

## Welcome



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

James Day

# Investment Monitor

Edition 7

## Peritus Services

- Performance and risk monitoring
- Portfolio manager selection
- Investment Consultancy

For high net worth individuals and fiduciary structures.

## Cape Town Conference – CPD Training

We will be hosting our bi-annual Cape Town conference on the 29th May. If you would like to attend any of these conferences please let us know. If you would like to have a tailored presentation on subjects such as:-

- Quarterly Market and Investment Manager Overview
- Investment Risk Management – A Trustees Perspective
- Investment Consultancy – An industry guide

Please contact [james.day@peritus.co.uk](mailto:james.day@peritus.co.uk)

## Jersey International Air Display 2012

Peritus Investment Consultancy are proud supporters of the Air Display. The event is free to the general public but all donations and sponsorship funds are used to cover the costs of the event and any surplus is paid to the Royal Air Force Benevolent Fund. For more information on the event or the charity, please look at [www.jerseyairstdisplay.org.uk](http://www.jerseyairstdisplay.org.uk)

## E-Mail Delivery

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

[www.peritus.co.uk](http://www.peritus.co.uk)

*“Timeo Danaos et dona ferentis.” – “I fear the Greeks even when they bear gifts”*

Vergil

## RISKS RELATED TO ETF INVESTMENT

Exchange Traded Funds, better known as ETFs saw their first introduction to investors twenty years ago and were launched to provide Equity market index returns after management fees. They were promoted as a low cost passive alternative, which could be traded throughout the day like a share, compared to actively managed mutual funds which need to be subscribed and redeemed in an arduous process. There are now numerous replicated Equity, Bond, Commodity, Real Estate and Alternative market indices and total assets in ETFs rose from USD 74 billion in 2000 to USD 1,550 billion in 2011. Given their popularity, what are the main differences, pitfalls and risks an investor should be aware of?

Firstly, there are wide differences how ETFs choose to replicate the index they represent. This can range from physical-based methods through either a full replication of all index constituents according to the index weighting, to an optimised replication strategy, or swap-based methods which infrequently hold index constituents. Swap approaches invest

into a basket of securities whose performance is exchanged against the index performance through a ‘return exchange’ agreement with investment banks. This swap agreement leaves the investor exposed to counterparty default risk. However, recently introduced Banking rules to encourage overcollateralisation could reduce some risks.

Secondly, operational risks related to the design and structure of ETFs have long been underestimated as the lack of transparency circumvented the revelation of the complex procedures related to trade settlement, securities lending and collateralisation of swap-based ETFs.

There are numerous additional facets to discuss but in summary, ETFs are a lower cost alternative to actively managed funds but at the expense of the chance to outperform the index. Additionally, unless investors choose a pure physical-based ETF, their money will be exposed to an above average operational risk and potential counterparty default risk.

*“The best minds are not in government. If any were, business would steal them away.”*

Ronald Reagan – 40th U.S. President 1981

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*“Blessed are the young for they shall inherit the national debt.”*

Herbert Hoover

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## DUE DILIGENCE – WHY BOTHER?

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We live in a world where we suffer from information overload, constant streaming of financial news and the worldwide web which provides us with an unparalleled source of information that allows us to make reasonably well informed decisions. It could be argued that detailed Investment Manager due diligence is no longer required as much of the information is readily available.

This is certainly not the case. In theory if all of the information was priced in then to gain an ‘edge’ or an advantage, it can only be obtained through careful and rigorous qualitative due diligence.

Qualitative analysis relies upon in-depth interviews with the Investment Managers and key personnel in key areas such as risk management, operations and compliance. It is through these intensive interviews that a skilled analyst can obtain insights regarding the firm, the philosophy, process combined with the manager’s outlook, current positioning and how these factors may affect both the portfolio and the firm in the months ahead.

By blending historical research, our analysts are able to assess trends within the firm and the team, assess the manager’s prospects and make informed decisions on how this may affect our client’s.

Frequently meeting with the Investment Managers allows us to develop a personal business relationship where we are party to insights long before it reaches the public domain. This allows us to react quickly to news which could directly impact the management of the investments. It is this ‘edge’ that we constantly seek which has allowed us to be forward looking and more proactive than if we were simply used quantitative performance based analysis to alert us to issues late in the day.

With the constant evolution within the investment industry it is only by pursuing deep frequent research on Investment Managers at the sharp end that we will continue to stay at the forefront of what is evolving within the industry. This completely validates our belief that due diligence is truly essential! ●

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*“Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy”*

Groucho Marx

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## INVESTMENT EXPERT WITNESS SERVICES

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Ideally robust analysis of any claim should reduce the possibility of litigation but in the event that the process starts it is clear that choosing the right expert witness can be critical in providing independent, solid and clear opinions which can be very important to the outcome of your case.

In these circumstances, you need an expert who can understand the particulars of your claim as well as the complexities of contentious issues such as loss of profits, wasted expenditure and reputational loss.

Areas where we can help you include:

- Analysing complex financial issues
- Benchmark and peer group analysis
- Quantifying loss and damages
- ‘What If’ scenario assessment

Our firm provides expert witness support for various litigation and arbitration claims. Our services range from evaluating claims and defences, reviewing industry practices and analysing evidence and providing expert testimony. ●

## MASLOW – IS TIME THE BEST INVESTMENT?

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Whatever the source of wealth, for clients, the retention and growth of their assets, whilst very important is not, in truth more than a means to an end!

In reality, ‘Time’ is the most valued commodity that a client seeks. Money and the creation of wealth is the tool that enables this freedom.

Time, whether it be to pursue hobbies, new interests, lead a healthy life, initiate grand designs or simply to spend more time with loved ones is surprisingly, rarely an initial desire for our clients and yet for Peritus it is an integral goal.

Saving time, whether it be simplifying a complex set of investment relationships, consolidating reporting, bringing together multiple investment parties to one venue or just adding value to the investment experience through consolidation of relationships and communication, our purpose is to improve the experience a client has in the handling of their wealth and most importantly, to empower a client to have freedom in their wealth decisions, giving them time to pursue the life they wish to lead.

Maslow wrote a paper in 1943 called a ‘Theory of Motivation’. He symbolised a ‘Hierarchy of Needs’ at the lowest level, to clothe and feed ourselves and at the highest, attaining self-actualisation and the realisation of our full potential.

He was of course ahead of his time and his Pyramid showing a Hierarchy of Needs was inspired but he could not realise that in a modern age, Time itself was and is the most valued of needs and precious of commodities. ●

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*“Ticking away the moments that make up a dull day, you fritter and waste the hours in an offhand way”*

Pink Floyd

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