

WEALTH MANAGER PROFILE

Dart Capital's asset allocator on getting the critical market calls right

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Nick Samuels spends a lot of time analysing funds and just as long visiting fund managers in his role as senior funds analyst at Dart Capital.

For someone who has been at the Monument-based discretionary boutique for barely eight months, Samuels exudes the air of a man totally tuned into his role as asset allocator across the group's client portfolios. Seeing an average of 10 fund managers a week and attending virtually every investment conference he can bears testament to that.

But then his institutional and multi-manager background has given him a thorough grounding in risk and reward analysis, and a brief period of finding himself a victim of job cuts in the credit crunch has shown him that working for a small, focused boutique has distinct advantages.

After studying economics at the University of Essex, Samuels began his investment career at Schroders in 2000, working alongside Japan veterans Andrew Rose and Denis Clough. He found himself running mainstream portfolios and the arrival of Allan Conway at the firm in 2004 opened Samuels' eyes to different ways of doing things.

Conway brought with him quantitative models and a new focus on risk to the firm's institutional processes.

'Allan taught me that there were more ways than one to skin a cat,' Samuels says. 'He showed me there were different ways portfolios could be run and it dawned on me that I could use the experience of working every day with fund managers.'

In what was a case of poacher turned gatekeeper, he took the knowledge he had gleaned to institutional fund research house Stamford Associates and only picked managers from boutique businesses.

He continued to work within Japanese and Asian equities teams there and after two years was headhunted to join RMB. He was employed by the South African institutional giant to work as a co-manager on its global

equity fund but by mid 2009, Samuels found himself a victim of the credit crunch and out of a job.

He admits it was a frustrating experience. 'It was probably a once in 100 years' financial crisis and disappointing for me considering I had been headhunted to the firm,' he says. The upside was that he received a pay off, which enabled him to sit tight and wait for the right opportunity to come along.

That opportunity came when he was interviewed by Dart Capital's co-founder and former *Citywire Wealth Manager* cover star Richard Whitehead.

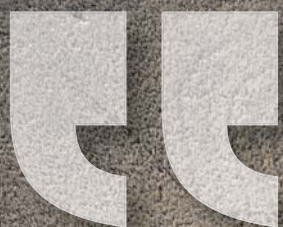
There was evidently mutual agreement, as Samuels bought into the plans that Whitehead and co-founder Matthew Wille had for the business and they in turn liked the fact that he was steeped in institutional investment experience.

'Richard [Whitehead] wanted to bring institutional processes to the discretionary space so saw me as a good fit with the company,' he says.

While the number of analysts following a manager at RMB would be impossible to recreate



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at a boutique, Samuels says the quantitative side was more easily replicated.

On top of that, Dart Capital has the advantage of being nimble and was easily able to change asset allocation calls quickly if macro conditions changed.

'I had seen a few firms but liked the idea of Dart because it is a growing business, says Samuels.

'Previously Richard had been doing a lot of the asset allocation himself but he also had the business side to run.'

He says while there had been other people involved in the process, no one had been purely dedicated to fund research at that time.

'It was good for Richard to have someone to bounce ideas off at that time with an institutional background,' he adds.

He also liked the fact that Dart was a genuine multi-asset boutique and saw it as the next step in his progression from a purely long-only equity focus. 'It can get a little bit narrow just looking at UK and European managers.'

Samuels clearly felt at home in his new environment overseeing allocation across all asset classes under the watchful eye of Whitehead was an attractive proposition.

The approach of the retail distribution review (RDR) also led him to believe it was a good time to join a forward thinking wealth manager, especially since Whitehead had set out from the start to convert the business away from its IFA roots to a fully fledged RDR-ready discretionary firm.

'Everyone I met was very personable and client happiness is a priority,' he adds.

Another attraction, he says, was the fact that some of the shareholders of the firm take a key interest in investment and regularly come in to talk to the team.

Dart has strong links to the accountancy profession and two of its partners are retired PriceWaterhouse-Coopers (PwC) partners, with one, John Orpen, a regular visitor to the boutique's Monument offices.

After his experiences with RMB, a company that had undertaken rapid global expansion and then contracted sharply when the credit crunch struck, Samuels liked

the fact that Whitehead and Wille had no ambitions to embark on a similar course.

With the pair owning the bulk of the business and intending to keep it on a steady and sustainable growth path, Samuels felt secure in his new role.

'Both of them have a clear vision of where they are going and are very conscious of spending money for the right reasons. They won't break the bank to grow the business but will do it organically and take their time. After what happened with RMB, that all sits well with me.'

Samuels' role in asset allocation across all classes gives him a place on Dart Capital's investment committee, which meets monthly and is chaired by Whitehead.

The committee is completed by two asset managers, Ben Klein and Lynn Flynn, but some of Dart's clients may also get involved from time to time.

'We also like to bring certain clients into the meeting to utilise their expertise. For example, we had a retired PwC partner in a couple of months ago, and also a client from the travel business who had experience of

currency risk management. They enjoy it, and we like to get views from our highly skilled client base who work outside of our industry.'

Samuels oversees six risk models, ranging from low risk/low volatility up to high risk/high volatility. Level one will have no equities in it and most clients sit in either level two or three.

Default average weightings at level three are 40% in equities, 10% in property and 27% in cash and fixed interest. It also has 22.5% in alternatives, making it similar to a cautious managed sector fund, he says.

Currently level three portfolios are 50% in equities, neutral on commodities and property, and underweight bonds. Just 10% is in cash and fixed interest.

'We have also been buying auto calls and range accruals that should work well even if markets turn down.'

He has also helped to bring further institutional tools to the asset allocation decision making process after introducing a Bloomberg feed. 'It gives us more institutional firepower. For example, it allows us to analyse whether the UK looks cheap compared to the rest of the world,' he explains.

Dart has some 40 funds on its approved buy list at any one time and Samuels' job is to convince Whitehead that a fund is worth inclusion. 'Having just 40 funds on the list means we are quite high conviction, but it also means we have low turnover and it keeps costs down.'

A smaller number has other advantages. 'The more holdings you have, the harder it is to keep on top of it

and the less you have, the less chance that you have a blow up.'

Absolute return funds have been a particular area of focus for Samuels over the past few months and he believes many investors expect too much from the sector.

'There is a misconception that they are magic funds, which is not fair. The right ones will just put up modest positive returns every year so they can play a really important role in the portfolio.'

Two of Samuels' top fund picks are Philip Gibbs' Jupiter Absolute Return fund and the Absolute Insight UK Market Neutral fund, which are clearly two very different propositions.

'A client in risk profile five would be the ultimate risk taker. Gibbs would carry a lot more volatility than Standard Life's GARs or Insight's fund so you would obviously get Gibbs in a five and Insight in a one, but not the other way round.'

The group has also recently seeded a sterling hedged share class for Brown Advisory's American fund. 'We like US equities but don't want to take a view on the dollar. By buying a hedged share class you don't take on the currency risk.'

Making the right calls at the right time is a critical part of Samuels' role. The toughest call Dart Capital has had to make so far was in June and July last year just a month after he had joined the firm.

'It was a time when the markets were selling off and there was a temptation to make sure we were

not caught again and were tempted to sell equities.'

But Samuels and Whitehead held their nerve and retained their equity weightings, which proved the correct call as markets recovered strongly.

Another key call has been selling out of all long-only bonds last September. The firm had had a 15%-20% weighting to them previously but recycled much of the money into funds such as the Swip Credit Advantage fund to capture the spread contraction, and also into two strategic bond funds.

The remainder was recycled into selected commodities. 'It has worked out well so far,' he smiles.

Moving to a boutique from a big institution has meant Samuels is typically looking to place £5 million mandates rather than £100 million ones with managers, but he has been pleasantly surprised that Dart's reputation in the market place has meant the door has always been open to meet the best managers.

'If the door was not open, we would just move on because there are so many other options out there.'

Away from work, the golf and cricket fan confesses he has little time for anything other than to devote it to his wife and 10-month-old son at his Hertfordshire home.

The Spurs fan bemoans the fact he has had to relinquish his season ticket to improve his work/life balance but it is clear he would not change it for the world.

Dart's clients will be hoping he will continue to watch over their portfolios with the same diligence. ■

DART CAPITAL'S TOP FIVE FUND PICKS

Our approach to investing is to be diversified across multiple asset classes at all times. We invest in funds that we believe are capable of making money in real terms, but that are also lowly correlated to each other. Our top five fund picks therefore each come from different asset classes and are from fund management houses of differing size and investment styles, reflecting our approach to fund picking.

1

While we do not like bonds, it is really duration that we want to avoid as we do see value in credit spreads compared to historical averages. One way we have expressed this view is the **Swip Sterling Credit Advantage fund**, which enables us to access credit markets without the inherent gilt market volatility. Swip has a strong bond team with a good track record of risk-adjusted returns, and a product such as this enables us to maintain an exposure to corporate bonds, which are crucial in putting together multi-asset portfolios, despite our belief that bond yields will have to rise in the future.

2

We believe that value investing works over the long term, and that the best time to invest in a value manager is after a period where the style has been out of favour. Two of the best exponents of value investing in UK equities are Nick Purves and Ian Lance, and we followed them from Schroders to RWC, where we helped seed the **RWC Income Opportunities fund**. This fund gives them more scope to invest outside of the UK than they have previously had, and at RWC they have the infrastructure and freedom to replicate and possibly better the impressive track record built up at Schroders.

3

Outside of the UK, the consensus trade is to be long emerging markets, but we feel that US equities in particular have been overlooked and could perform well as they traditionally do in the third year of a presidential term. Our core pick here is the **Brown Advisory American fund**, which blends together the value, growth and small cap strategies from the Baltimore-based firm. We recently seeded a sterling hedged share class, which has enabled us to access US equities without taking on the associated dollar risk.

4

While it didn't have the best 2010, we are keen on the absolute return sector, particularly funds that can offer real returns and correlation benefits versus other asset classes. One of our favourites here is Philip Gibbs' **Jupiter Absolute Return fund**, which brings the manager of the highly successful Jupiter Hyde Park hedge fund into the Ucits III world. Gibbs' macro and somewhat esoteric style allows us to have a portion of the portfolio that can deliver positive returns even when markets are falling.

5

Commodities over the long term offer diversification benefits from other asset classes, but have done so with a lot of volatility. We wanted to have access to real commodity markets (not commodity related equities) as an inflation hedge, but with lower levels of volatility. We found the **Russell OpenWorld Commodities Long/Neutral Strategy fund**, run by a firm called Mount Lucas in the US, which is long the 11 most liquid commodity markets when price momentum is positive, and then goes to cash when momentum turns negative. The result is a far smoother return profile over time, and the fund is hedged back into sterling, thus removing the currency risk.