

## DEXION

Chairman **Robin Bowie** tells **Nick Rice** about his hunt for income opportunities in alternatives, his positive views on infrastructure and green investing and taking income-hungry investors down the path of listed hedge funds

# Building a business plan for the future

### Dexion Capital

**2000**  
Founding date

**£1.3bn**  
Total investment trust AUM

**4**  
Number of investment trusts

**Ownership:** Dexion Capital Group  
**Head office:** London

**Other group locations:** Guernsey

**Chairman:** Robin Bowie

**Group managing director:**

Ana Haurie

**Director:** Carol Kirby

**Finance director and COO:**

Mark Woolhouse

**Legal counsel, compliance officer and**

**company secretary:** Nicole Smith

**Dexion Absolute listing:** FTSE 250

**Dexion Commodities, Equity**

**Alternative and trading listing:**

FTSE Small Cap

**J**ust 18 months ago, the listed alternatives sector was staring at a major contraction.

After the rally of the past year, however, listed investment vehicles that faced down continuation votes and wind-ups have survived in a healthier state – and their advisers have already started searching for new launches and opportunities.

Such is the picture that emerges from speaking to Robin Bowie, chairman of Dexion Capital Group. Mr Bowie founded the company in 2000 to deliver low-risk, cash-plus investments to clients who needed alternative sources of income outside of money market funds.

This need grew after the stock market downturn of 2000-02, when investors increasingly diversified away from equities. This took them to plain vanilla corporate bonds, asset-backed securities and property, all of which helped fuel the credit crunch.

But Dexion took these income-hungry investors down a second route: the listed hedge fund and fund of hedge fund sector. The aim of the sector was to use uncorrelated investments to give clients stable absolute returns with low volatility. In addition, the listed format provided greater liquidity than an open-ended fund, as shares could be sold more easily on the secondary market or bought at a discount. Dexion marketed the funds, outsourced the running to recognised hedge fund managers and performed due diligence to give investors a safety net.

### Debt disasters

The ride was relatively smooth until 2008, when the sector became a secondary victim of the problems in debt markets. Not only was there record volatility, but previously uncorrelated hedge fund strategies became correlated, liquidity was withdrawn from the market and many funds that had previously relied on debt were annihilated.

Mr Bowie says Dexion never financed itself with debt or permitted any debt in its listed funds, which helped it avoid some of the problems caused by the crisis. Although reduced levels of liquidity widened the discount on the funds, Dexion Absolute, for instance, sold down holdings to buy back shares and bring discounts back to more normal levels. The discount widening was accompanied, however, by a savage rise in the value of the dollar against sterling, which further reduced the value of Dexion Absolute trust shares just as discounts were rising.

Mr Bowie describes this perfect storm as “unexpected”, but Dexion Absolute has survived despite delivering a negative return over the three years to May 7. As a result of selling liquid positions to fund buy-backs, the proportion of illiquid investments in the range rose, but later fell once the buy-backs were complete.

To help improve liquidity, Dexion has also started making markets in closed-end vehicles. One additional advantage is that the turmoil has removed market-making operations more generally, meaning new entrants stand to pick up a greater share of demand.

Mr Bowie now sees openings to launch Ucits

version of hedge fund strategies, which offer greater transparency alongside frequent liquidity.

“If investors can do it in Ucits, they would prefer Ucits because they don’t have the discount risk and they prefer the liquidity,” he says.

He also sees opportunities in illiquid investments, as investors have paid a premium for liquidity in the past 18 months. As long as they do not need to sell illiquid investments to fund buy-backs, investment trusts have an advantage in this respect over open-ended vehicles, as investors can buy and sell them at considerably less notice.

This opening for illiquid strategies has become particularly apparent in the cash-plus or income-orientated markets. Regulators show no signs of allowing institutions to raise their equity weightings, nor are their models necessarily allowing them to do so. Given levels of state debt, government bonds look potentially treacherous, as do investment-grade bonds, which are historically more sensitive to rises in interest rates. For investors with long time horizons, the more illiquid ends of high yield and distressed debt might offer a better trade-off for their risk.

The other less liquid areas that look promising to cash-plus investors are property and infrastructure. Mr Bowie sees infrastructure as particularly attractive and is already developing a business around it. This month, Dexion started to make markets in infrastructure vehicles such as 3i Infrastructure and HSBC Infrastructure Company.

“We are interested [in themes] where the client interest is, be it in agriculture, food, water, clean energy, public finance initiative-type infrastructure or growth infrastructure,” he says.

Despite its illiquidity, direct infrastructure has a number of key attractions for investors. It typically pays a high income stream and offers a means of covering the high costs of managing alternative investments if investors cannot offset them through buying at a discount. Income from direct asset investment such as infrastructure can rise with inflation, which will help investors hedge if quantitative easing and emerging world demand lead to currency devaluations.

### Building opportunities

Mr Bowie also sees a huge demand for private infrastructure investors among those responsible for building out infrastructure worldwide. Much developed-world infrastructure is many decades old and needs renewal, he says.

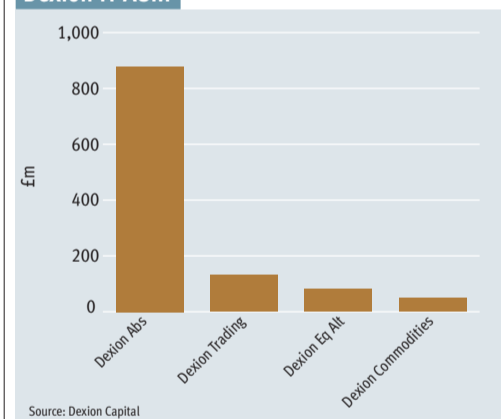
However, Mr Bowie’s business plan also recognises infrastructure development today is not the same as infrastructure development several decades ago. New building programmes increasingly have built-in requirements that they be clean and energy-efficient. Mr Bowie is therefore seeking to expand into environmental investing, a key theme in emerging markets as well as in developed ones.

Mr Bowie says he finds it easier to approach sophisticated end clients directly and therefore deals mainly with managers and discretionaries. He says the IFA advisory process risks turning into “a game of Chinese whispers” if the asset manager explains a product to a client differently to the IFA. Still, Dexion must still work hard to explain its products to wealth managers if it wishes to convert them to its new – and alternative – themes.

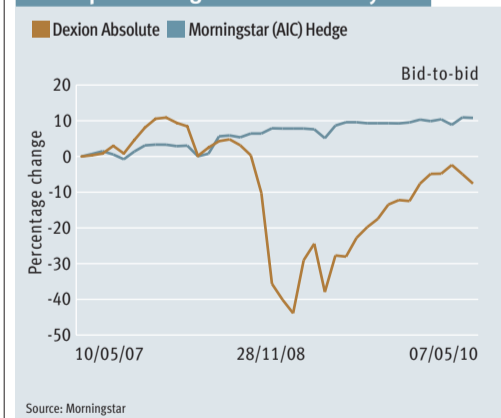
### AUM history of Dexion IT



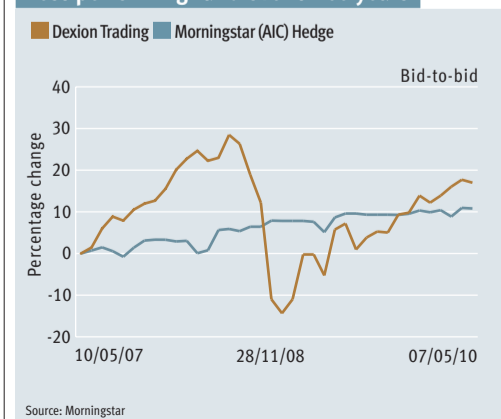
### Dexion IT AUM



### Worst-performing fund over three years



### Best-performing fund over three years



Total IT AUM

**£1.3bn**