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Art, science, nous: the JCP way

PUBLISHED: 06 Oct 2010 12:09:00 PRINT EDITION: 6 Oct 2010

The Australian Financial Review



Doing it their way ... Michael Fitzsimmons, Bob Officer and Wesley Campbell.

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JCP Investment Partners, a Melbourne-based boutique equity manager, has spent most of its 11-year life deliberately flying under the investment radar. But, after steering its way through the recent shake-out in investment management, the group now has achieved full control of its future.

While the financial crisis has triggered a lot of sales and changes among fund managers, JCP saw the shake-out as an opportunity to emerge with control of its own operation after a decade in which it was partnered with three major overseas groups.

In June this year, US giant JPMorgan Asset Management agreed, amicably, to end the joint venture by selling back its 50 per cent stake. This has left JCP as a small boutique, running actively managed funds for institutional clients.

Managing director and chief investment officer Michael Fitzsimmons likes to think the firm's process combines the art and the science of investing. He says there's a lot of art at the front of the process since JCP does most of its own research rather than rely on stockbrokers.

This means with 15 investment people, it has one of the biggest teams among local boutiques.

The science is in the use of discounted cash flow analysis and in its portfolio construction, Fitzsimmons says, and then there's art at the back end of the process when the firm asks before it trades: Do these changes make sense?

In hiring the right sort of investment managers, the group looks for three attributes. First, they need to be reasonably intelligent – "but they also need to be street smarts". Second, they need a passion for investing "because it's a tough business to be in: there's a scoreboard and there's a lot of pressure". Third, the firm looks for people who have an appetite for taking the right type of risks where the odds are stacked in their favour – "and not many people have got it".

Matching fund managers to the company is a bit like formula one racing. A good driver isn't enough; Fitzsimmons says racing drivers also need a robust vehicle. JCP's aim is to make sure that it takes rational risks and that its institutional clients are compensated for the risks taken.

The group has emerged through a series of deals since the initial 20/80 joint venture was established in 1999 between the local Capital Partners Group and the Hong Kong-based Jardine Fleming Group.

In mid-2000, Chase Manhattan bought 100 per cent of Robert Fleming, the Jardine Fleming parent, and the local partners lifted their stake to 40 per cent in two moves. Then at the start of 2001 Chase Manhattan merged with JPMorgan & Co to form JPMorgan Chase.

Later, Capital Partners increased its stake in the joint venture to 50 per cent, then moved to buy out the other half from JPMorgan Asset Management in June this year.

The final deal was two years in the making, says director and head of institutional business, Wesley Campbell. The parties reached a negotiated outcome after very amicable discussions.

In the end, it came down to resolving the different culture of the two owners – a boutique wanting a defined size and capacity constraints on the business (to preserve performance) against a large fund manager where growth and asset gathering was an important part of their business.

What has emerged is a small, focused boutique running a total of \$4.8 billion of active equity products, covering five investment strategies. These include a small absolute return fund and a long/short fund.

Most of the money is in a benchmark insensitive fund (about \$2.35 billion) and a lower risk benchmark fund (of just over \$1 billion). The two largest strategies have produced excess returns of 3.4 per cent and 5.1 per cent above their benchmarks over a seven year period. The long/short strategy has returned 6.7 per cent added value over three years and the absolute return fund has achieved plus 4.4 per cent over the past two years.

The mix of art and science is matched by the mix on the board – five executive directors and three very experienced nonexecutive directors. These include academic Bob Officer, professor emeritus at Melbourne University and a director of several other fund managers; former MLC Investment Management chief investment officer Chris Condon; and Paul Laband now retired after a career with National Asset Management, Towers Perrin, Russell Investment and UniSuper. Soon, there will be another non-executive director.

The academics are there as a sounding board – “Mike puts up a proposition and we try to find holes in it,” Officer says wryly. His unofficial rule is that investment models are “to be used but never to be believed”. That's the difference between a pure quantitative fund and JCP, he says. “These guys have a lot of nous.”

JCP believes in running high conviction funds and offers some managed on an after-tax basis. All its clients are institutions such as the Future Fund and Victorian Funds Management Corporation, along with other investment heavyweights such as MLC, Mercer, QIC and AMP, plus big super funds like Telstra.

As a result of not having a retail profile, JCP has deliberately taken a low-key approach of flying under the radar. “But we don't want to appear to be arrogantly aloof, either,” Campbell says .

Fitzsimmons says JCP hopes to avoid any “key man risk” in its ownership structure with a deliberate strategy of distributing the equity widely among more than 20 employees, directors and long-term advisers and emphasising teamwork.

Funds under management rose from start-up in 1999 to just under \$4.5 billion in late 2006, then fell in the global financial crisis towards \$1.5 billion. About two-thirds of the decline reflected the market fall. JCP didn't lose any clients, Fitzsimmons says, but some larger clients started to manage more funds on a passive basis or in-house. The figure is now up to a record \$4.8 billion, thanks to a number of mandates picked up over the past 12 months.