

The manager comes first for Sauren, not the fund

Ansgar Guseck, of German allocator Sauren, explains to **David Walker** why investing remains a 'people business'

Some investors might feel "trust" is a concept foreign to the world of finance. But for Sauren's Ansgar Guseck, "that is ultimately what it comes down to" when his firm deals with, and invests in, fund managers.

The financial crisis demonstrated that the senior partner at the Cologne-based allocator is quite right, in one very important sense. In 2008-09, investors could have the most detailed contracts with managers, conduct the strictest due diligence and thorough monitoring, but still not stop managers restricting withdrawals, investing in unfamiliar markets, or panicking to bad decisions. That depended on the person, not the "small print".

Guseck says €2.3bn investor Sauren understands minimising investment risk partly involves rigorous analysis and understanding of managers' investment philosophies, the impact of asset size and motivation. "But it is also about answering the simple question, 'Do I trust the person I am investing in?'" he says.

Since Eckhard Sauren established his firm in 1991, its guiding principle has been: "*Wir investieren nicht in Fonds – Wir investieren in Fondsmanager*" (We do not invest in funds – we invest in fund managers).

Sauren says: "A fund does not recognise opportunities. Decisions are made by people. Therefore, the human factor plays the leading role in our activities."

The firm seeks appropriately resourced managers led by one decision-maker. Lead managers departing is an immediate sell signal.

Style drift triggers warning bells. Sauren's analysis assigns each manager a quota of "defensiveness" or "offensiveness", using metrics such as net exposure. "Having these ratings means we can monitor our own total net equity exposure, and total risk exposure," he says.

Sauren typically wants no position exceeding 10% of fund assets, "which is already quite a lot of risk, a diversified portfolio for us would have 20 managers or more. The portfolio construction is done within the risk profile of the individual fund of funds. Giving each manager a risk quota helps to construct sound portfolios."

Guseck says it is important Sauren does not pick managers or asset classes just because they are "hot", and despite not understanding them. "If you cannot resist pressure to invest in a 'hot' asset class, you should not be running other people's money." He highlights ABS funds,

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pre-crisis: "We did not understand that market and if you do not understand an investment, you have to walk away. Investing to us has a lot to do with common sense.

"We do not see it as our place to judge if a particular asset a manager is buying is good value, but we must understand what the manager is doing, and question if his investment case is plausible. We want to know how the manager identifies new ideas and how they are analysed, to understand his competitive advantage. In this way, we can evaluate how the fund fits into our portfolio construction."

Guseck highlights three sources of alpha managers can exploit. The first, correct macro calls, "is, in our eyes, the most difficult and inconsistent, and there are few who are very good at sensing where the market is." Two examples are Philippe Jabre and Edouard Carmignac.

Selecting sector classes or themes is a second source, "but this is difficult to do, and to find managers that can do it correctly.

"Third, and most consistent, is stock picking. Managers may have more opportunities here, because there are thousands of stocks to pick from." But Guseck adds: "You must allow managers to make mistakes, maybe even underperform dramatically at times. It is important, though, to be in contact with the manager as soon as the performance deviates from our expectations and to understand why.

“2008 was a big wake-up call for many of these markets, and the risks today are pretty low”

See page 22 for more from Simon Pickard, Carmignac Gestion

SAUREN'S POWERFUL RELATIONSHIPS

The \$4bn boutique RWC Partners has managed money from Sauren since 2007. **Dan Mannix**, RWC's head of business management, shares his thoughts on the company

What attributes does Sauren have that RWC appreciates?

Objectivity and independence. This allows them to take assertive views on managers that they want to allocate to, and not be inhibited by some traditional restrictions for fund allocators, such as three-year track record. This makes the relationship between Sauren and the managers very powerful: early support and loyalty through difficult periods are highly valued by managers. We strongly believe investment returns are not driven by a corporate investment process, but the key factor

in defining long-term, successful investment returns is the individuals in the process.

How have you found Sauren's due diligence?

Thorough and well-defined. From a fund manager's perspective the due diligence process is operated in a way that fully understands the skill of the manager and what probability they have of repeating good performance. Sauren does not have a 'box-ticking' approach to due diligence, and has a high level of technical knowledge. This really allows

them to understand how decisions are being made and what the risks to a fund are.

How do you view Sauren's various requirements of RWC?

We find that as long as we provide the right levels of transparency to allow our investors, including Sauren, to ensure we are not drifting from our investment style, there are few issues related to transparency. Sauren has an active monitoring approach, but one that does not require a huge amount of time from our fund managers.

"If, from all this, you understand which risks a manager is taking, you can construct a portfolio of managers with different styles. Investing in each should likely give you a stable outperformance over the market cycle."

BEATING BENCHMARKS

Sauren's people-centric approach has had two notable consequences. The first relates to manager performance. By the start of 2011, more than 80% of Sauren's chosen managers had beaten their respective benchmarks since Sauren first allocated to them.

Helped by this fact, by 2011 each fund of funds except one (Sauren Absolute Return) beat its respective benchmark. Sauren's range of 14 multi-manager funds ranges from absolute return and hedge, to emerging markets, three life-cycle products, to global balanced, defensive and growth portfolios.

Second, the managers to whom end-clients in Sauren's funds of funds and separate mandates have access to are more likely to come from specialised smaller boutiques than from large houses. Henderson, GAM and Franklin Templeton are therefore joined by peers from boutiques RWC Partners, Polar Capital, Carmignac Gestion and Jabre Capital Partners, for example.

Some talented managers have received Sauren allocations after leaving the industry's juggernauts, to establish their own boutiques, such as Graham Clapp, who ran more than \$20bn at Fidelity. "We liked Graham when he managed the Fidelity European Growth Fund, though we never invested with him, as the amount of assets under management cost him too much performance.

"He also described it as very frustrating to find an undervalued idea and be able to buy a 0.08% position before the market realised the inefficiency. He could do the right

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research, have the right idea and great timing but still not perform from it. When he started his new venture, Pensato Capital, with just €40m we were a day-one investor.

"A lot of fund allocators seem to feel more comfortable investing in a large fund. It seems to us some investors are scared to take decisions, and rather stick to a consensus view. But should one really have more trust in a manager if there is more money invested? Size does not offer protection. We feel comfortable when we have access to the manager, and when we understand from what inefficiencies performance is drawn. It is much more important to ask the right questions and value the answers."

Guseck notes Sauren requires direct access to the manager, rather than to a product specialist, to answer its questions. "You need direct access to evaluate if the answers make sense, compared to what the manager told us in the past and what other people say in the same space. You need to trust a manager – but have positions of double-checking," he says.

For Sauren, asset size is a potential threat to returns. "There is a tipping point when rising AUM leads to deterioration in alpha. At a boutique you have to perform," he says. "You do not have large marketing and sales power. You can only make the fund grow by performing."

Overall, Guseck says: "No manager can take rising AUM without it mattering to them at some point, and very few managers stop really early, which is understandable from an economic point of view."

Sauren "practices what it preaches". It capped its Global Defensive fund for five months from March 2010 when it reached \$1.3bn. "We hard-closed the fund for a couple of months as inflows became too strong to efficiently manage the fund." ■

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