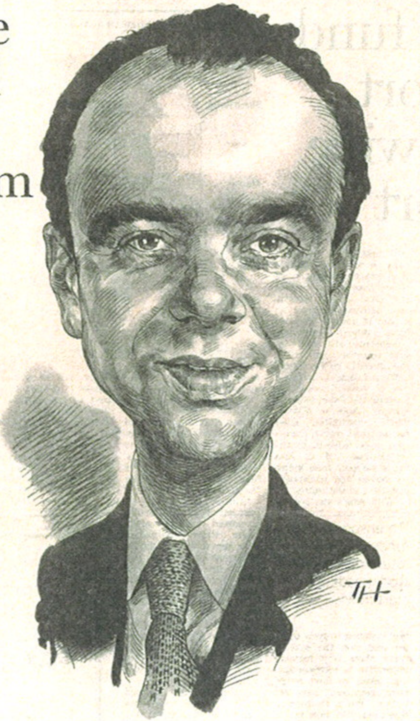
Defender of the entrepreneurial spirit wants to mend the system



Face to face

Stanhope's chairman tells Pauline Skypala the partnership model is superior

The financial crisis was caused by people taking excessive risk with other people's money. The best way to make sure this cannot happen again is for the people taking the risks to have "skin in the game", according to Daniel Pinto, co-founder and chairman of Stanhope Capital, a $3.5bn wealth manager based in London.

Mr Pinto is pursuing this idea with regulators and government via the New City Initiative, a think-tank he set up in May along with some 20 like-minded organisations.

There are two ways to have skin in the game, he says: by investing alongside clients, also known as eating your own cooking; and by structuring firms as partnerships. There is no sign regulators are thinking along these lines, especially those in Brussels. "We were surprised that the thrust of the proposal [for regulation of remuneration] was to postpone bonuses for a number of years and to pay a portion of these bonuses through stock options. A more sensible approach would have been to push the beneficiaries to reinvest a portion of these bonuses in their products."

Investing in stock options aligns interests with shareholders, "but if you want to influence day-to-day decision-making, link people to the product they sell or manage on behalf of clients".

Mr Pinto acknowledges "you can't force people to invest if they don't want to invest" but it is possible to force them to disclose whether or not they invest in their own products. There is no such requirement in any proposed new regulations.

On the superiority of the partnership model, he says: "When you have your capital tied up in your firm, you think about the future, not about the bonus next year."

He regrets the trend away from partnerships over the past 20-30 years towards quoted companies. It is killing the entrepreneurial spirit that was "the glory" of the City and Wall Street, he says.

However, Mr Pinto believes entrepreneurial asset managers are set to shine over the coming decade. "We've had the decade of the big institutions, and we saw the result. Independent asset managers stand to rise in the next few years as people understand they are better off selecting boutiques than giant firms."

He says the model adopted by Stanhope, of partnership structure, co-investment and no pushing of in-house products (because there are none), resonated with Lord Browne, the former chief executive of BP, who was appointed chairman of a newly created advisory board at Stanhope in

> 'If you want to influence the day-to-day decision-making, link people to the product they sell'

October. "He understood this was a model that was maybe going to move the lines in the industry and that banks are less likely to get away with the conflicts of interest of the past."

Mr Pinto bats away the objection that recent deals suggest boutique managers might be looking for strong parents in expectation of tough times ahead. BlueBay's decision to sell to Royal Bank of Canada was not driven by need, but "probably because the founders felt it was an attractive offer".

The big change he perceives from six or seven years ago, when Stanhope launched, is that clients then were still dazzled by the big brands. "Post 2008, being the new kid on the block is a plus." Stanhope, and others like it, do not carry the burden of a tarnished brand.

The firm has benefited from an exodus from the big brands over the past year or two, going from 50 to 80 clients, including a number of charities and endowments in addition to private clients. The move of such institutional investors to Stanhope represents not just a change of manager but a change of investment philosophy, Mr Pinto claims.

They are switching from an approach focused largely on direct investment in UK stocks and bonds to a global multi-manager strategy. People are moving away from a view that they need to restrict investments to the same base currency as their liabilities.

"Currency should not be the tail that wags the investment dog," says Mr Pinto. Investors should look for the best opportunities globally then hedge their portfolios to get the level of currency exposure that suits them.

This does not sound like rocket science, but Mr Pinto maintains institutions are increasingly looking for this type of approach but cannot find advisers to help them. Consultants may talk a good game, but still essentially offer advice rather than being prepared to make decisions.

And if they are empowered to take decisions, they often suffer from "analysis paralysis" syndrome.

Most multi-family offices are not much competition either. Stanhope is essentially a multi-family office, having been started around the families of the partners. But it differentiates itself by being an investment house, says Mr Pinto.

Rather than being peopled by ex-private bankers, as is the norm among multi-family offices, Stanhope has former fund managers. The three men leading the investment team have all run funds in the past, which means they are better placed to assess the external managers Stanhope chooses to invest with.

"If you haven't been a manager yourself, [fund managers] can make you believe whatever they want you to believe," says Mr Pinto.

Managers are selected to fit in with the asset allocation strategy adopted, so are often specialised on a particular theme, region or investment style. The preference is for funds with daily liquidity, so it is simple to alter allocations. There is nothing to be gained in performance terms by locking up money in illiquid funds, according to Mr Pinto.

This preference for daily liquidity means most of the 20-25 funds Stanhope uses at any one time are long-only funds – a mix of active and passive depending on views on whether stock pickers are likely to do well or there is a strong trend to follow.

Hedge fund exposure is limited to about 10-15 per cent because of the effects of the high fees – 2 per cent of assets under management a year and 20 per cent of profits (sometimes above a hurdle). There is also the issue that many hedge funds have failed to provide real protection against market volatility.

Curriculum Vitae

Daniel Pinto

Born: 1966

Education
1987: Institut d'Etudes Politiques de Paris, (MA in Economics)

1989: Université Paris-Dauphine, (MSc in Finance)

1993: Harvard, (MBA)

Career
1989: Associate, at Groupe Sucres et Denrées, New York

1993: Senior banker, SG Warburg and UBS Warburg

2001: Chief executive, CVC Capital-backed private equity fund

2003: Co-founder, chairman and managing partner, Stanhope Capital

2010: Founder of the New City Initiative

Stanhope Capital

Established: 2004

Assets under management: $3.5bn

Employees: 45

Offices: London, Geneva

Clients: 80