

Investment Monitor

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www.peritus.co.uk

Welcome



James Day

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

Peritus - What does it mean?

For those who would rather forget the days of chalk being hurled at us for not reciting our Latin tenses correctly, Peritus is very roughly translated as Knowledge, Wisdom and Experience, which we seek to amass and share with our clients by evaluating managers around the world.

E-Mail delivery

If you would prefer to receive our newsletter by e-mail, please let us know at james.day@peritus.co.uk. Equally, if you know of other people who wish to receive a copy, we would be glad to hear.

Office Move

After a considerable period of research we found and moved to new premises in Walchestrass 23. These new modern premises will allow us to continue to expand and recruit talented staff as our search for a Relationship Officer and an Analyst of Global Equity Managers continues. Our new premises are centrally located, minutes from the main train station and the famous Bahnhofstrasse and overlooking the Landesmuseum, the Limmat river and park.

Peritus Investment Consultancy
Walchestrass 23, CH - 8006
Zürich, Switzerland
Tel: 00-41-43-299-4480
Fax: 00-41-43-299-4482
Email: james.day@peritus.co.uk

PERFORMANCE EVALUATION - OF WHAT VALUE?

At Peritus, we are passionate about the importance of choosing the right Investment Managers. We are equally focused on the soft aspects of the Investment Team and Process. Why? For performance to fail, some part of the management of the assets must deviate from expectations.

To pick up on these signals requires an intimate knowledge of the Manager. These soft skills can be fooled; so how do we ensure that we do not miss other signals that the manager is failing?

Quantitative Performance Monitoring.

There are a host of areas we focus on:-

- **Red Flags** - When a Manager breaches a pre-determined absolute or relative loss or gain an alert is triggered. The magnitude of the move determines whether a call, a visit or more decisive action is needed.
- **Style Drift** - Investment Managers are appointed for a specific mandate or set of skills. We monitor each style to ensure they remain true to their expertise.
- **Consistency Measures** - Without being too technical - we seek managers who are consistent in exceeding their benchmark, be it an index or an absolute return target. Spikes in returns or large troughs of losses do not please us or our clients.

- **Correlation** - Combining a mix of Investment Managers with the right low correlation to each other can reduce risk (volatility - losses). Managers who change their investment approach may need to be replaced.

- **Benchmark - Peer Group Analysis** - is essential and covers more than just relative returns but measures of risk such as Sharpe, downside loss measures such as Maximum Loss and Bear Capture and measures of outperformance relative to loss such as Sortino.

- **Stress Testing** - Forecasting the scenarios when a manager will perform well or poorly in the future and calculating the Value at Risk is another vital tool.

This type of analysis is complex and time consuming and no single performance software provider or software analysis tool solves all the Quantitative challenges which is why we subscribe to many Quantitative software vendors and supplement the deficiencies with our own proprietary analysis.

Quantitative Performance and Risk Analysis is a powerful complimentary tool for the evaluation and allocation to Investment Managers and should be integral to any Consultancy process. ●

"A penny saved is an economic breakthrough"

NEW TEAM MEMBER

We are delighted to welcome Matthias Csajka to Peritus. Matthias brings with him a wealth of experience from ABN AMRO and more recently as a Hedge Fund Analyst and

Manager for GL Asset Management. Educated at the world re-known St. Gallen University, he has passed the CFA and has over ten years experience in the investment industry. ●

SURVEY RESULTS

We are very grateful to all who completed our Industry Survey. Most interesting was that although 40% had used an Investment Consultant in the past, over 80% said they intended to in the year ahead. To date, those who have used Investment Consultants have had a good to excellent experience.

Those surveyed wished to gain access to expertise and independence, whilst enhancing client retention and performance were secondary attractions. When choosing a Consultant, the main criteria was the Consultant's expertise and ability to monitor performance and assess investment

managers rather than the fees charged or the size of the Institution. Perhaps unsurprisingly, more than 50% of those surveyed were dissatisfied with their ability to monitor and select Investment Managers.

Finally, of those surveyed, the traditional referral value of greater than £20m is no longer standard as most respondees were comfortable referring business from £2m upwards.

Our thanks go to you all for taking the time to complete our survey. The Bottle of Krug Champagne has already been dispatched to the winner Peter Scull of Capita Trust. Congratulations. ●

"No one was ever ruined by taking a profit." **Stock Exchange Maxim**

CHOOSING AN INVESTMENT CONSULTANT?

In the spirit of transparency, which we value highly, we have added to our website in the Questionnaire Section two documents which can be downloaded and used to assess the merits of prospective consultants. One document explains the differences between consultants and the merits of each approach and the second document provides a list of questions to ask Investment Consultants to help in assessing their suitability to your needs. Our goal is to provide a greater understanding on the differences between firms. We hope you find this useful and as always, welcome your feedback and if you feel there are questions which could be added *please let us know.* ●

COMMERCIAL REAL ESTATE - A WORTHY INVESTMENT?

In a low return environment, the search for alternative asset classes which can deliver reliable returns is an increasing challenge for investors. Private Equity, which we shall discuss in future newsletters, will, in our opinion, enter a new phase of maturity in the next few years.

However, Direct Commercial Real Estate has been growing in popularity. Double digit returns have been delivered in an environment when equity returns have been volatile. In addition, the transparency offered by a defined yield profile combined with the prospect of capital gains provides added attraction.

New money flows have been very strong, with most open ended managers having a waiting list to invest or unwillingly having an unusually high cash surplus. All the signs of a bubble forming are evident and perhaps in the short term, returns may be disappointing but the larger question is, should trustees or private clients invest?

Diversification - Of course it all depends on each investor's specific risk / return objectives but the vast majority of studies suggest that having an allocation to real estate, enhances the risk return profile and the cross correlation of the overall portfolio.

The importance of diversification beyond local borders is also important just as it is for most investments but one challenge is how to gain access to global markets.

Direct or Indirect - Interestingly, studies for more mature property markets suggest that in the long run the correlation between the two is quite high and returns quite similar. However, the volatility of indirect securities is materially higher.

There are good reasons for this volatility. Firstly, direct properties are valued monthly but more often annually and information is lagged based on market transactions. This infrequent valuation creates a smoothing effect. Equities are priced on a relative basis by buyers and sellers related to market expectations based on news flow and as a result react instantly. In addition, there are other factors to consider when buying Commercial Real Estate.

Liquidity and Fees - Trading in securities is much quicker than the monthly or quarterly dealing periods offered by funds investing directly into real estate. Likewise, the transaction charges for property unit trusts are higher in the short term and therefore, the attraction of the less volatile property fund could be offset by the higher costs and the

inability to rapidly enter or exit from the market.

Manager Choice - The diversity of managers ranges from the boutique property agency to the mainstream investment house with a dedicated property team. The structure of the team and how the process of property identification, valuation, acquisition, management and development is conducted varies significantly from firm to firm. Similarly, the tools for risk management and team retention are equally varied.

The exact asset allocation to commercial property is clearly client specific and should be discussed in depth with your Investment Consultant. What should always be born in mind is that many investors will already hold an element of commercial property through the equities they own and the real estate owned within each company.

Overall, a well diversified commercial property vehicle would be a good asset to hold dependent on the account's risk and return profile and it is a very good asset class to diversify risk, reduce asset correlation and deliver satisfactory returns. The most significant challenge is identifying the most suitable property manager. ●

