

Investment Monitor

Edition 1

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Welcome



James Day

Welcome to the latest edition of the Peritus Newsletter intended for our Trust and Private Clients around the world.

Technology Update

A growing number of our clients wish to store their manager and investment reports electronically. We can now send our Consolidated Manager Reports in a Password Protected 128 bit secure document which also allows more timely delivery.

Charity News

Our drive to support the Leukaemia Research Fund and The Durrell Wildlife Conservation Trust continues. In addition, we are now providing funding for the rearing of Giant Tortoises on the Seychelles.

If you would prefer to receive this newsletter by e-mail please let james.day@peritus.co.uk know.

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MANAGER SELECTION - THE THUNDERING HERD



Two years ago most portfolio managers would have poured scorn on the inclusion of hedge funds, private equity or property into a portfolio. Few would have talked about active management let alone risk management. How a Bear Market focuses the mind to keep disgruntled clients and recapture lost revenues.

Today, every investment firm we talk to has or is about to include Multi Manager Hedge Funds in their Investment stable. Many firms, having slavishly tracked their benchmarks up and painfully down, are now throwing caution to the wind and proudly exhorting the benefits of active management and asset class rotation.

The herd is thundering but many with no leadership or practical experience; we fear that the first major swing in markets may leave many casualties and private clients yet again the unwitting innocents.

How do we avoid these pitfalls when identifying the right managers for our clients? Firstly, if the change in approach for the firm is material and the manager has no prior experience, we will wait until we can see a proven demonstrable record.

Rigorous manager evaluation is the only reliable way of protecting yourself from the managers themselves!

Also, we will only talk to firms who can clearly explain how they manage money and can demonstrate checks and measures to manage downside losses. Finally, if we are not totally comfortable with the approach, we will not proceed further. Rigorous manager evaluation is the only reliable way of protecting yourself from the managers themselves! ●

AVOIDING LOSERS

Every quarter you look at your performance results and discern a trend. Inevitably one of your managers will start to underperform. It is human nature to look for sound reasons why the results are poor and usually by the time you replace the manager, the results have been poor for some time and are often difficult to recoup.

Driving whilst only looking in the rear view mirror is the same as using performance to select or replace managers. It tells you nothing about the hair pin bend ahead!

We do look at past performance and most importantly, consistency of results and low volatility as one tool but it does not and should not replace hard work and effort in meeting and understanding the firms and the teams who manage your money. 80% of our effort goes into meeting the managers and understanding what makes the process and the people tick.

Good consistent performance is driven by human beings not a computer. Understanding all the steps in the human process of investment management and what could impact the smooth running of the team allows us to pick up early warning signals such as personal issues involving the team, the family, stress, unhappiness or process signals such as divergences between the managers' approach and the stocks actually chosen. These signals allow us to look forward and hopefully avoid many of the pitfalls of driving looking only in the rear view mirror. ●

Watson Wyatt has found that firms which offer managers a decent stake in their own business consistently achieve better performance.

THE SERVICE CHALLENGE

In a world where every company claims to put service first how do you demonstrate this?

Firstly, we explicitly place a ceiling of 40 clients and often less that each team member will be responsible for. This, we feel, is the maximum that any person can genuinely build a personal

and knowledgeable relationship. Secondly, where staff turnover is rife and relationships broken with frightening frequency, an important way to increase staff retention and ensure longevity is to work in a partnership structure where all employees are encouraged to have a stake in the business. ●



MEET THE TEAM

Francine Donohoe joined Peritus almost at the outset. She has an M.Fin in International Finance and is our Multi Manager Hedge Fund Analyst focusing on Global Long Short Managers and Multi Style Hedge Fund Managers.

This involves the very time consuming analysis of new and existing managers combined with frequent site visits and regular dialogue with the key players in each firm. When she has some spare time, she enjoys reading, going to the cinema and skiing - apologies to those not living near the slopes! ●



CLIENT REPORTS THE FUTURE

Our Client reporting today already incorporates many special features. Consolidation of multiple Investment Managers' positions including benchmark graphs for each manager, historic asset allocation analysis, communication summaries and a detailed review of each investment institution. These colour reports are delivered quarterly, bound for presentation purposes or electronically in an encrypted file for document storage.

In the future, our plans are to provide more detailed quantitative analysis of each manager's results. For example, assessing whether the good results arose from stock picking, country choice or just good luck! To achieve this, the co-operation of each manager and some very powerful valuation and analysis software is needed. We will keep you updated on our progress. ●

THE MYNERS REPORT - FOUR YEARS ON

At the time the report identified that for Pension Fund Trustees 62% had no investment qualifications, 49% spent less than 3 hours preparing for an investment meeting and 77% had no in house professionals. Paul Myners forecast that improved decision taking could add £1.5bn to portfolio returns.

Offshore Trustees have long been aware of their fiduciary duties. Today, Trust Companies have addressed some of the Myners' challenges in several ways. Larger companies have recruited dedicated investment professionals to provide performance evaluation, staff education and basic manager evaluation. Most companies have invested in external performance software or designed bespoke platforms tailored for their client needs.

As firms have addressed performance evaluation, many have reviewed their procedures for client profiling, asset class identification and the thorny challenge of settlor directed appointments.

The most difficult part of the process for Trustees has been to enhance investment returns by identifying the best managers for their client needs or creating a suitable core list of managers.

"In the business world, the rearview mirror is always clearer than the windshield." Warren Buffett

How to do this is complicated by the fact that the line between a Trustee acting as an Investment advisor or as a Trustee is a fine one. Most have found the solution by creating semi-passive internal lists or by outsourcing to providers who can generate and proactively recommend investment managers.

Clients are the winners in this drive to improve their investment experience, as are the Trustees who by their actions increase client retention. ●