Seed Weekly

Seed Process – Cheat Sheet

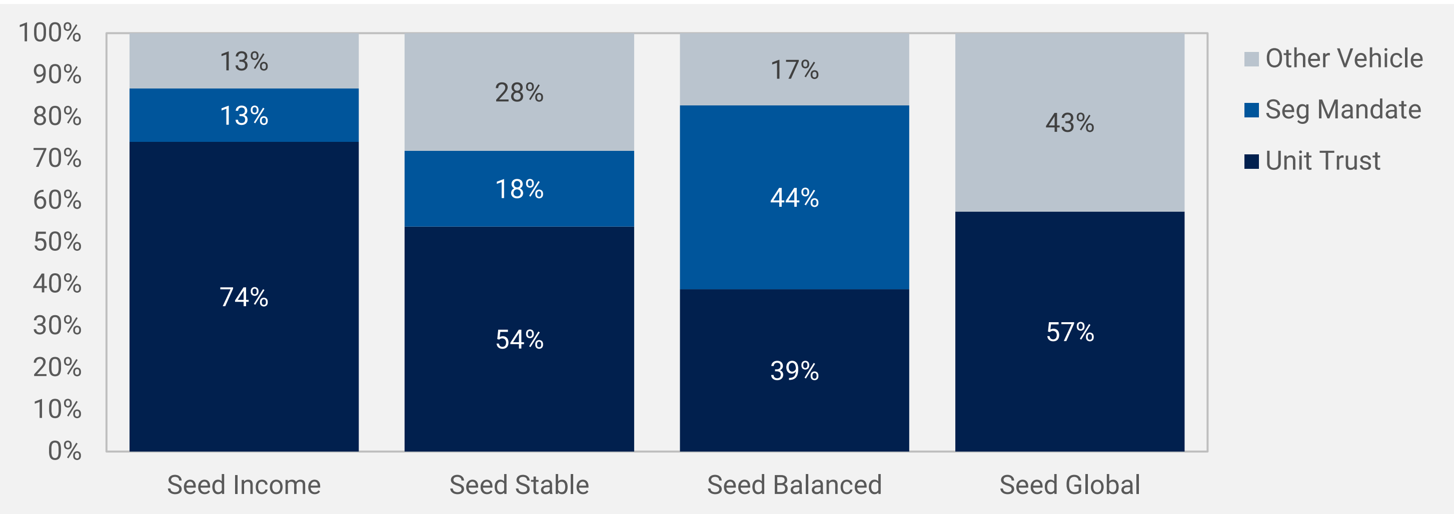
As investment managers, we often get questions from potential clients and Advisors on how we manage our Funds. Our answer can often be a bit confusing, because our process doesn't fall into your typical neat box. And while this might make it more difficult to understand, we believe that it gives us an edge, especially when comparing our process to one that fits neatly into a box.

Let's Explore How & Why We Manage Funds Like We Do

The first and most frequent response received when we say that we are multi managers, is*: "Oh, so you manage Fund of Funds (FoF)!"*

While we do allocate a portion of our Funds to other Unit Trusts (like a FoF), we have designed our Funds to be able to use different vehicles. Segregated Mandates (Seg Mandates – where a manager manages a pool of assets that only you can access) give us greater insight into how the portfolio is being managed (when compared to Unit Trusts), can sometimes be accessed at lower fees than Unit Trusts (although these differences have largely reduced) and can be customised to our needs (should they differ from what's available through a Unit Trust). Minimum investment size is typically higher for Seg Mandates, and they take a lot more work to set up than investing into a Unit Trust. It is for these reasons that we typically use Seg Mandates for larger core holdings in our Funds. There are a variety of other vehicles that we can invest into, though these are generally ETFs, which are essentially Listed Unit Trusts, and again, have their own pros and cons.

The breakdown of each of our Funds on this dimension is illustrated below:



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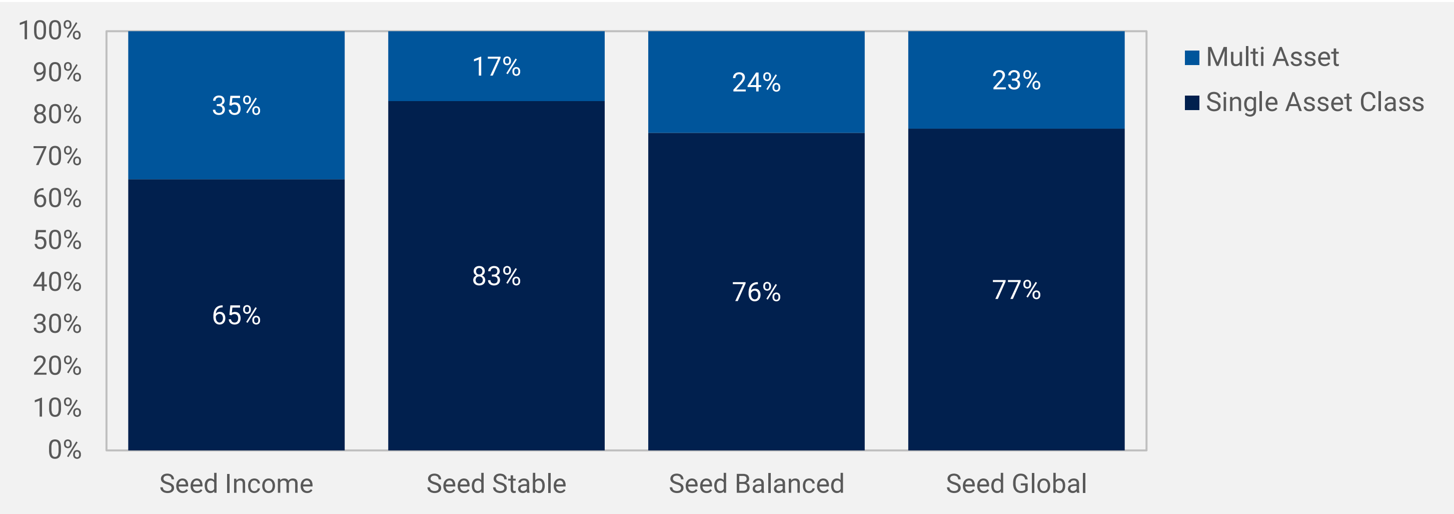
A question that also comes up often is, *"In your Seed Balanced Fund, do you just put a few good balanced fund managers together and try and outperform like that?"* (we also receive similar questions on our other Funds).

The majority of our Funds are allocated to Single Asset Class Mandates (i.e. not blending a few balanced funds together). We have determined how best to structure our Funds and want to ensure that our investment views are properly expressed. In addition to this, many of the more exciting opportunities are offered by managers who focus. By allocating to Single Asset Class Mandates, we can put together a range of specialist strategies that more accurately reflect our overall market views, rather than mixing a few generalists together. While this is the preference, there clearly are some managers who add material value through asset allocation, and these managers are awarded Multi Asset Mandates (within certain predefined limits).

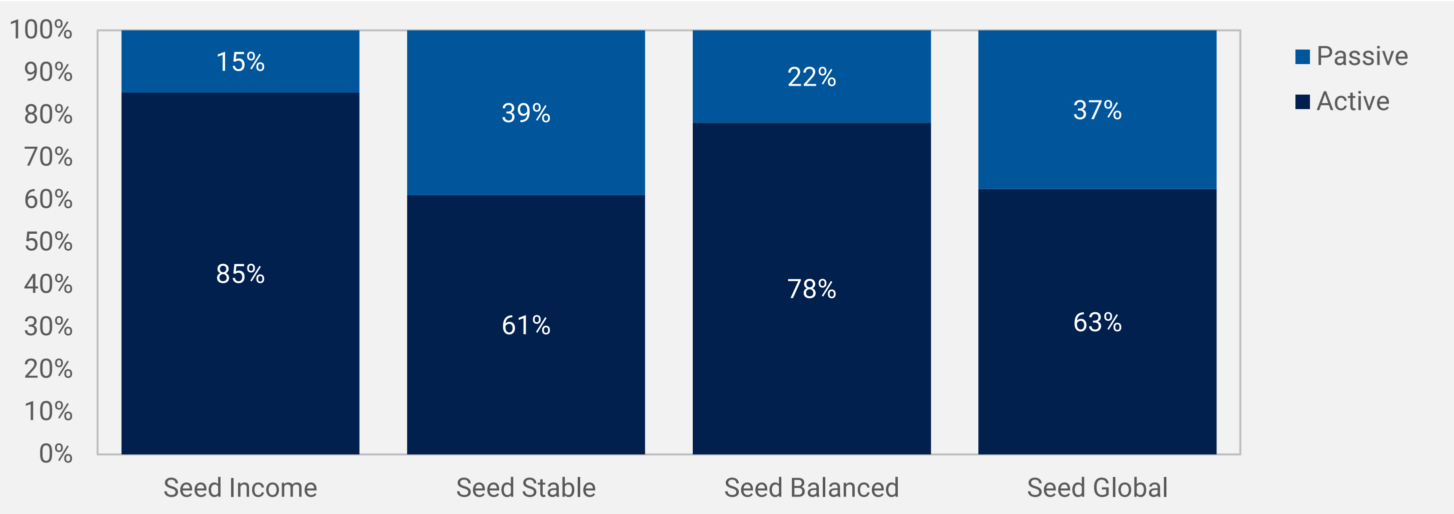
Again, the chart below illustrates the breakdown of our Funds when looking through this lens :



A topic that is very topical these days (excuse the pun) is our view on Active vs Passive and whether we prefer one over the other. Lisa Polson, Seed Investment Analyst, recently covered our views extensively in her article, Active versus Passive Investing – Why Active / Passive Investing shouldn't be an Either/Or **(click to read)**, but the long and the short is that we have no explicit preference of one over the other.

When making the decision, the most important question we ask ourselves is which allocation, we think, will outperform on a net of cost basis. Passives generally (but not always, mind) have lower fees, so start at an immediate advantage, but selected active managers can, and do, outperform their index benchmarks over time. Further aspects that we look at are an active manager's consistency, their ability to reduce risk when compared to passives and whether they blend better with the rest of the portfolio. On the passive side, costs, tracking ability and scale are a few of the key areas that we focus on.

The chart below shows the current allocation of passive and active strategies in our Funds :



Finally, investors often look at the list of managers in our Funds with confused faces, as they haven't heard of some of them. Questions are along the lines of, *"Who is XYZ Manager, and why are you allocating to a 'No Name' brand?"* - Some of the managers in our Funds aren't well known, and we are comfortable with that.

Not all managers have (or want) big marketing budgets to buy advertising space at airports and during live sport, but rather focus on what's important - managing investments. These smaller, more Boutique Managers, typically have more focused businesses and more skin in the game (in terms of share ownership), whereas the larger, more Mainstream Managers are typically better resourced and able to cover a lot more ground. As multi managers, one of our jobs is to find the best Fund Managers out there. This involves digging around and contacting managers that might not be well known to the general public. Again, we have no explicit preference for Boutique over Mainstream, but realise that when assessing the different options there are different pros and cons that we need to weigh up before making an allocation (the distinction between Boutique and Mainstream can also be quite blurry).

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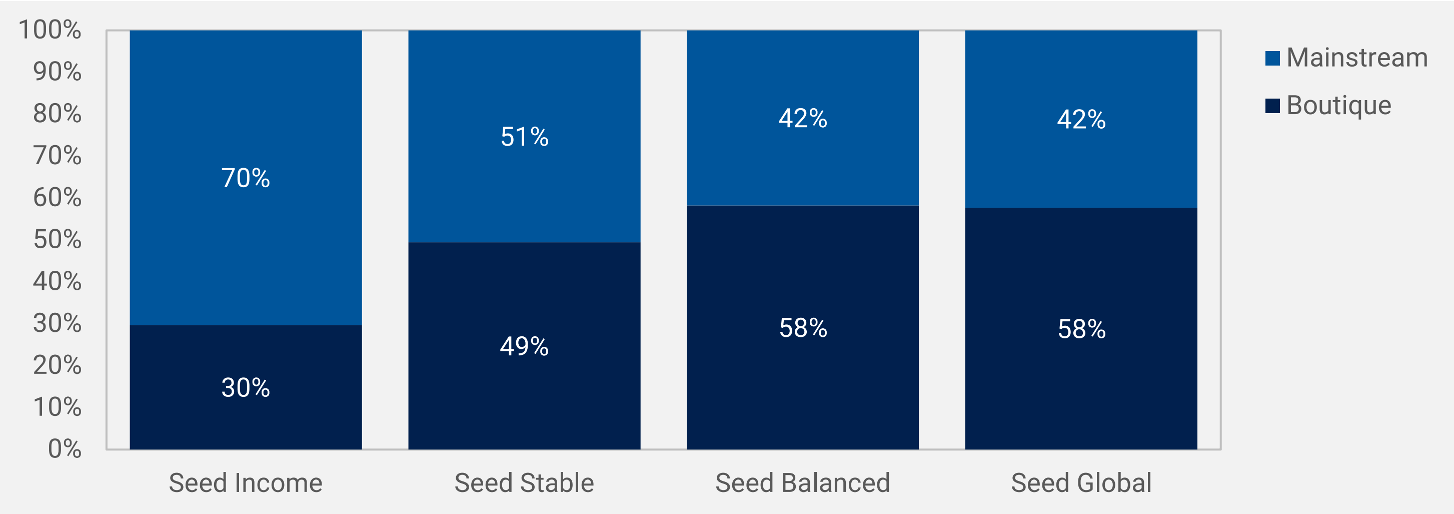

As can be seen from this article, we try to ensure that we aren't boxed into managing our Funds in a specific way if it restricts our ability to manage them. We are largely agnostic on the above classifications, but understand that they are important, and how we analyse strategies changes based on where the strategy falls. For instance, going concern questions are more important for Boutique Managers than for Mainstream Managers, and getting scale is an important factor for Passive Managers, while too much scale for an Active Manager can be an issue.

Building Funds is both an art and a science. Seed has been managing Funds on this basis for over a decade, diversifying our Funds across a range of dimensions. We continue to look for ways to improve both our research process, and how we construct our Funds, to generate returns in the most efficient manner possible.

Take care,

Mike Browne *CFA*
Portfolio Manager

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