

## The Interview - Thanos Ballos, Strategic Investments Group: “Liquidity, results, transparency and regulation are the four words we hear from investors nowadays”



Thanos Ballos, managing partner of Strategic Investments Group, says the firm’s multi-manager Active Trading Fund, launched in May this year and managed by Permal Group, offers a multi-asset strategy that seeks to generate absolute returns with controlled volatility and low correlation to the fixed-income and equity markets.

### **GFM: What is the background to your company and fund?**

**TB:** I am a founding partner of Strategic Investments Group, which was set up in 2002, and managing director of SIG (Deutschland), and I have been a director of Permal Strategic Funds since 2004. Previously I worked for Merrill Lynch in New York and in London. I am also chairman of Strategic Active Trading Funds.

The Active Trading Fund was launched in May this year with approximately USD250m and now has some USD300m in assets. It is a Ucits III-compliant multi-manager, multi-asset fund managed by Permal Group that seeks to generate absolute returns in liquid global markets with low correlation to the fixed-income and equity markets, and with controlled volatility.

What makes the fund different is that it invests entirely in dedicated separately managed accounts, owned exclusively by the fund investors, using some of the best active trading managers and each approved by Permal following its rigorous due diligence processes. Managers have an average 15-year track record in their current investment capacity and manage a combined USD25bn of investments. Drawing on Permal’s 37 years of experience and USD21bn assets under management, ATF is one of the most experienced alternative multi-asset propositions in the industry.

### **GFM: What is the structure of your fund?**

**TB:** The fund is domiciled in Dublin and listed on the Irish Stock Exchange. It is a multi-advisor fund, rather than a fund-of-funds, offering weekly liquidity, full transparency and independent risk controls. The fund owns all the underlying assets and each manager account has to comply directly with Ucits rules. The fund has also been approved by HRMC and has Reporting Status in the UK.

### **GFM: Who are your key service providers?**

**TB:** Permal Group is the investment manager and is responsible for the underlying managers selection, due diligence and asset allocation; SIG is responsible for development, distribution strategy and investor services; Deutsche Bank conducts independent risk monitoring; and State Street provides services including fund administration and custody as well as currency management. The fund's auditor is KPMG.

**GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base? Are you looking for distribution in emerging Ucits markets such as Asian and Latin America?**

**TB:** ATF investors are primarily European pension funds, insurance companies, corporations, family offices and trusts. We are in discussion with some Asian institutional investors, mainly bank treasuries, corporates and pension funds. There has also been a lot of interest from European investment consultants representing large pension funds, who have found the ATF structure a good fit for their clients' investments in multi-asset, absolute return, liquid and regulated portfolios. We have also seen interest from institutional investors in the US and Canada, which may not need European regulation but appreciate the additional layer of protection and liquidity.

**GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?**

**TB:** The financial crisis provided an important wake-up call for many investors, who are now looking for investments that provide transparency, real liquidity and control. We believe that ATF ticks all these boxes by utilising completely segregated accounts and managed by some of the best multi-asset fund managers.

**GFM: What are your investors looking for?**

**TB:** ATF is not trying to be all things to all people. Ours are predominantly traditional investors that have been disappointed with the results of their core benchmarked portfolios and are looking to allocate part of their core portfolio to talented multi-asset managers that can generate consistent returns.

Post-2008, they realised that this is the only way to meet ongoing performance targets and/or match their liabilities, while remaining in liquid and fully transparent investments. They also understand that selecting and allocating to these managers is a separate function that only works if they have the right infrastructure and experience in-house.

These investors are not coming from the hedge fund but from the traditional world, and are looking for managers that can add value to their portfolios, as opposed to than the traditional equity and bond managers that they have been employing for many years but have just not delivered. In other words, ATF is an extension of their core investment portfolio, rather than a replication of their hedge fund investments.

**GFM: What is your investment process?**

**TB:** Permal uses the same manager selection, monitoring and allocation processes used for its other multi-manager portfolios, tailored to meet our investor requirements, using managers and strategies that can perform well in the liquid space under Ucits regulation, within the ATF risk/return profile.

If the manager cannot perform under Ucits rules, with weekly liquidity, then Permal will not recommend them for inclusion. Investors and their consultants have full access to the portfolio holdings and are able to see positioning in asset classes such as equities, bonds and currencies. Permal is very hands-on in discussing portfolio positioning and additions or replacements of new portfolio managers.

**GFM: How do you generate ideas for your funds?**

**TB:** Each underlying manager is tasked with managing part of the portfolio based on their trading

skills and experience. The actual manager allocation is reliant on Permal's top-down and bottom-up views. Taking the active trading approach provides maximum flexibility to take advantage of the investment opportunities, as and when they arise.

This is particularly useful in today's volatile markets. The portfolio is currently overweight in multi-asset managers as they have historically dealt best with choppy markets, but also has exposure to specialist managers in developed markets equities, emerging market fixed income and global currencies.

**GFM: What is your approach to managing risk?**

**TB:** We take a rigid approach to our risk controls, with Deutsche Bank conducting independent risk monitoring. If a manager trades outside the agreed boundaries, Deutsche reports the breach. Should the fund lose money due to that Ucits breach, that manager has to compensate the fund, which is something you will never see in the non-regulated world. In the case of the ATF, this is part of the standard investment agreement between the managers and the fund.

**GFM: What opportunities are you looking at right now?**

**TB:** ATF's managers invest across equities, bonds and currencies, but there are also allocations to certain specialist managers. We are going through uncertain markets and consequently the fund's managers are looking to benefit from the dislocations and opportunities that these markets create across all asset classes. While most of the fund's performance in 2010 has come from currency and fixed-income trading allocations, it may well be reversed in the next six months as managers' reposition portfolios.

**GFM: What events do you expect to see in your sector in the coming year?**

**TB:** We are likely to see a continued shift towards multi-asset, regulated portfolios, which are benchmarked to a real annual return, with investors looking for between 6 and 10 per cent in the current market environment (not benchmarking to an index), paired with a real target volatility of 4 to 6 per cent (not tracking the volatility of an index). ATF is positioned to provide sophisticated investors with solutions based on these risk/return ratios and the liquid investment universe.

**GFM: How do you assess investors' current expectations?**

**TB:** Liquidity, results, transparency, regulation are the only four words we hear from investors nowadays, regardless of nationality and portfolio size. Liquidity, transparency and regulation are expectations that almost every asset manager meets but results are the differentiating factor. There are very few companies that, like Permal, have 37-year track records.

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

**TB:** Our investors own the underlying assets; they do not buy units of external funds. Owning assets is standard practice when large institutional investors give investment mandates to equity or bond portfolio managers, but it has not been standard practice in multi-manager portfolio mandates.

In addition, we employ independent risk controls with Deutsche as the risk monitor and State Street as the trustee of the fund. ATF combines the expertise of Permal, Deutsche and State Street under one roof, with each focusing on its core competencies. As a more general comment, after years of disappointing returns, investors and boards of directors of pension funds or insurance companies are looking for simple solutions that work. ATF is the result of listening to what such investors require.

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

**TB:** We see the current environment as positive for fundraising, but it is important to have the right investment offering, and the right partners in place.

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

**TB:** There is nothing concrete to announce for the time being, but we are always listening to our investors and their changing requirements. The ATF managed account platform gives us the opportunity to create custom solutions for institutional investors. Should our investors ask for a tailored solution to meet certain investment requirements, we will look into it.

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