robert Donald, CIO of Schroder GAIA Helix. It has oversight of the risks, strategies and single name positions of the fund on a continuous basis. The team consists of a range of expertise from within the hedge fund and investment management industry.

The central team report to an oversight committee chaired by management.

Source: Schroders as at 30 November 2018. [1]Investment professional numbers and tenure as at 30 September 2018. [2]Schroders analysis as at 31 December 2017. Assets with a track record of less than 3 years have been excluded. For further details of the calculation method, please refer to Schroders Annual Report 2017. [3]Schroders analysis as at 31 May 2018. Down markets defined by negative months in the MSCI ACWI. Based on long only equity funds.

Risk Considerations: Mortgage or asset-backed securities may not receive in full the amounts owed to them by underlying borrowers. The fund may be significantly invested in contingent convertible bonds. If the financial strength of a bond's issuer (typically a bank or an insurance firm) falls in a prescribed way the bond may suffer substantial or total losses of capital. Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund. The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. A failure of a deposit institution or an issuer of a money market instrument could create losses. A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless. The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. A derivative may not perform as expected, and may create losses greater than the cost of the derivative. Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk. Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk. A rise in interest rates generally causes bond prices to fall. The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. The fund allocates capital to multiple strategies managed by separate portfolio managers who will not coordinate investment decisions, which may result in either concentrated or offsetting risk exposures. Failures at service providers could lead to disruptions of fund operations or losses. The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks. The fund may take positions that seek to profit if the price of a security falls. A large rise in the price of the security may cause large losses.