WEALTH MANAGER

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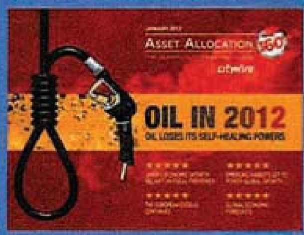

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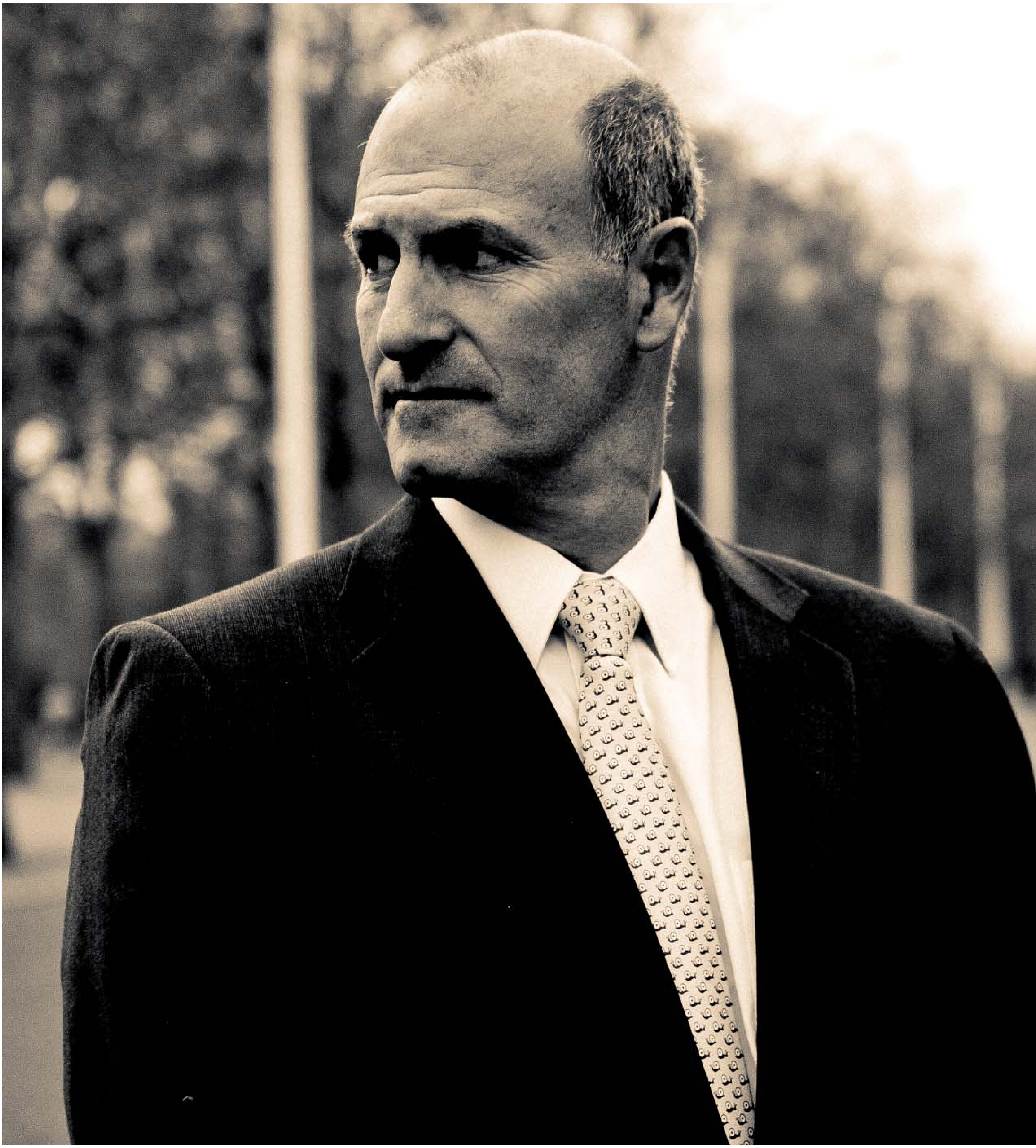

Roy Ettlinger

Credo Capital's CEO talks UK strategy

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From a journalist's perspective, the prospect of interviewing Credo Capital fills one with a little trepidation. A multi-billion, multi-service group headquartered in St James's and with a major presence in South Africa and Switzerland? Past experience summons the memory of somewhat guarded interviewees flanked by PRs in what amounts to a very controlled environment, waving away questions with a cool and formal certainty *Wealth Manager's* readers would not be interested.

Roy Ettlinger, chief executive and a co-founder of Credo, neatly confounds those prejudices as he enters the room. Attired for the office's dress-down Friday in an open-necked checked flannel shirt, he is the antithesis of private client stuffiness and almost disarmingly willing to dig out the numbers on how the business works and what makes it tick.

But then he has plenty to shout about. Since taking over the business in 2005, the staff has doubled to 70 across four offices, and assets under management have risen more than fourfold, from £300 million to £1.3 billion, with a further £1 billion or so in a single-family office managed by the company.

Years of investment and technical tinkering with the company's platform ('if someone had told me at the beginning how much work and money it would take, I don't think we would have ever started') have finally started to pay off. About half of the assets managed is on behalf of institutions and third party clients signed up to use it, or around 1,500 of its 3,000-strong client list.

'It's involved a lot of money invested in infrastructure and people – and that's starting to pay off,' Ettlinger says. 'The business has grown organically.'

After a long fallow period, Credo's property syndication business has recently become active again as it exploits the slow release of 'extend and pretend' property holdings now being offloaded from bank balance sheets, while the general retreat from leverage has also prompted the launch of a quasi-private equity division.

The company posted a profit of around £3 million last year, a figure that has been growing at a rate of between 10% and 15% in recent years. And coming to the end of its natural

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expansionary stage, the business is now preparing to bring its resources to bear on the adviser buy-out market, as owner-managed firms decide the burden of the retail distribution review is no longer worth their time.

'The IFA model is going to be seriously impacted – a lot of firms are either going to be sold or go out of business,' Ettlinger says, adding that the company is entertaining 'accretive not transformative' offers in the region of £100 million to £150 million.

'We have talked to one or two but the prices have been ridiculously expensive. I think probably most will get qualified on time, something like 70% [of advisers], but it's going to be tough. How many are going to decide it's not worth it a few years down the line?

'We have seen the same thing in stockbroking businesses in the last few years, where fundraising has been very tough and profits lower. There is going to be a lot of consolidation.'

Born in South Africa to one of the country's oldest legal dynasties, Ettlinger was set on a different path in life by his determination to avoid learning Latin, studying accountancy 'as a means to an end' at Cape Town University before relocating to London in 1989 for work experience.

He stayed, joining half commission broker Mark Swerling initially at Charles Stanley in 1992 before moving with him, first to Townsly & Company and later for the launch of Credo in 1998. Swerling headed the company until 2003 and after a short interim, Ettinger became chief executive in 2005.

Around 65% of equity in the business is held by the 15 senior staff members. The balance is retained by external shareholders who put up capital at launch, including a 20% share held by Nathan Kirsch, the South African tycoon who bought the City's Tower 42 for £282.5 million last year.

Ettlinger says the company is keen to spread ownership more widely among employees, but structuring an equity sharing system has proved challenging.

Beginning life primarily as a broker, the company has since expanded its range of services and geographical footprint, being active in Australasia as well as South Africa, Switzerland and the UK.

> *'The IFA model is going to be seriously impacted – a lot of firms are either going to be sold or go out of business'*
>
> **Roy Ettlinger, Credo Capital**

Having been originally motivated by the company's frustration with the limited reporting and currency options available on commercially available platforms, the firm's in-house system is now the lynchpin of what it does. It brings in new business solely interested in its multi-asset, multi-currency flexibility and serves as a centralised gateway for investors.

'We originally found that there was no reporting software suitable [for our clients]. Trying to put a multi-asset, multi-currency spreadsheet together would take a week, and there was no guarantee that it would be right at the end of it,' Ettlinger explains. 'We can now allow clients anywhere in the world to trade through our dealing desk and we have white-labelled it out to others.

'My impression is that people greatly underestimate what is involved in designing a system like this. Say you have a bond, South African-denominated, how do you then verify the pricing on that? Or say you have £10,000 in securities, you have maybe 20 or 30 pricing feeds and two or three different custodians. It's not as simple as saying "here is your appraisal", you need to be certain it's correct. And then you have issues like a corporate action with a share split. It's very difficult thing to get right.'

While the company's Geneva office handles international tax issues, the London office is purely investment, and asset management and brokerage remains its core competency, although brokerage is now relatively less important in its income stream. Around 60% of overall revenue is recurring, although this is slightly distorted by the lumpiness of property and private equity.

Investment performance has been solid, with the balanced portfolio up 1.6% over four years versus a 19% fall in the MSCI World and a 5.8% increase on the Apcims Stock Market Balanced index. Over one year the portfolio is 1.5% up versus the MSCI loss of

CREDO INCOME PORTFOLIOS (CIPS)

Marks & Spencer 6.25% 2017 BBB- ($ low risk portfolio)
The current economic climate is difficult for retailers but we take comfort from the strength of the M&S brand. As M&S trades cheaper in US dollars than in sterling, we include the US dollar bond in Cips. This portfolio is concerned with return *of* capital rather than return *on* capital and with a yield to maturity of 4.5% in US dollars to 2017, we expect it to outperform US dollar cash.

Man Group 5% 2017 BBB- ($ medium risk portfolio)
From its humble origins trading sugar in 1783, Man has become one of the world's largest hedge fund managers. Its funds' recent poor performance has resulted in a significant fall in funds under management and a reduction of its lucrative performance fees. Nevertheless, Man remains profitable and has embarked on a significant cost-cutting programme. It is evident that Man is confident of its cashflow position, having returned $365 million to shareholders via share buy-backs and dividends and repurchasing $320 million of debt over the last 12 months. The 5% is highly attractive for medium risk investors, giving a 9% US dollar yield to maturity in 2017.

Investec 9 5/8% 2022 BBB- (£ medium & high risk portfolios)
Investec is a specialist bank and asset manager that continues to expand, particularly in the UK where it recently acquired Evolution Securities. While bonds in financial companies and banks in particular, tend to give higher yields, we believe the Investec paper is attractively priced. Investec is highly profitable and it continues to diversify its revenue stream. For medium and higher risk investors we like the Investec 9 5/8% 2022. These bonds return 10.62% per annum in sterling. Trading below par, they are particularly advantageous for UK taxpayers.

6.5% and the Apcims Balanced loss of 0.84%.

'In 2008 we decided we wanted to be in corporate debt and that is where we have remained, so we missed a lot of the equity rally. We haven't been in sovereigns either, but we did not think they were good value then and we don't think they are good value now.

'At some point we believe inflation will come, so we are trying to strike that balance of income and inflation-protected assets. But until [European] politicians come to some decision, the only certainty we face is uncertainty. Politicians and economics don't mix: economics requires some action, but politicians all need to get re-elected at some point.'

The average portfolio is now 23% in UK equity, 20% in global equity split 15% into long only and 5% in long/short, 5% in long/short emerging equity, 5% in fixed income, 15% in property (although much of this remains to be drawn down), 17% in hedge funds and 8% in commodities.

At the beginning of 2011 the company launched the Credo Best Ideas portfolio, a concentrated portfolio currently running 15 positions in diversified global mega caps such as Apple, Volkswagen and Microsoft. Complementing the equity funds, it has recently launched the Income Plus Portfolios, three risk-rated portfolios each running eight bonds targeting 3%, 5% and 7% yields respectively.

'We have bought Investec, Lloyds, Barclays, some of the insurers and William Hill – all interesting names. In equity we think US equities and in particular branded goods are looking good; we are holding names such as Apple, BP and Caterpillar,' Ettlinger says.

While the property division is sitting on cash until it can identify the right property at the right yield – the only recent transaction was the £130 million purchase of a Marks & Spencer distribution centre on a 25-year lease and 7.5% yield – the private equity business has been more active, having raised around £10 million from clients.

Recently completed cash placements include domestic solar power installer HomeSun, a medical recruitment agency and a pharmaceutical business.

'They all tend to be people we know, generally taking debt on a convertible basis. We are not trying to impose draconian terms, and unlike a fund we don't have a two and 20 fee structure we have to get over,' says Ettlinger.

'I have spoken to people who won't ever deal with private equity again, let alone the private equity manager that they dealt with, but for us it's really not like that: we have to think about the reputational risk.'