The Interview – Pius Fritschi, LGT Capital Partners: “Clients and investment managers provide the best sounding board for ideas to meet the changing needs of the marketplace”

LGT Capital Management AG [1] Managed Futures [2] Hedge [3] 

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Pius Fritschi (pictured), head of hedge fund business development and client services at LGT Capital Partners, says the firm’s Crown Managed Futures fund of hedge funds programme, which generated annualised returns of nearly 9.6 per cent over its first decade, continues to attract investors with its lack of correlation with traditional asset classes and especially its impressive performance in returning 21.7 per cent between November 2007 and February 2009.

GFM: What is the history and background of your company, principals and funds?

PF: LGT Capital Partners, which is wholly owned by the LGT Group Foundation, was formed as LGT Capital Management in September 1998 as the investment management arm of LGT Group to provide investment management and investment advisory services. In November 2000, the alternative investments team of LGT Capital Management was separated and became LGT Capital Partners, a new company domiciled in Pfäffikon, Switzerland.

In 2003, LGT Capital Partners established its Hong Kong and Dublin offices, followed by New York in 2004 and Tokyo in 2006. In 2008 the firm acquired KGR Capital, a leading hedge fund investor in Asia with offices in Hong Kong and London. We manage both funds of hedge funds and private equity fund of funds, and had USD21bn in total assets under management at the end of last year.

LGT Group was founded in 1920 and has been a principal investor in alternative assets since 1994. It has offered client programmes in hedge funds since 1996 and in private equity since 1997.

There are eight partners within LGT Capital Partners. Those involved in hedge fund management include chief executive Roberto Paganoni, head of hedge fund investment programmes and risk management Werner von Baum, chief investment officer and co-head of hedge fund investment management Thomas Weber, and myself.

GFM: What is the structure of your fund?

PF: Crown Managed Futures Sub-Fund Class A (USD) is an open-ended fund of hedge funds domiciled in Ireland that started trading in October 2000. Crown Managed Futures has been established as a ring-fenced managed accounts investment vehicle with full transparency, high liquidity and complete segregation of managed accounts.

GFM: Who are your main service providers?

PF: Crown Managed Futures is audited by PricewaterhouseCoopers in Dublin, and custody and fund administration is carried out by ABN Amro (Ireland). The legal advisor to the fund is Maples and Calder, also in Ireland.

GFM: What is your distribution strategy and targeted client base?

PF: Since its founding in 1998, LGT Capital Partners has been a fund of hedge funds provider for institutional and sophisticated private investors, and today the firm has more than 200 clients. Around 85 per cent of our USD5bn in fund of hedge funds assets under management is from institutional clients such as insurance companies, pension funds and endowments, with the remainder from high net worth individuals.

GFM: What impact has the recent global financial crisis and economic downturn had on your business?

PF: LGT Capital Partners weathered the financial crises relatively well due to our CTA trading strategies and the fact that we were not invested with any managers involved in blow-ups or fraud in 2008.

We did face redemptions from private clients through our bank platform, but our stable institutional investor base remained invested during the 2008 crises, allowing us to maintain our investments with managers we deemed of high quality, and all through 2010 we saw hedge fund assets growing again toward the USD5bn mark.

The Crown Managed Futures programme performed extremely well during both the sub-prime crisis and the Lehman bankruptcy, returning more than 11 per cent in 2007 and more than 20 per cent in 2008, demonstrating resilience and significant diversification benefits.

GFM: Please describe your investment process.

PF: Our investment approach encompasses three areas from a top-down perspective, and a rigorous manager selection process from the bottom-up perspective. Top-down, our process covers strategic asset allocation with a three- to five-year horizon considering macro environment and market scenarios, tactical asset allocation over a six- to 12-month horizon engaging in short-term opportunities and avoiding near-term risks, and investment themes, engaging market opportunities which are neither style nor sub-style specific.

From the bottom up, our manager selection process seeks managers of the highest integrity, with proven money-making and risk management skills, having a discernible and sustainable edge, with commensurate terms, transparency and assets under management, with an adequate organisation with operational excellence, clear checks and balances and first-rate counterparties, and having significant co-investment and strong alignment of interest.

Additionally, portfolio management designs, constructs and manages portfolios to meet specific risk, return and correlation objectives. Risk management is critical for us and takes place throughout the entire investment process, with the objective of taking prudent risks where we expect to be rewarded.

GFM: How do you generate ideas for your funds?

PF: Our in-house macro research seeks to consistently deliver high-quality intelligence on the market environment and events, which we use in conjunction with intense dialogue among our investors and managers in the origination of investment ideas. We foster an environment that encourages people to take ownership of issues and tasks, enhancing the free exchange of ideas and creating room for ideas to flourish.

GFM: What is your approach to managing risk?

PF: We view risk management not as a separate discipline but as part of its culture, reflected in the various steps of our investment process - asset allocation, manager selection, portfolio management and the structuring of investment vehicles.

Our philosophy is to mitigate the risks within a fund of funds context through a structured risk management framework, an extensive due diligence process and thorough monitoring after investment.

The risk management process is independent from the investment teams and based on strict checks and balances. It includes veto rights by the head of risk management for fund approval and asset allocation decisions.

The core beliefs underpinning our risk management philosophy are as follows. Risk management identifies the key risks of the fund of hedge funds business along the value chain and allocates responsibility for each risk; checks and balances are the cornerstone of risk management and applied through veto rights; risk control acts as a second line of defence, working closely with the risk-taking units, while remaining independent from the investment side; and operational due diligence is an integral part of both fund approval and monitoring.

The transparency of managed accounts, currently accounting for more than 20 per cent of assets under management, facilitates an in-depth understanding of the manager and allows for the rapid execution of risk management decisions.

GFM: How has your fund performed?

PF: Crown Managed Futures Class A has performed exceptionally well in various market environments, returning 16.22 per cent in 2010 and an annualised 9.58 per cent from launch to the end of December, with volatility of 12.27 per cent. These figures are in line with the long-term target investment objectives defined for the fund.

The fund has also provided excellent diversification, making the portfolio one of the best-performing managed futures programmes worldwide, returning 28.6 per cent during the bear market of October 2000 to March 2003 and 21.7 per cent during the bear market of November 2007 to February 2009.

We have constructed a portfolio of highly active trading strategies that can benefit from different market environments. The portfolio remains highly tactical and can adapt quickly to changing market conditions. The team has a positive outlook for 2011, and we are optimistic that Crown Managed Futures has the potential to achieve a performance in 2011 above the long-term target annualised return of 10 per cent.

GFM: Are you looking at any particularly attractive opportunities right now?

PF: The investment proposition of our new corporate activity product is quite interesting. It aims to generate capital appreciation from investments linked to events such as refinancing, restructuring and acquisitions or spin-offs. Positions are taken throughout the capital structure of a company and can be rotated over time.

Active portfolio management allows shifts between strategies according to the development of the economic cycle. It is a concentrated portfolio of top-tier managers with global reach, focusing on merger and acquisition, distressed investing, restructuring, special situations, long/short credit, variable bias and structured credit strategies.

GFM: What developments do you expect to see in your investment sector or industry field in the coming year?

PF: We see client interest returning to our product offering. The risk/return profile of our products is very attractive, particularly compared with traditional long-only investments. Within the industry, we see further consolidation. Also, after 2008, clients are more thorough in their investment manager selection and due diligence.

GFM: How will these developments affect your firm and the performance of your funds?

PF: Our firm is built upon an extremely stable client base and ownership structure, giving us the ability to weather various market environments and industry trends. Our products have solid, long-term track records that demonstrate resilience even in volatile bear markets. In contrast to much of the industry, we have also taken the opportunity over the past two years to hire high-quality investment and client service professionals.

GFM: What do investors currently expect from managers, and how do you deal with those expectations?

PF: We see investors with clear demands for greater transparency, rigorous risk management, liquidity and increased control, in this case not having a commingled structure. These demands have played to our advantage in a number of areas. We have been able to grow our managed account offering, in place since 2000, precisely because it offers transparency, liquidity and control. Further, we see a shift from multistrategy to single-strategy offerings, mainly a result of further integration of the hedge fund asset class into the overall asset allocation.

GFM: What differentiates you from other managers in your sector?

PF: As an active investor in hedge funds for more than 14 years, our experience allocating across various strategies and styles and our rigorous manager selection process have proven be important components of the performance of LGT Capital Partners' fund of hedge funds portfolios.

As co-investors, we engage in the investment process more like a principal than an agent – we believe people have a different level of diligence when it comes to their own money compared with investing other people's capital.

LGT Capital Partners is one of the fund of hedge funds managers with the highest levels of co-investments in the industry, both directly from the team and from its shareholders. While it is common for single fund managers to have substantial amounts of their own capital invested in the funds they manage, it is less common in the fund of funds industry.

Another differentiating factor is that we have never lost money in fraudulent managers since the firm's establishment.

GFM: How do you view the environment for fundraising over the coming 12 months?

PF: We have seen growth in institutional investor demand for liquid strategies, such as managed futures, global macro and client-specific mandates. Given volatile markets and the low interest rate environment, we expect a continued shift of assets into the alternative space. Last year saw an increase in US institutional demand for alternative investments, and in 2011 demand is returning in the EU and Asia for liquid, decorrelated strategies.

GFM: How do you expect your business to be affected by current and proposed regulatory changes?

PF: The EU's Alternative Investment Fund Managers Directive will affect asset managers generally, as it will require an onshore investment manager and onshore funds. Our business will see little impact as we have an established onshore management company and investment platform domiciled in Ireland. We are also carefully monitoring the changing Ucits landscape as the fastest-growing fund of funds segment for distribution to private bank clients and regulated institutions.

GFM: Are you considering any mergers or acquisitions in the foreseeable future?

PF: We will continue our strategy of organic growth. Our core business will remain alternative assets, and we will continue partnering with clients to access alternative assets through both commingled funds and separate accounts. Given the trend toward consolidation, we will continue to monitor the industry landscape and assess opportunities as they may arise. Over the next three years we aim to grow the firm’s assets under management to USD25bn-USD30bn and expand our team to 200 employees globally.

GFM: Do you have any firm plans for further product launches?

PF: We are constantly researching and testing new ideas that could potentially evolve into viable new products or solutions for our clients. One of the main sources for our idea pipeline is our regular dialogue with clients and investment managers. We believe these two groups provide the best sounding board for developing ideas to meet the changing needs of the marketplace.

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