

Colonial First State uses Russell Investments' CPM to improve international portfolio efficiency

When Colonial First State wanted to improve efficiency in its geared international shares portfolio, it chose Russell Investments' Centralised Portfolio Management (CPM) solution. As well as reducing turnover and trading costs, the move has also delivered better performance, efficiency and control – while retaining the individual insights of seven active managers.

Situation

In 2014, the Colonial First State (CFS) investments team for the FirstChoice Geared Global Share Fund were seeking new ways to deliver greater outcomes for its investors. Having already made efficiencies in their Australian shares portfolio CFS turned its attention to its international shares multi-manager portfolio, to explore whether CPM could deliver significant benefits within international portfolios.

CFS have a number of active investment managers chosen for their expertise and track record in managing international shares. Under this framework, the specialist managers work independently to implement their mandated strategy. However, for the geared version of the fund, there was a need to aggregate holdings to ensure that the connection between the investments and the gearing were appropriately managed.

CFS worked with Russell Investments to further understand the potential benefits that could be obtained through CPM. CFS recognises that the core value of their investment managers is their ability to generate value adding investment ideas and that a CPM structure provides flexibility in the implementation of those ideas.

Solution

In May 2014, CFS partnered with Russell Investments to use our proprietary CPM solution in a single portfolio. Russell Investments was chosen for its track record in delivering CPM solutions to clients.

Our CPM solution emulates Colonial First State's ungeared international portfolio holdings into one custody account, delivering similar aggregated returns at a lower trading cost. In practice, our team receives daily holdings across all seven active managers and executes trades against the aggregated benchmark via its dedicated, 24-hour global trading desk.



Using this methodology, CFS benefits from savings at five levels.

1. Since inception, turnover has been reduced by 39%, lowering trading fees for the total portfolio by 22bps¹.
2. Russell Investments' trading desk executes at very low commissions – because it's purely focused on execution only and doesn't require any bundled research from the street.
3. Trading no longer has to occur daily – with trades instead only happening on a weekly or bi-weekly basis as required to maintain a balance between tracking error and turnover. A portfolio manager reviews the emulation and target portfolios each day to ensure the frequency of trading is optimised.
4. Russell Investments removes the long tail to reduce custodian costs – trimming the aggregated number of stocks by removing some smaller positions.
5. A subset of the managers also use currency forwards for generating additional return. Russell Investments emulates the FX positioning of these managers to capture this additional alpha source.

Russell Investments' CPM solution can also improve after-tax outcomes by applying a tax overlay to manage the impact of franking credits and capital gains.

1. For the period May 2014 to September 2016.

Results

Since inception in May 2014, Russell Investments' CPM solution improved turnover by 39% and reduced the overall cost of trading in the portfolio by 22bps¹. At the same time, the fund is still able to gain the benefits of active manager insights and capture these returns.

We provide flexible performance reporting around the portfolio's structure, producing benchmark performance of managers versus the CPM solution to demonstrate cost savings and highlight every single trade.

Senior Investment Analyst, Fiona Harding-Jones, says the CPM solution has changed her expectations of trading costs in a complex portfolio:

"We appointed Russell Investments in Q1 2014 to run a Centralised Portfolio Management (CPM) strategy that replicates the FirstChoice Global Share portfolio. The key driver for this allocation was to enhance implementation efficiency across both equities and currencies within this sleeve.

Russell Investments' Direct Equities team worked closely with us on the CPM set-up that included some complexities such as an FX Overlay that was in place at the underlying manager level. This process is very hands-off for us now and Russell Investments is able to provide detailed risk and performance analysis to assist in our understanding of how this sleeve is performing.

We are very happy with this relationship to date and have already realised some performance benefits from this approach."

For more information speak to:

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