

## WealthWise

Investment Perspectives from HSBC  
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# International Investing: Start With the Investment Manager

How might you improve the execution of your global investment strategy? By working with investment managers who have the experience you need. But finding them takes professional assistance.

Economies beyond U.S. borders now drive much of the world's economic growth—and American investors appear to be interested in taking advantage of this trend. But as they contemplate unfamiliar markets, these individuals may face new questions: First, how much of their portfolios should they allocate to emerging-market equities, European bonds, Asian real estate and other international assets? Second, how can they work with qualified investment managers for each asset class?

"Asset allocation is critically important," explains Lane Prenevost, head of HSBC Multimanager for the Americas, "but investment manager selection is where the rubber meets the road. Once investors and their Financial Advisors decide on the appropriate blend of asset classes based on the investors' objectives, investment managers who specialize in managing money in those asset classes need to be carefully selected." Prenevost explains: "The difference between strong investment managers and weak ones can be dramatic—especially when returns are

compounded over time. Investment managers delivering consistent risk-adjusted returns can help investors advance toward their long-term goals."

### Taking a Closer Look

It's quite a challenge for an investor to identify the most appropriate investment managers for handling markets situated thousands of miles from home. Many individual investors may try to gain exposure to desired markets by shopping for funds, often relying on brand names. An investor would want to work with a Financial Advisor who looks beyond the brand, to each fund's investment manager—the person making the decisions about the fund. This additional level of scrutiny matters, since currently respected funds and investment managers may not be well known to individual investors. "It's often tempting for investors to fall back on a familiar U.S. investment firm that offers international mutual funds, but this is not always the best solution," Prenevost contends. "Brand names are not a



### HSBC Securities (USA) Inc.

452 Fifth Avenue  
New York, NY 10018  
1-800-662-3343

### Talking Points

Consider raising these questions with your Financial Advisor as you explore manager selection:

- ▶ What is the appropriate asset allocation for my investing strategy?
- ▶ How can I ensure that we're working with asset managers appropriate for my risk tolerances and objectives?
- ▶ How could manager selection help me apply my international investing strategy?

particularly helpful guide in the investment arena. Large and well-known investment firms may have standout funds in a few asset classes but average or mediocre funds in others—and some investment firms that perform strongly in certain asset classes may not necessarily be household names.”

Demand for help in locating appropriate investment managers has given rise to a class of investments consisting of multiple specialized funds run by several different fund managers. These “multimanager” investments, sometimes called “funds of funds,” are coordinated by multimanager professionals who take on the responsibility for locating those who they believe are the most suitable fund managers to compose the mix. “You really have to pay close attention when assessing individual investment managers—no matter where they’re based—to fully understand what they do and why,” Prenevost continues. “This generally requires local market presence and perspective to make informed decisions about what makes various investment managers skilled at what they do.”

Evaluating investment managers is a complex process. Investors require consistent, long-term competitive performance at an acceptable level of risk, and essentially need confidence that the investment managers in their portfolios are likely to deliver that performance in the future—and those who have strong past returns aren’t necessarily best qualified to provide that.<sup>1</sup>

A record of past results is only one of many factors to consider when identifying a suitable investment manager. Also keep in mind that a performance track record may reflect certain biases a manager has that aren’t necessarily derived through skill and may not result in a sustainable approach to

adding future value. “Quantitative factors such as past returns can sometimes be very seductive,” Prenevost suggests. “Those who want to assess an investment manager will really have to look at many more factors to get the complete story.”

For example, analyzing portfolio holdings throughout time may give a fuller understanding of the decisions that an investment manager made to build a performance history, including how and when risk was introduced and how a given investment manager adapted the portfolio to evolving market environments. Matching this information to a fundamental understanding of an investment manager’s investment philosophy and process may provide good insight into how an investment manager may be expected to perform during various market environments going forward. To relate past performance to future performance, multimanager professionals also need experience in the market themselves to identify what might work and where investment managers might have a competitive edge in what they do to deliver those returns.

Other qualitative factors matter as well, such as the skill of the investment manager’s team. How well do its members work together and leverage their collective experience? How thorough is the investment manager’s research—does it provide an informational advantage that generates investment ideas? Does the investment manager’s team have a robust process for effectively implementing those ideas?

The evaluation process must continue after the initial selection as well. If an investment manager fails to meet performance expectations, it’s important to find out why and appropriately respond to it. Has the involvement of key decision-makers on the

portfolio changed? Has the investment manager’s investment team’s philosophy and process changed unexpectedly? “Sometimes, even though an investment manager may perform as expected, you essentially can uncover a better opportunity,” Prenevost notes. “To assure that you’re using the most suitable investment managers in your portfolio, you need continuous evaluation. It’s important to monitor those you’ve chosen while continuing to survey the market for others and be prepared to implement changes when it makes sense.”

## **A Job for Professionals**

For all the aforementioned reasons, only the most dedicated and tireless investors will want to take direct responsibility for choosing international asset managers. “This is really a job for experienced professionals,” says Prenevost, “and specifically, for professionals with a global perspective and a direct presence in local markets across the globe—not just the developed markets of North America, Europe and Japan, but also the emerging markets of Asia and Latin America. A team of professionals who have the perspective and experience to understand the unique drivers of risk and return within each market and how money managers can effectively add value in those markets is in the best position to identify the exceptional managers from the pack.” And with experienced professionals working behind the scenes, investors may gain the confidence that comes from experienced investment managers being thoughtfully scrutinized and selected to handle their investments.

<sup>1</sup> Past performance is no guarantee of future performance.

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