FLEXIBLE FUND

The flexible fund that hasn't had a negative year in a decade

Portfolio manager David Hansford puts the success of the Long Beach Flexible Prescient fund down to thinking about investments in absolute terms.

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The Long Beach Flexible Prescient fund has a remarkable track record. As the table below shows, it has delivered a positive return in every calendar year since it launched.

Long Beach Flexible Prescient fund annual returns

Long Beach Flexible Prescient fund A1	
2010	26.7%
2011	5%
2012	14.8%
2013	13.9%

Long Beach Flexible Prescient fund A1	
2014	12.3%
2015	22.3%
2016	2.6%
2017	22.5%
2018	0.9%
2019	9.3%
2020	36.7%

Source: Morningstar

What makes this performance even more notable is that the fund has almost always remained fully invested in the stock market. Its latest fact sheet shows an allocation to listed equity and property of 98.9%.

‘My job as an investment manager is to be invested, not sit on an investor’s cash,’ said portfolio manager David Hansford (pictured). ‘Making big asset allocation decisions into and out of cash is very difficult to do sustainably over long periods of time, and getting it wrong is very costly. Having high cash holdings can be a drag on a portfolio.

‘I prefer to be relatively fully invested. I would only make significant asset allocation decisions at market extremes.’

Going into February and March last year, for example, the portfolio did raise cash and use some derivative protection. But this is not a strategy Hansford employs over long periods.

‘In general, the best way to grow capital in the long term is to own businesses that can grow by reinvesting their free cashflow at high rates of return, and to stay with them.’

Worldwide

Until 1 February 2021, the fund sat within the ASISA South Africa multi-asset flexible category. Its investment mandate then changed, and it is now a Worldwide multi-asset flexible fund.

‘The fund’s global equities have done particularly well, and last year the offshore holdings in the portfolio had grown to the point where I would either need to restructure the portfolio to meet the domestic limits, or change the mandate,’ Hansford said.

‘The decision to change was based on what is best for investors, because to significantly adjust the portfolio would be costly for the fund. The new worldwide mandate also increases the opportunity set of companies which meet Long Beach’s investment criteria.

‘I think a worldwide flexible mandate is the best long-term structure for the fund. If it [represents] my best global ideas at any point in time, I would like to have the flexibility to add assets as I see fit, rather than be limited to a specific geographic area or asset class.’

South Africa

The fund’s fact sheet at the end of December 2020 showed it had 42.5% in global equities. Its largest holdings included PayPal, Spotify, Adyen and Peloton Interactive.

The change in mandate will not see the fund move away entirely from locally listed stocks, and Hansford is not thinking in terms of a specific level of exposure.

‘I’m agnostic towards a specific local allocation. It will be opportunity-driven.

‘Being a South African fund manager who has looked at the local market for a long time, it would be remiss to ignore what’s right in front of me. But my South African ideas still need to fit within the global philosophy. They need to be ideas that can compete with other global ideas.’

Stock selection

Although Hansford is an investment team of one, he doesn’t think this limits his ability to identify good opportunities, even in global markets.

‘Practically, I am very selective. I have filters in terms of what I am looking for. Quant filters, but also a qualitative framework to identify the type of business I am looking for.

‘That is a company with a sustainable competitive advantage or business franchise, which can be a unique product, service offering or network effects.

‘I also look at the capital structure of the business. Those that are very capital intensive and need to reinvest a lot of free cashflow to maintain revenues are less attractive than those that can use their free cashflows to invest in new growth opportunities.’

Absolute returns

Hansford also thinks of the fund in terms of owning a portfolio of businesses. This leads to a concentrated portfolio of 20-30 holdings, where he aims to keep position sizes above 1.5%, and an absolute return mindset.

‘I think about investments in absolute terms, so I am not tracking the benchmark or holding index stocks to be safe. Being willing to take significant tracking error has contributed a lot to performance.’

So, too, has diligently applying his filters for the kinds of companies he is willing to invest in.

‘We’ve had a lot of catastrophic failures in the South African market over the past six years, and the fund avoided pretty much all of them. Trying to limit errors which lead to drawdowns is an important part of portfolio management.

'I do still make mistakes, but I'm also willing to admit that I've made a mistake early and move on.'