



How To Be An Active Investor

Any industry is replete with informal networks. Some have turned themselves into subscription-based businesses. And now it turns out that the rich are not different from us after all: A retired Dutch entrepreneur based in London has set up a peer group for wealthy people. One of the things they talk about is investing in hedge funds

The classic hedge fund investor is a rich man. And Dr Francis Claessens, who says he is invested “mostly” in hedge funds, perfectly fits the stereotype. Now well into a second prolonged spell in London—a city where he would like to stay if the uncertainty occasioned by the recent and ill-considered changes to the taxation of non-domiciled residents does not drive him out—the retired Dutch entrepreneur is not only a hedge fund investor, but also the founder of a group whose members any capital introductions team would be pleased to meet: PEERS, The London Wealth Peer Group. But cap intro specialists should not hold their breaths for an invitation to the next meeting: only top of class need apply and only if they offer a serious deal. Forget about becoming a member. “Our members are all strictly buy side,” explains Claessens. “We could triple our membership if we allowed in people who are working for a bank or a hedge fund, but that is not the model we want to follow.”

Instead, the group meets on the second Tuesday of every month—only with members and speakers it chooses to invite and solely to discuss topics of interest to its members. These have ranged from hedge funds and funds of hedge funds, through to real estate, emerging markets and the Lloyd’s insurance market, to transaction cost-cutting measures, tax regimes, charitable donations, wealth and risk management techniques and even how to manage wealth successfully so that it frees up time for other pursuits.

It is an eclectic list of topics, but the members clearly find the discussions helpful. Of the 40-odd members of PEERS, around a dozen to 20 attend any one meeting, some of them flying in from as far afield as Hong Kong and Kuala Lumpur. “There are few people who are born into wealth, and fewer who are trained to manage wealth,” explains Claessens. “We have, among our members, both novices in wealth management who had their liquidity event quite recently, old

money and highly skilled ex-bankers who are now investing for themselves. They all realize better than others that the wealth management game never ends. There are always new developments. The wealth management rules keep changing as the economy and taxation changes. So you have to keep updating and restructuring. You have seen the emergence of activist shareholders. I hope members of PEERS will give rise to a new breed: the activist investor.” Claessens himself acts on tips he picks up from other members. It was at the suggestion of another member that he switched his cash deposits to Northern Rock after it raised its rates in the wake of nationalization by the Bank of England. Following a suggestion by a second member, Claessens has invested with a fund of hedge funds group that specializes in small, volatile, high return funds. “They do their homework,” says Claessens. “They step in when the funds are young, and follow them until they get sluggish. They make better returns than my average portfolio.”

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But what matters almost as much is that he has invested on favorable terms negotiated on behalf of all members of the peer group. “I found an investment opportunity through the group, and the buying power of the group enables us to negotiate a discount on the fees,” says Claessens.

Yet unlike American equivalents such as Tiger 21 and CCC Alliance, no member of the PEERS wealth peer group is paying annual dues for these benefits. In fact, it is more likely that a sell-side firm will host the meeting, or sponsor a guest speaker, or that people who are seeking investors will pay something in kind. The promoters of the Stradivarius fund, for example, will produce a violinist to serenade the members, while an impresario seeking support for a new musical had to bring along a demonstration tape and the well-known writer of the musical. Such are the privileges of wealth. Claessens, a psychology graduate, joined their ranks after selling his outplacement business—Raadgevend Bureau Claessens, which operated in Belgium, France and the Netherlands—to a private equity firm in two tranches in 1989 and 1996. Like many successful entrepreneurs, Claessens is aware that he rode a boom (“we grew by 100% a year for 10 years,” he recalls) and exited near the top, before it got too crowded and margins were squeezed. In 1996 he found himself effectively retired, with more than enough to live on, and he was only 40 years old. “I had never paid attention to investing, not even when I sold the majority stake in the business,” he recalls. “I was still totally immersed, mentally, in my company. So basically, my secretary did the investment management in those days, by calling 15 banks and placing the money with the one that paid the highest rate of interest. Actually, it was not a bad system because, if you asked a bank to do the same thing for you, they would always end up with themselves.”

Claessens reserves a special contempt for banks. Indeed, he is now seeking a service not unlike the one his secretary provided in

the early 1990s: what he calls a “personal shopper for banking services.” His view of banks owes something to Louis Brandeis (author of “Other People’s Money and How the Bankers Use It”) and Danny DeVito (star of the romantic comedy of the same name) but most to his own experience. “If I had followed the advice of my bankers, I would be invested in structured and capital protection products. I do not need them, but they would be happy to sell them to me because of the lavish fees,” he says. Claessens thinks that manifestly self-interested advice of this kind is why the next major banking scandal will erupt in the private wealth management sector. “Banks have had so many disasters using their own money. Now they concentrate on using other people’s money,” he says. “With the pressure to generate fees only increasing, the next scandal will come from deception of private clients, over charging, mis-selling, that kind of thing.” His advice to rich people on their banking arrangements is simple: negotiate relentlessly. “Your relationship with a bank after a liquidity event is very different from the one you had when you had to finance your firm, or finance a deal,” says Claessens. “As ex-entrepreneurs, we know less about banking than we like to think. But we have all learned to negotiate. Know what you want from banks. Shop around. They need to know that they are competing with others for your business. Ask about fees. Don’t be too English about it: talk money. Banking is about money, not about relationships, as they would like you to believe. Establish clearly what all the costs are. You soon discover wild differences in fee structures and rates of interest, and in levels of expertise.”

What Claessens really found on returning to London for a second stay in 2006 was an opportunity. After picking up the book by chance, he discovered from Robert Frank’s “Richistan: A Journey Through the American Wealth Boom and the Lives Of the New Rich” that some people thought a wealth peer group was a new

phenomenon. “I thought, ‘I was doing this in the 90s,’” says Claessens, who set up his first peer group in Belgium in 1990. “The basic model was the same.” He had learned about the power of networks during his time in the outplacement business, joining the American Association of Outplacement Consulting Firms. That experience had given him the confidence to set up his first wealth peer group in Antwerp among his exiled countrymen, where he—like many Dutch entrepreneurs—had moved for tax reasons. “There we were, in a new country, having to learn to manage wealth instead of a company, and trying to master new tax rules. Your tax consultant may have explained that you can end up with practically zero tax, but that does not mean yet that you know how it works in practice and in detail,” he recalls. There followed a second peer group for foreigners based in Davao in the Southern Philippines, where Claessens had gone in 2005 to see if a tropical climate would suit him. “I formed this group because I realized that I could either get to know the place slowly, or I could speed dial, and get to know a lot of expatriates quickly and find out much more—more quickly,” says Claessens. “Within a few months we had a hundred members, and I found out more than I wanted to know.”

More-than-he-wanted-to-know means that the Davao peer group delivered what it should—more knowledge, more quickly—even if it was not always of the welcoming kind. Forget about law, about culture and even about a good lifestyle. Although locals automatically assume foreigners are rich, the truth is that the locals and the foreign retirees combined did not have the money to support a decent choice of restaurants or cultural offerings and whatever makes the difference between a hot, steamy outpost and a tropical playground. The members of the Belgian group, on the other hand, were genuinely prosperous. In fact, Claessens recruited the first of them by running an advertisement in the Belgian real estate section of the Dutch

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newspaper, *De Telegraaf*, which he knew all the right people would read. It helped that Claessens was willing to share information: tax reports he had commissioned for instance. “The law is the same for all of us, he reasons, nothing secret or private about it.” That spirit of sharing has become an essential ingredient in the groups he set up. Eventually, the Belgian network rose to 35 members, of which at least a dozen attended meetings to discuss bank accounts and loans, investment opportunities, and legal and tax arrange-

ments. He has now replicated the Belgian network in London. The principal goal is the same as it was in Antwerp back in 1990: to lower costs, reduce risks and boost returns, simply by sharing information—and so is the culture of the gatherings. Information can still be shared without any individual revealing anything about his or her personal wealth. “We share ideas and intelligence and experiences and contacts,” recalls Claessens. “It was another member who brought in the first commodity trading advisor (CTA) to one of

our meetings in the 90s. From CTA to hedge fund is not that big a step. That was how I ended up invested mostly in hedge funds.” And for Claessens, hedge funds will always be preferable to banks. “One of the beauties of hedge funds is that you have clarity on the history, net returns, volatility and so forth,” he says. “With banks, it is never clear how many disasters are hidden behind back tested portfolio proposals and high returns, but carefully selected historical client samples.”

—Dominic Hobson




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