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NICK PALMER & PAUL STEVENS & MELISSA LONGLEY

How 1st Port Management wants to tap into the US market

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'Anyone can find a solution to something, but it has to be a solution which is cost effective,' declares Paul Stevens, investment manager and branch principal at 1st Port Asset Management, with the aplomb of a man who has found the answer to his woes.

The problem he is referring to is changes in regulation, making it harder for UK investment firms to service US clients, something Stevens admits means having to let some clients go.

'It has become increasingly difficult, especially for US expats, to have their money managed in the UK even if they're resident here because of the changes in legislation. We believe we have found a solution to

that,' he says, adding reflectively: 'We don't think there is anything particularly grand about it.'

The idea will allow 1st Port to take full advantage of its relationship with Raymond James Investment Services, the UK private client investment wing of US giant Raymond James Financial, which provides the boutique with back office support and compliance.

Stevens is hoping to make a business case to Raymond James, of which 1st Port is a trading name, which will allow his team to begin using US platforms.

'There are solutions out there,' he concedes, adding he believes that his works because it is cost effective: 'It's whether anyone's been able to bring them to the professional community, either solicitors, accountants and IFAs, at a cost that is good enough for the clients ultimately. The US issue is an interesting issue for us



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because we know there's a need and we know there's a limited number of people in the industry who are prepared to provide a solution.'

1st Port Asset Management has grown from a start-up in April 2004 to having 129 families across 202 accounts. Assets under management currently stand at £56 million.

'Assets under management have stayed pretty much as they are. The markets are down 8%-9% over 12 months; we've maintained the capital value of portfolios over that period,' Stevens says.

Stevens, who was lured into an investment career while taking a break from his studies in building design and architecture, started out in the Tunbridge Wells settlements office of Grieveson Grant Stockbrokers and ultimately never returned to finish his degree.

'I thought if I did succeed in architecture, would I just end up just designing lavatories?' he jokes, although perhaps he has his architect hat on more often than he realises, as he cites one reason for liking investment management as 'the fact that you could start with something and see it through to the end result'.

By his own admission, Stevens found it difficult to move from settlements to the front office, but managed to bag a traineeship at Grieveson Grant's private client office in London, and while he 'grabbed the chance' his younger self also found the move 'terrifying'.

The three-strong team also includes Melissa Longley, who spent 11 years at Lehman Brothers, has taken American qualifications and has spent a good portion of her career travelling between the UK and US, looking after clients in both countries.

A keen ballet dancer in her spare time, Longley joined 1st Port a year ago, and her experience is perhaps another reason why the boutique is looking to grow in the expat sphere.

'A number [of our clients] are expats and that's an area that we are looking to expand. Melissa's expertise is very much with expat clients,' Stevens explains.

The trio is completed by investment adviser Nick Palmer, who finished a master's degree in sport and exercise science but began working on a contract basis in the investment world, including a period as a private client investment management assistant to fund managers at Newton.

After working at Grieveson Grant for 18 years through various takeovers, Stevens was made redundant from new parent Kleinwort Benson, an event he now regards philosophically: 'It needed people that shared its vision, and I suspect I didn't.'

He joined 1st Port, which started with 'traditional values' of client-centricity, a notion that has extended to the firm's refusal to raise client fees over the past seven years despite rising business costs.

'We felt very much that really until we got to the three year level we probably wouldn't be considered to be viable. Unfortunately for us, that three year mark pretty much coincides with what was probably one of the largest problems we've ever seen in the financial markets,' he says.

Their response to the collapse of Lehman



'The US issue is an interesting one because we know there's a limited number of people in the industry who are prepared to provide a solution'

Brothers was not to do anything at all, and the firm 'hunkered down'.

'We decided to sit on our hands and do nothing - panic is not a strategy. We did nothing. All of those portfolios have recovered,' Stevens says.

He draws on a lesson from his youth by way of explanation: 'In 1987 I saw people panicking and selling out and losing 30%-40% of their portfolios. If they had only waited 12 or 18 months they would have been back in profit.'

The experience of witnessing crisis has also driven 1st Port's insistence on diversification, which seems to be close to a mantra for the firm.

'After Lehman's [collapse] we felt that it was important to have exposure to pretty much almost every asset class,' Stevens says, and while he

maintains this is 'absolutely critical' he admits it sometimes meant he could not go as heavily into an asset as he would have liked.

'With hindsight we would wish that we had more gold in our portfolios than we have had up until now. Because we are diversified we try not to have very large exposure to any particular area. We went in with a 5% weighting into gold and we've been profit taking off of that as it's been increasing,' he explains.

Nevertheless, the strategy has paid off as 1st Port's balanced model (based on a £250,000 portfolio) has seen a net increase of 36.5% since inception compared to IMA Balanced Managed sector average growth of 33.1% over the same period.

A balanced model typically has 25% in fixed income with no Western government debt, a level

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1ST PORT'S ASSET ALLOCATION

'The majority of our client portfolios hold a mix of assets that are designed to produce both income and capital appreciation. We recognised that the markets swing between fear and greed and we aim to smooth out overall investment returns. So rather than focusing on the short term, we keep to our longer-term strategic goals while mitigating overall risk by utilising active portfolio diversification.

'Currently our balanced portfolios are slightly overweight equities and underweight fixed income. Corporate balance sheets are the strongest they have been for several decades, and market valuations are not considered expensive.

'We introduced convertible bond funds earlier this year, providing a hybrid of equity and fixed income. Within our fixed income selection we favour a combination of emerging market debt and high yield, along with strategic bond funds that give the managers a wider remit for positioning in this rather atypical environment.

'As proponents of active portfolio management we generally adopt a barbell approach to sectors. For 2009 and 2010 we favoured growth sectors linked to economic recovery. In early 2011 we included value sectors in order to invest in companies that pay healthy dividends, as we know that the compounding effect of decent yields tends to deliver the lion's share of returns over the longer term.

'We believe the property sector has further work to do in rebuilding investor confidence, thus we expect to remain zero weighted to property for the foreseeable future.

'Our principal inflation hedge remains equities, gold, metals and other commodities. Within international exposure we tactically reduced European investments in July, preferring the US, Japan and emerging markets for their best-of-breed global brand names and currency diversification.'

which has been gradually reduced from 12 months ago in favour of increasing equity exposure, which currently stands at 56.5% with a UK bias for local clients. The model holds no government securities as 'we felt they were overvalued 12 months ago and we still think they've overvalued now'.

However, one call Stevens wishes he had made a year ago was taking on greater exposure to UK gilts. 'With hindsight we would say we wished we'd had UK gilts and more gold but our view at the time was that gilts were expensive.'

Other assets, including commodities, make up 17%, while 1.5% is held in cash. Stevens expects dividend yielding funds to drive growth: 'Dividends are going to be an increasingly important part of returns in the next few years as we enter a very slow growth environment.

'It's certainly a reason why we've seen a lot of money – not recently but prior to the last six months – go into things like property funds because people were chasing yield.'

However, property is not a bandwagon 1st Port

has jumped onto, and their holding is still at zero. 'It's something we didn't think was appropriate because we had a lot of concerns about capital value and we didn't want to give up the capital in return for some income,' Stevens explains.

The IFA community is another area 1st Port is hoping to tap future business from, alongside solicitors and accountants.

'We don't have a big financial planning arm or a trustee and tax arm that's going to suddenly swoop in. I think some clients prefer that to being part of a large business, and it's horses for courses,' Stevens says.

And despite being hit by regulation regarding US clients, Stevens remains sanguine about the upcoming regulatory regime.

'I didn't think after this period in my life and having become a chartered fellow of the securities institute that I would have to then go and do a two and a half day course on derivatives, but I have. So we have embraced the challenges.'

That said, 1st Port admits being classed as a

'restricted advice' firm is irksome and the current terminology can be misleading.

Palmer says: 'The contentious issue I guess is the restricted advice and the non-restricted advice... Although we're an independent investment manager because we don't offer a pension rack of services, we would come under the restricted [label].

'Terminology is unhelpful. If our business is seen to be a restricted advice, investors might think we're restricted or polarised in some way when actually what it means is we can't offer advice on some tax issues – but that's not what we would want to do,' Stevens adds.

He also believes the retail distribution review (RDR) could usher in a raft of changes across charging structures: 'What may be an interesting point for the industry, as RDR is coming, is that maybe we'll see retail class units disappear anyway, and the whole charging structure across everything including funds of funds will reduce significantly, which would be something very positive and which I would like to see.'