

# Fink returns to his roots with new joint venture

Former Man Group chief believes his old company should have maintained better relations with BlueCrest and not bought GLG, writes Harriet Agnew



Lord Fink remembers his happiest time at Man Group being between 1996 and 2000, when he was running the company's fund management business in Switzerland, and grew assets under management at AHL, the firm's small computer-driven hedge fund, to \$5bn.

Sixteen years on and Fink has returned to his roots. He is chief executive of International Standard Asset Management, a \$700m joint venture between Fink and the family office of Larry Hite, a former rock music promoter and founder of Mint Investments, the first \$1bn commodity trading adviser. Mint kick-started Man Group's growth in the alternatives arena in the late 1990s before the pair parted in the late 1990s as Mint began underperforming AHL.

At ISAM, which received a \$100m seed investment from asset manager Pamplona Capital Management, several former colleagues have been reunited.

Alex Lowe, a former director of Man Investments, is now director of strategy and business development; while chief investment officer Alex Greyserman has worked with Hite since 1989. Fink appears to be resurrecting the parts of his career that he knows and likes best.

The flagship ISAM Systematic strategy is a more sophisticated version of the Mint strategy developed by Hite in 1981. It uses computer models to trade about 50 futures and currency forward markets, across a range of time frames, with a higher than average weighting to commodities of 40%. About half of this is to agricultural commodities. Fink told Financial News: "Sometimes the old stuff works best. I saw a CTA [commodities trading adviser] the other day that was claiming to trade 300 markets. Underpinning the logic of managed futures is crowd behaviour. It is hard to see how this could apply to synthetic markets that no one is trading."

Fink thinks that managed futures firms put too much research effort into when to put on a trade. He says that two-thirds of the value added is in how you risk manage a position once it's on.

This idea of cutting losing positions and adding the winners is central to the \$100m ISAM Fusion fund, which Fink affectionately refers to as "Larry's punting fund". Fusion is a fund of managed accounts—a sort of hybrid between a fund of funds and a multi-strategy fund. The strategy has similarities to renowned rival Millennium

Management run by Izzy Englander, where capital is added to successful traders and taken from those that underperform. The idea behind ISAM Fusion is to get exposure to the outperformance associated with emerging managers. So far ISAM has looked at more than 100 managers and currently there are about 20 in the portfolio.

Lowe said: "The entry point is relatively unimportant. What's important is running your winners and cutting the losers."

## The AHL legacy

Fink stepped down as chief executive of Man Group in March 2007, and was replaced by finance director and deputy chief executive Peter Clarke. For Clarke it was a baptism of fire: first the financial crisis in 2008, then the flagship AHL fell 16.9% in 2009.

Under pressure to diversify its dependence on AHL, Man Group bought hedge fund firm GLG Partners in May 2010. It also began tying up its stakes in other asset managers, and in March last year sold the 25.5% stake in BlueCrest Capital Management it had acquired in 2003 back to BlueCrest's partners for \$633m.

What would Fink do if he was running Man Group now? Fink said he's the first to admit that he doesn't know as much about the business as he used to. He said: "That aside, I would have maintained a better relationship with BlueCrest and tried to retain the stake in a valuable and growing business or tried to negotiate a full merger."

He added: "While I hold GLG's management in high regard I wouldn't have bought GLG at the time and price they did because at about 25-times earnings it was too expensive (especially when one considers that the BlueCrest stake was sold at a fraction of this). We looked at GLG in the past, but at that time, most of the good funds were closed to new investment."

Man Group managed \$61.7bn when Fink left in 2007; stripping out GLG it now runs \$32.2bn. Fink said that AHL has become too big to be able to trade a large number of its historical markets and that the

hefty staff numbers Man Group still employs doesn't reflect its drop in assets under management. Continued and incremental cost cutting is not a great long-term strategy and is bad for morale, he said.

AHL remains 12% off its high-water mark, the point at which it can start charging performance fees. One possible strategy would be to cut back to a core AHL product to get Man's most profitable retail products to a level that is sustainable. Fink said: "I would probably try to move the lowest-margin AHL product and shift it to some high-capacity product, focusing on the most liquid markets only. That would leave a smaller fund that could be better diversified and leave Man with at least one product in the stable that could compete with BlueCrest and Winton."

Man Group declined to comment.

ISAM has a small team of researchers compared with Winton's 100-plus people in research. Fink thinks that 90% of what Winton's researchers do is working out how to add 50% of capacity without too much of a drag on performance.

## Managing the future

Fink came out of retirement in 2008 to lead ISAM. The aim now is to grow the business to \$5bn. He has built up a substantial personal endowment that he uses for his extensive philanthropic efforts, and he says that he continues to work because he sees business as the most efficient way of raising money for this. And he says he and the team have an enormous amount of fun together.

Outside ISAM there is plenty keeping him busy. Fink is a director of Marex Spectron, a commodities broker. Jamie Stewart, head of Marex Spectron Independent Research Services, a division of the broker, said: "Not only is Stanley outstanding as a financier, with experience second to none, particularly in the hedge fund industry, but the breadth of his interests and commitments in life are notably wide. This is rare among senior financiers. Stanley is not just a guru

## Evolution of the Mint model

Man Group's relationship with Larry Hite's Mint Investments pre-dates Stanley Fink's time, writes Harriet Agnew. When Fink arrived at the firm in 1987, Mint was in its heyday. Its outstanding early numbers and Man Group's strong sales force helped it become the first \$1bn commodities trading adviser by 1990. But a decade later, Man Group had ended its partnership with the underperforming Mint strategy and was focusing its efforts on selling AHL, a rival managed futures strategy it began acquiring in 1989.

Fink said: "Back in the 1990s hedge funds were exotic and CTAs were black boxes. The thing that made investors pick one black box over another was performance. During the late 1990s, AHL was outperforming Mint by about 10% a year. We couldn't really sell Mint."

The dispersion in performance was driven by asset allocation and fees. About 60% of AHL's outperformance came from its overweight allocation to bonds, which rallied in the late 1990s. Mint was overweight with commodities and suffered because flat commodities markets were not throwing up many trends to back.

Second, there was effectively a 4% performance difference between the two strategies because Mint charged a 6% management fee compared with AHL's 3%, and brokerage costs were higher too.

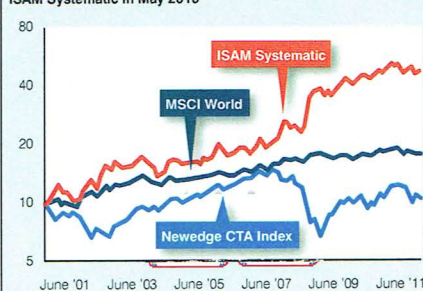
AHL was also coded on more modern software, which made it easier to do backtesting, while it was more complicated to backtest using the older Mint systems.

ISAM Systematic is a more sophisticated version of the early Mint strategy. The systems have been rewritten on modern software and management fees have come down to 2%. Fink says that the higher weighting to soft commodities has been more suitable for the low-inflation, low-bond yield environment of the noughties – although the higher commodities allocation cost the fund last year. It fell 2.74% in 2011.

Fink estimates that trading costs have reduced by a quarter in the past five years, partly driven by high-frequency trading, which has also improved liquidity.

## Mint conditioned

Cumulative return of the Hite Futures Strategy, which became ISAM Systematic in May 2010



Source: ISAM

and an encyclopedia; he's also an unassuming, straightforward and very likeable individual."

In January 2009 Fink was appointed co-treasurer of the Conservative Party. He was elevated to the peerage in 2011. Fink sits on the board of children's charity Ark, and

is chair of governors of Burlington Danes Academy, a secondary school in Hammersmith, west London. He is non-executive chairman of Earth Capital Partners, a sustainable asset manager and is involved with New Forests Company, which focuses on sustainable forestry.