

Absolute Returns Driven

Primarily managing money for wealthy families, Sand Aire utilizes the same philosophy to manage a fund that's accessible for many investors. With the idea that a family should double its money over a generation, the fund aims to generate a stable return with low risk. Relying on an open-architecture structure and a bias towards absolute return, the fund aims to create the right mix of assets and managers to achieve that goal.

Q: What's the investment philosophy of the Generation Fund?

A: Sand Aire is a multi-client family office that is based in London. We were one of the first multi-client family offices in the U.K. and we have been around for over ten years. Now we manage about \$1.8 billion and we take care of a dozen families. All those families are very different, with different risk profiles and return aspirations.

The Generation Fund, which manages about 200 million pounds, is our flagship product. Its name reflects our long-term investing horizon. The fund was established with the idea that a family should double its money over a generation after allowing for inflation, costs, and income. To do that over 30 years, we end up with investors looking for a nominal return of about 8% with a low risk profile.

Considering the dynamics of the stock markets, that is a difficult but achievable target which fits with the objectives for most of our individual clients. Overall, we aim to generate a fairly consistent return through the right mix of assets and managers.

Originally, the fund invested along the traditional lines of bonds, equities, and cash, but with the recent changes in U.K. regulations, we're including hedge fund exposure, private

equity exposure, and property exposure. Our process is geared towards finding unique managers or managers with a bias towards absolute return. We believe in open-architecture and we were one of the first groups in London to follow this route.

Q: What is the strategy for achieving your goals?

A: We don't directly buy individual stocks, although we do have the expertise to do that. Our strategy is to scour the world for the best managers that fit our clients' investment needs. We employ managers operating from the U.K. as well as the U.S., Europe, and Asia. Those managers should have an absolute-return orientation and we should consider them to be "the best of the breed".

We also believe in diversification although, as the markets become more correlated, the benefit of diversification in the traditional sense is becoming less important. Our strategy is to identify new uncorrelated asset classes, and also look to diversify between management groups. It doesn't make sense to put all our money with one particular group because of the biases that find their way into investment houses. We also diversify between opportunities, meaning that we look at non-traditional and traditional asset classes depending on the family's return aspirations and risk profile.



JEREMY SUFFIELD Investment Director is responsible for asset allocation and manager selection, primarily in the long-only arena. Jeremy joined Sand Aire from Barclays Investment Management. Prior to this he spent 12 years at Robert Fleming where he was a senior member of the global portfolio group. He has managed a wide range of international and regional briefs encompassing equity, balanced, fund of funds and yield-based mandates.

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Q: How do you select the funds you invest in?

A: Over the years we have developed an internal database with several thousand managers. We also utilize external databases. We try to use them in intelligent ways to identify specific skill-sets, and consider specific periods of investment performance. Overall, we tend to look for managers with more defensive qualities and with absolute return orientation.

The selection process is fairly traditional. Through quantitative screening we generate a list of managers that we consider to be interesting. Then the work is entirely qualitative. Similarly to you, we review the funds' investment philosophy, the rationale behind the decisions, the process, etc. We focus on the professionals because this is still a "people business", and we examine the structure that exists to support and motivate key people.

One of our advantages is that we have managed money ourselves and we know what to be cautious about, what questions to ask, and if the answers make sense. Most importantly, the structure of the fund and the ideas of the managers should fit with the individual portfolios of our client base.

We usually end up with more managers in smaller investment houses, although we do approve and use managers from bigger organizations. A big problem of our industry over the last 10 years has been the priority of business risk over the investment risk. While the investment risk often stays with the client, the business risk is reduced as far as the organization is concerned. But if a manager is entrepreneurial, he tends to invest in an entrepreneurial way rather than to worry about the business risk and the performance relative to the index.

So we're more at the entrepreneurial end of the spectrum. Sometimes managers have only a few million pounds under management when we first find

them; some of them, however, have become much bigger along the way.

Q: How do you approach portfolio construction?

A: We use modified value at risk, or MVaR, as our leading parameter and we generate a whole series of portfolios for each of our clients. Over the years we have done a lot of work on traditional measures of risk. About 20 years ago volatility was at the cutting edge of analyzing risks, today this is not the case. The modified VaR approach reflects our absolute return bias and allows us to reallocate the downside risk of the portfolio.

Then we use a simplified optimization technique and we present the portfolios and the returns to each new client. The technique in itself is not that simple, but it is important that the end product does not look too complicated because we talk to people who aren't necessarily financial experts.

Often, we come back to our philosophy of doubling assets over a generation for new clients. We create an asset allocation which we believe best meets our client's needs, taking into consideration their own thoughts. If somebody doesn't feel comfortable with hedge funds, we won't use any hedge funds.

So we create a range of different portfolios and discuss them with the clients. We look at how these portfolios would have performed historically and make sure that the client is comfortable with what we propose. Then we try to find the appropriate managers; obviously people that are good at investing money and whose investment philosophy fits with our clients goals.

Q: Could you explain in more detail the modified value at risk approach?

A: We know that our clients are worried, above all, about losing principal. They can accept a small movement in their assets but they want a perfor-

mance that is as smooth as possible.

Modified Value at Risk basically analyzes the extreme events. In a bell curve that provides a range of outcomes, there is a median point that represents the most likely return. Normally, we would be on the positive side of the curve and we try to avoid the extreme events on the negative side. To effectively take out the extreme downside risks, we also tend to give up the extreme upside and we compress the curve to give a range of outcomes that is a lot smoother.

Q: Could you give us some specific examples of funds you invest in?

A: Within the Generation Fund, we have some segregated accounts which mirror an open-ended investment company, which are the U.K. version of mutual funds as well as some created specifically for us. For instance, we have an equity income product, whose manager has a top quartile long-term track record but remains fairly low profile. The investment style is simple – using yield as a proxy for value, but he manages to execute it very sensibly. In Edinburgh we have a segregated account run by a very highly regarded emerging markets manager (Angus Tulloch). He is a wise investor with a value bias, great track record, and is good at preserving capital. The special account that he runs for us is unique and provides our fund with access to the Asian emerging markets, as well as to Australia and New Zealand when it makes sense.

In the U.S., we have invested with Harris Associates based in Chicago in a very concentrated (roughly 18 stock) portfolio of U.S. equities. They probably run about \$10 billion in those stocks and therefore differ from the traditional managers in their focus and deep involvement in the companies they invest in. In Chicago, we also have a reasonably standard U.S. equity portfolio (managed by Brinson) and a micro-cap portfolio run by Driehaus—an aggressive growth manager. We

also have managers who specialize in European equity and in U.K. equity.

The common theme between these managers is that they invest in individual companies with an absolute return mindset. They buy the stock at a certain price, know their target, what will take the stock there, what's going on in the company, and the trigger points they are looking for. This is a very different approach from those of managers who define their exposure based on the index weights.

Q: What is your buy and sell discipline?

A: The 'buy' decisions depend very much on the needs of our clients at a particular time. We have different sources of information and the investment process is quite long-winded. There are managers that we have considered interesting three or four years ago, but we never had a reason to employ them. When we do have a reason, it gives us a chance to dust down the files and see if there's something that we want to utilize.

We meet between 200 and 400 managers a year in various locations, either in their own offices or when they come to the U.K. We have a quantitative database that has been developed through our research effort in Yorkshire, and a qualitative database that refers to the observations from our meetings. We also use external databases on individual funds such as Lipper and MorningStar. The selection depends on what we're looking for; if we need a manager, we will do a more detailed search.

In terms of our sell discipline, since we spend a lot of time picking the managers in the first place, we rarely sell because something has gone wrong. In the ten years of the existence of the Generation Fund, I believe that we have parted company with only five or six managers.

We'd part with them if they change

the way they invest. However, we can ride some of the smaller cycles as long as the manager is passionate and experienced in investing in that direction. We regularly monitor their portfolios and with the expertise that we have in house, we can analyze the holdings and see if they match the investment philosophy. Provided that the portfolio is in line with the philosophy, we understand that in certain periods it won't work perfectly, so we have a certain amount of patience.

Our turnover is usually less than 15% a year and we sell mainly if the changes contradict the goals of the client. If the strategic direction changes, then there's a need to change. We may also have a tactical overlay of gaining or eradicating exposure to a certain area. In such cases we have no choice but to part with the manager. But overall, we try to create a portfolio that can stand the test of time.

Q: Is the Generation Fund open to any investors?

A: All the funds are open to investors but some funds require higher initial investments. The Generation Fund has about 700 investors. Over the years many families in the U.K. began to like the idea of an open-architecture structure and the investment philosophy. Now the fund has a wide range of investors who may have invested a few hundred or a few million pounds.

We also run eight other open-ended investment companies (OEICs). Some of them have 50 to 100 investors, and some have fewer than that. The funds represent an attractive tax vehicle for U.K. investors but they are open to investors across Europe. I'm not sure whether the U.S. investors can invest directly into a U.K. registered OEIC. We don't market the funds but when somebody wants to invest with us, we'll try to facilitate it. Above all, these products are solutions for our clients needs but there are quite a few people who have come aboard. 

Sand Aire Generation

Symbol	GB0030367907
Fund Type	OEIC
Website	www.sandaire.com
Address	Sand Aire Limited 101 Wigmore Street London W1U 1QU
Tel. No.	0044 (0)20 7290 5200
Inception	12/03/1996

PORTFOLIO	
Total Net Assets*	GBP 219.98

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	GBP 10,000
Min Subsequent Investment	GBP 1,000
Min Regular Investment	N/A
UK ISA	YES
CAT standard	No
UK PEP	YES

RETURNS VS. LGC-MIXED ASSET GBP AGG -GL INDEX		
	GB0030367907	Index
1 Year (Cum.)	7.63%	6.75%
3 Year (Ann.)	13.91%	13.14%
5 Year (Ann.)	7.75%	7.46%

RETURNS VS. IMA ACTIVE MANAGED SECTOR		
	GB0030367907	Sector
1 Year (Cum.)	7.63%	6.37%
3 Year (Ann.)	13.91%	14.52%
5 Year (Ann.)	7.75%	7.87%

FEES AND EXPENSES	
Initial charge**	5%
Annual charge	1.25%
Exit charge	0.00%

PORTFOLIO MANAGER	
Jeremy Suffield	March 2005

* millions **may be waived

Data through: 30/04/2007

Source: Company Documents; Lipper.com; FT.com

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