

MANAGING YOUR MANAGERS



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Nick McEwen
Managing Director
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Revere Capital Advisors is a family office owned investment company in hedge funds and related businesses. Revere's founders include several former board members of Man Group, the FTSE100 hedge fund manager.

Nick is a former Equity Capital Markets banker at Citi and Management Consultant at Accenture. He was educated in Oxford and received a BA (Hons) from Durham University.

The board and investment teams of single and multi-family offices have never faced greater challenges in managing and monitoring their investments.

Transparency, risk measurement and management have all become key requirements for the day-to-day dealings of a sophisticated family office. Complex multi-asset portfolios that consist of derivatives, fixed income, hedge funds and direct equities are common place.

When coupled with the need to manage governance and compliance, fiduciary oversight, regulatory issues with full audit trail across static and dynamic investments, family members and family office executives

face an even more daunting prospect. There is a need to transform the investment data into information that the investment professionals at these entities can use.

It is a necessity for families to be able to examine their holdings based on risk, returns, a scenario analysis, a stress test or a sensitivity analysis — methods that allow them to make projections about the health of the portfolio based on different scenarios, such as a change in interest rates or even world events. There is a requirement for exposure views, including country, asset class, currency, equity and fixed income.

As family offices continue to institutionalise there is a requirement to see how their manager allocations — both traditional and hedge fund — fit together collectively. In short, family offices need to understand their exposures and become a manager of managers.

How many family offices woke up on 11th March 2011 knowing their exposure to Japanese equities or the yen as the tragic events in Asia unfolded? Or during the Gulf of Mexico episode, how much exposure they had to BP, both on a gross and net level to the individual stock and in portfolios? Which funds held it, and how your managers traded it — in aggregate, and individually?

How many families can see style drift when it happens, i.e. when a manager breaches his mandate? How efficient trading is across their portfolio and to distinguish changes in exposures that come from trading activity and those from market movement — which might make a difference to how much exposure one wants to hedge at any particular moment?

We have chosen to address these problems by co-investing with one of the UK's largest single family offices in Statistical Research Laboratory (SRL Global), a UK-based technology company whose Nexus investment platform promotes transparency by allowing the aggregation and evaluation of holdings.

The firm's platform allows a client to view and manipulate their entire portfolio in real time, through a front-office application. The software mines raw data from the portfolio's various sources, such as managers, prime brokerages and counterparties, then enriches it by showing the investments side-by-side and explaining in straight forward terms how they relate to one another.

After compiling all of the third-party investment information for a portfolio, the family office team can manipulate it, trying out possible outcomes to better manage risks and exposures.

There is also a suite of performance attribution, risk analytics and investment audit functions that can take family office executives much deeper than trying to aggregate monthly NAVs and portfolio holdings details from several asset managers. In risk management, family offices can now recreate scenarios real time, seeing immediately how they would affect their current portfolio.

There is certainly no crystal ball in the family office investment space and definitely no replacement for a sophisticated and active asset manager but there are solutions that empower families to answer the question of why their portfolio looks a certain way and promotes a greater understanding and transparency.