

SYm|mETRY eyes broader market for expansion

HedgeNews Africa sits down with Roland Gräbe, SYm|mETRY's new chief investment officer, and Stephen Brierley, head of fund of hedge funds.

The SYm|mETRY Multi-Manager boutique, a division of the listed Old Mutual group and a member of the Old Mutual Investment Group South Africa (OMIGSA), has assets of just over R40 billion under management, including absolute return, long only equities, money market, bonds, balanced portfolios, SRI funds and Shari'ah compliant funds. Its product range includes several well-established fund of hedge fund strategies.

Gräbe joined SYm|mETRY in January and was previously head of consulting and a director of Brockhouse Cooper SA (BCSA), where he created an asset consulting business that offers a range of client solutions. He has also worked previously at Momentum, Alexander Forbes and at multi-manager Coris Capital.

Brierley joined SYm|mETRY in July 2009 and was previously with Worldwide Capital, mCubed and Advantage Asset Management.

As SYm|mETRY's new CIO, having just come from the consulting side, have you seen changes in the asset management industry post the 2008 market crash?



Stephen Brierley and Roland Gräbe

RG: We live in a world where risk has a much more measurable cost. This message has had a stronger impact internationally. We see a lot of big global pension funds that are in deficit, having to reduce benefits. Pension funds in South Africa have realised that shortfall risk is real, so they need to be very conscious of their liabilities and their promises to members.

The equity market is not a magic bullet that can solve all the trouble as markets can struggle for an extended period of time. You need exposure not just to equities but to other sustainable strategies in order to generate real returns.

Institutional investors are thinking about the kinds of risks they are taking. Part of that is thinking about opportunities that are not open to all types of investors – like gold and the alternative space in general, which includes hedge funds.

What changes have you seen in the fund of funds and multi-manager space?

RG: In recent years, multi-management has broadly moved from a product-driven environment to a solutions-driven one. Initially SYm|mETRY's business was built on fewer products tailored for distribution. At this point we are trying to build flexible solutions – to leverage off the assets at our exposure.

Some solutions are broadly applicable to many clients and others are focused on one particular client. So in both the fund of hedge fund and multi-manager space there is a lot of innovation taking place in order to be able to provide tailored solutions from standard products.

South Africa's Treasury has recently released a new draft of Regulation 28, which governs what pension funds may invest in. Hedge funds and other

alternatives look likely to have a greater allocation once the new draft is finalised. What are your thoughts?

RG: We welcome a larger allocation to alternatives. South African pension funds will use whatever leeway is given to them by the regulators to diversify away from equity, bonds and cash.

I am pleased there is more leeway. But we are not at a great end-point yet. For example, the first take on Reg 28 is still trying to manage exposure through limits, which is different and in my opinion a less effective approach compared to the application of prudent investor principles.

Rather than limits, funds should apply a rigorous process to ensure their investments will reach the fund objective, and that still seems far away.

The draft allows for a 10% allocation to hedge funds and 10% to private equity, provided the entire allocation comes in below 15%. It is a step in the right direction but it shouldn't be the final allocation. Alternatives should be allowed to grow as the market develops.

Also, allowing 2.5% to be invested into a single hedge fund and just 5% into one fund of hedge funds is not logical. The fund of fund allocation should be allowed to be 10% as most funds of funds invest in at least four single funds. I wouldn't want to see pension funds forced to use two funds of funds to achieve their maximum

allocation – there is not much diversification benefit in that.

Private equity is a bit different as a single private equity fund typically has a diversified underlying basket of assets. Private equity and fund of hedge funds are very different investments from a risk and return point of view, so treating them in the same way might not be optimal from a regulatory perspective.

The hedge fund industry has been in transition everywhere in the past two years. Have you made any changes on the hedge fund side? Where do hedge funds sit in your overall product range?

SB: It is important for our fund of hedge fund business not to stand alone from the rest of SYm|mETRY – there are synergies in the business that govern processes and operations, which we apply across our R40 billion of assets. Hedge funds are unique in their nature but we have still been able to adopt the same process and philosophy.

It has taken 9-12 months of work to achieve integration of our hedge funds into the rest of the business. We feel it is a competitive advantage in that we have economies of scale in systems, operations and corporate governance.

Our operations, systems and capabilities are at a point where we believe we can compete with other fund of hedge fund boutiques.

We are also in a position to be able to offer clients far more flexibility. It is more about 'member choice' than 'off-the-shelf vanilla' where clients have to fit into a particular mandate. Now they can say 'we need more of this and less of that'.

Many institutions feel they don't get the flexibility required of their fund of hedge funds, so we are making our structure more accessible to this need.

Currently the investments we have in fund of hedge funds are all through the Old Mutual life company, none of it is external investments. We have also not yet included hedge funds in our other SYm|mETRY products, which is certainly something we are looking at. We haven't yet started with any retail distribution either, which is a total business focus at the moment and which we are well positioned to do given our ownership structure as part of a leading financial institution.

SYm|mETRY has in the past positioned itself as a company that favours boutique managers. Is this still the case?

RG: Striking a balance between performance and security is what defines our process. You cannot build a solution from boutique managers alone, it is more risky and volatile. We need to balance getting into small managers early with anchor positions in larger and more established managers.

Across the business we now invest in up to 30 managers. We invest in specific teams and processes. It is not our approach

to form a view on a house and to then support it across all its products. We look to access strong teams within any house.

SB: We have been restructuring mandates in the hedge fund side so there have been some manager and portfolio changes. We invest in 11-13 managers at the moment based on their investment skill, strategy and capabilities – the industry is small enough that you can look at almost everybody.

RG: Appraising managers in the hedge fund space is slightly different to the long-only space because of leverage, shorting and the possible consequences of that. Ultimately, portfolio skill is imperative for us to support any manager.

How do you identify managers to invest in?

SB: We are a qualitative-driven house. We look at the skills of a manager and the team, as well as the manager's state of mind, given that it is essentially manager skill that you are buying.

RG: Long-only managers often have the luxury of longer track records and the ability to leverage off that – we can look at the repeatability of skill that can be applied in any environment. Hedge funds are slightly different in that respect.

SB: Long-only investment management is also often a team process whereas many hedge funds are entirely based on one or two individuals. Key-man risk means you need to diversify even if you overlap

similar strategies within the portfolios. We weigh up corporate risk and investment risk.

RG: We don't like to shuffle managers we invest with – either on the long or the hedge side. If we appoint a manager we try to hold that manager until the manager or our view of the manager changes – not the environment in which he operates. We look for managers to add value over a three- to five-year cycle. That said, fund of hedge funds can lend themselves to a more tactical approach. We look for quality and persistence.

Do you seed or incubate managers or are you only interested in established funds?

SB: Because our hedge fund assets at present are a mandate from the life company, being pension fund money, we feel it is not our business to seed new businesses that need money to grow.

So while we don't actively seed managers, we do invest at various stages of their development. We have learned in the long-only business that if you get a manager early on there can be an advantage, such as fees. If we see benefit to investing early on a qualitative basis we might consider it.

But specific corporate governance processes need to be in place, such as licences, indemnity, credit ratings and operational efficiency.

What do you expect from the markets this year?

RG: We don't take a view on market direction, we are more concerned at a higher level with what people want and need from their investments.

Within the fund of hedge fund industry, there might be some consolidation as the industry has been through some tough times. That will position the industry for an expected growth phase in a better regulated environment.

As for alternative asset management in general, the industry needs a three- to five-year period to come into its own. A lot will depend on regulation.

Alternatives are a very strong theme across the institutional and retail space – it's a good story. These managers are not so much investing in different markets, but in different ways. They bring innovation and ingenuity, whether it is hedge funds, commodity traders or private equity.

Fixed income hedge funds had a great 2010 while many market-neutral managers struggled. Do you actively reweight your hedge fund allocations based on market conditions?

SB: We have always diversified across strategies, we don't like to make calls on the market. Our products have different weightings based on different risk profiles. Our targets and mandates don't call for switching between strategies, we see benefit in certain asset classes and are not bullish or bearish on one strategy versus

another. Managers can be consistent in any asset class – we are looking for those who can operate under most market conditions.

What can we expect from SYM/mENTRY in the year ahead?

RG: Our brand has been built on the institutional side. Now we want to grow in the retail market. We want the man in the street to recognise the brand. This year we will be creating distribution channels both within the group and with external parties. We want to engage with the financial advisory market.

SB: On the hedge fund side, we are hoping that advisers will start doing their homework into fund of hedge funds. We are not necessarily talking about offering hedge funds to the mass market. Yes, hedge funds are not suitable for the bulk of an individual's life savings, but they are a great way to diversify away from equities, property and cash.

RG: Our retail strategy will be more about building solid value-for-money effective solutions using our own research – combining and blending different funds and keeping costs down. We might also blend hedge funds into long-only products in a more regulated environment. Our main message to investors is that we will be working hard on their behalf to balance the performance and security of their investments.