ART & MUSEUM MAGAZINE INCLUDED

FAMILY OFFICE MAGAZINE

AUTUMN 17 ISSUE

ARBUTHNOT LATHAM PRIVATE BANKERS

StJohn Gardner

FAMILY OFFICES - UHNWI - WEALTH MANAGEMENT- PHILANTHROPY- LUXURY - LIFESTYLE

Subscription €99 per year

www.familyofficemag.com

THE ART OF RELATIONSHIP BROKERING EMERGING MANAGERS AND HOW TO INVEST

Amana Manori, Managing Partner of Introduction Capital Inc.

Introduction Capital Inc. attracts a high volume of deal flow and emerging mandates seeking the attention of sophisticated capital. As part of our curating process for the IC Marketplace (our platform of opportunities), we are continually interviewing new managers and deconstructing their investment models. As we onboard only a select few global mandates each year, we need to ask the challenging questions that inform us of a, manager's underlying motivations. It is through this critical manager evaluation that we can decide whether the new investment fund has the potential to morph into an exponential investment opportunity. Below are five quick tips we use to help distinguish preeminent investment managers from the rest of the pack.

1. Identify the Potential to Lead

Emerging mandates appeal to opportunistic investors for many reasons including exposure to: a unique investment approach; niche area; unchartered or frontier industry; off-market opportunity; and/or less readily available sector. It is not enough that the manager simply identifies an investment area that has the potential to deliver impressive investment performance but that the manager has the ability to exploit that area. One helpful way to identify which manager is best positioned to deliver on performance expectations is to understand the barriers to entry for the competition. A manager that has no competition and/or is able to capture the bulk of the market share is absolutely worth a closer look.

2. Assess Business Acumen

Once the manager's ability to model a portfolio is confirmed, the next question to ask is whether they have the ability to build a business. Often a successful portfolio manager is not the same person that can build a successful investment firm. A smart manager will focus on managing the investment portfolio and will partner with someone who can focus on building the business.

3. Expect Performance Accountable Fee Models

Recent lacklustre performance highlights the reality that some managers are not performing in certain market conditions and that their stated strategies are not driving returns as projected. Back tested data, proforma and other modelling tools are not accurate articulations of real performance, as a manager's investment strategy cannot truly be tested until the fund is operational. For example, it is only after inception that a manager's commitment to the formal investment strategy can be appraised (i.e. style drift) and any slippage is exposed. Also, there is an inability to account for actual pressures such as tail risk, the impact of the macroeconomic environment, operational complexities and inexperience while the investment program is theoretical.

Recently large allocators have forced managers towards incentive-only fee models, insistence on seeding with propriety capital and establishment of first loss capital structures as a means of holding them accountable for performance. An ideal manager will realign with the investor by adjusting their fee models to demonstrate that they value the investor and their capital. A manager with strong investment conviction will also likely have some skin in the game and acknowledge that fees are paid in exchange for specific servicing of capital.

In determining alignment, caution should also be taken when managers have unwarranted constraints around the return of an investor's capital including gates, lockups and unusual redemption schedules.

4. Rely on the Law of Attraction

Relationship dynamics have never been as critical as they are today as capital is exiting the fund industry and investors are becoming increasingly selective. Sophisticated investors yearn to be strategic capital sources to help emerging managers achieve their goals thus, fostering long-term affiliations. As such, the intangible characteristics of the manager cannot be ignored including their veracity, charisma, depth and vision.

This subjective exploration of the manager's persona and character will likely produce varying opinions of the manager as this is not a case of checkbox due diligence. Notwithstanding the fluidity of this level of evaluation, it is an important step in the process. At the end of the day, investing is often an idiosyncratic exercise predicated on whether the money manager resonates with the individual investor. As such, it is acceptable to walk away from a manager that is very impressive on paper but doesn't pass the 'gut feel' test.

5. Demand Discipline

Notwithstanding the effort it takes to attract capital, a manager should have the self-discipline to walk away when the capital does not make sense. A manager should make the hard decision to decline the capital if accepting the investment will require actions such as a change in strategy, implementation of discounted fee structures, accumulation of an unwarranted cash position and/or the creation of side pockets. When a manager is lacking self-discipline and will easily agree to deviate from his/her investment thesis, this is probably not the manager to invest with.

Exploring the mindset and motivation of a fund manager can help the investor determine whether they are investing in excellence or mediocrity. Understanding the goals, process and personality of a manager can be telling of how they will treat an investor and their investment. Of course, the difficulty arises when we consider money as a driver of success because we are in the world of capital and the accumulation of wealth is an important metric of success. However, what qualitative due diligence allows for is the identification of managers who place their financial success above that of their investors. Unearthing a manager's motivation and desires is no easy task. It is only as a result of hundreds of manager interviews that Introduction Capital can ask the hard questions that access the unscripted responses…those that lie beyond the sound bites and rehearsed marketing pitches.

Introduction Capital is the leading placement agent in Canada for high pedigree global managers seeking institutional Canadian capital.