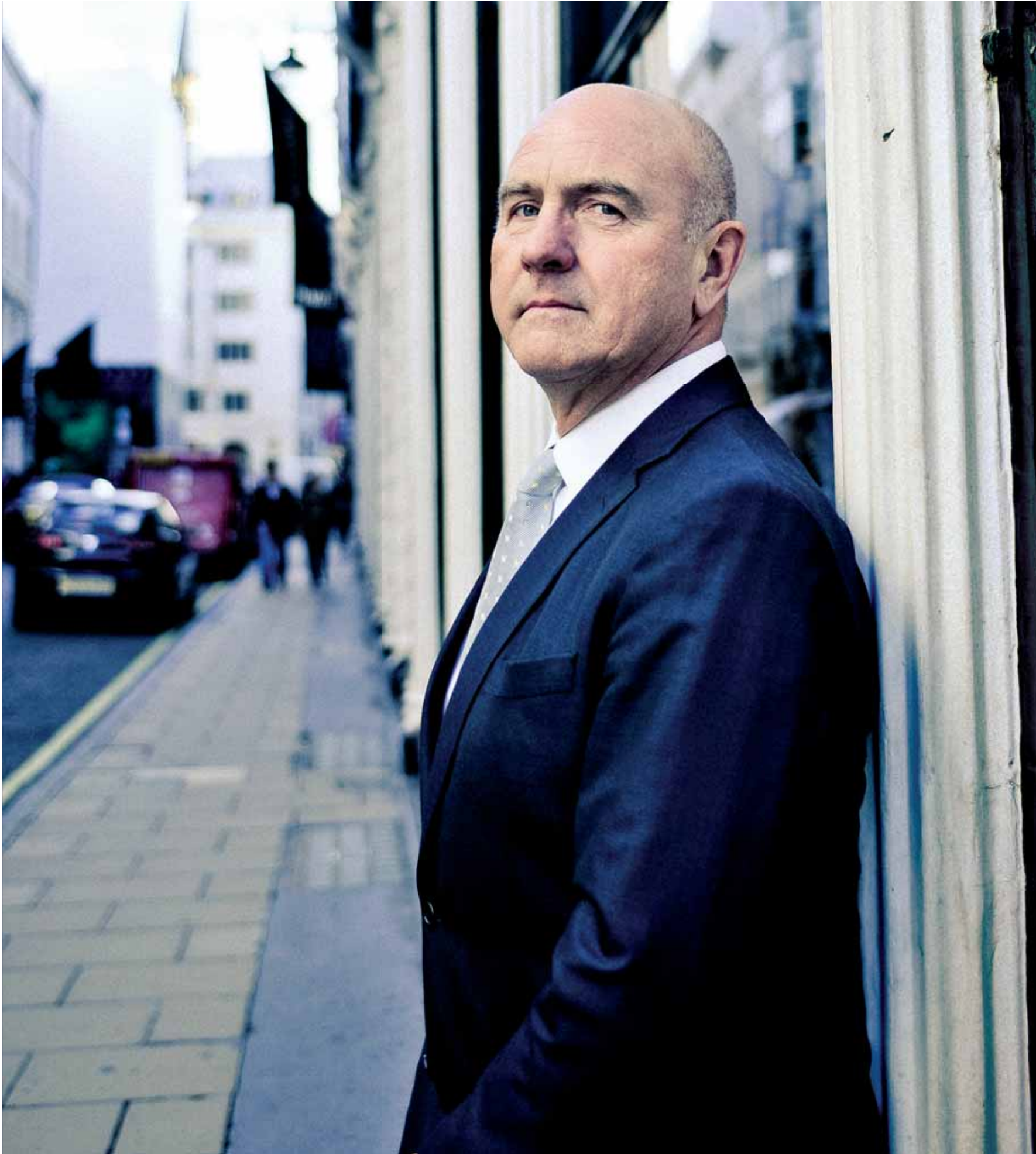


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PHILLIP RUSSELL

The Victoria Private Investment Office head on the next era for the business

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The past few years have been littered with stories of experienced investment managers deciding to leave private banks in order to strike out alone.

More often than not, they point to product-selling and high charges and exit with a resolve to set up their own business with the client at the centre.

Phillip Russell, chief executive of Victoria Private Investment Office and one of the original team which set up UBS Wealth Management in the UK, certainly fits into this category.

He recalls that when he joined UBS in the early 2000s, it had been an exciting time to be in private wealth management and be a part of the Swiss bank division's growth.

'They had a lot of people doing some very innovative development of products and structuring for entrepreneurs who were selling businesses. At that time London was a real boom town. A lot of people were becoming rich very quick through the

technology industry. They had good people that were structuring tax-driven products, which were great for people who were coming into new wealth. It was really exciting and the hedge fund industry was starting to boom in Europe. That was another form of investment which other people had not used before,' Russell recalls.

Russell joined UBS as the seventh member of the team and watched it grow to several hundred-strong, becoming a key player in the UK wealth management space. However, as time progressed he says relationship managers fell under increased pressure to sell products created by the investment bank.

'The plan UBS Wealth Management had was to go downmarket to mass-affluent. I think this is one of the issues why I believe Victoria Private Investment Office has a great opportunity here because the old wealth management model is starting to break down. They [UBS] wanted to become too big, they became too impersonal and became product sellers rather than true private bankers in the old sense of the word. That is exactly what we have taken hold of because we have identified demand, particularly over the past



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two or three years as markets have become tougher, for personal service, independent advice. Clients want you to look after them rather than just selling them stuff,' he says.

He describes UBS's decision to buy Scott Goodman Harris and Laing & Cruickshank in 2004 as 'the last straw', motivating him to leave his role as head of the sports, media and entertainment group.

'The number of people doubled over night. For me they [UBS] had completely lost sight of what they were trying to do for the client. The majority of people in that room did not have any banking or investment experience. They were people with address books,' he says.

Russell left UBS with a resolve to set up an investment boutique with a focus on personal and independent service. He was joined by his colleague Inno van den Berg, now CIO, alongside one of their largest clients the Scanlon family, which had been behind the success of the Fosters brewing business. The family set up Victoria Capital in 2003 to manage their wealth and make the investment strategy devised by Russell and van den Berg available to other investors. Soon after, other families and individuals joined as clients, including Neil Mendoza, the man behind Hammer Films and founder of Forward, the custom marketing and publishing agency, who is now chairman of Victoria.

Russell, a straight talking ex-professional football player for Wrexham, has over 25 years' experience in investment and risk management, with a particular expertise in currencies. Having started his career at Lloyds Bank International, he enjoyed stints in Portugal, Tunisia and later moved to Tokyo to set up a securities division for Lloyds Merchant Bank in the early eighties, before moving to CIBC/Wood Gundy in Hong Kong and Tokyo. He then joined WestLB, where he became head of business development for global derivatives and fixed income for the group in London in 1999, prior to moving over to UBS.

In 2008 the family decided to realise value from its stake in Victoria Capital. Russell alongside van den Berg carried out a successful management buyout, taking ownership of the business, just ahead of the market collapse.

In spite of challenging markets, Victoria has gone from strength to strength attracting around £500 million in assets under advice, providing asset allocation, advisory and discretionary investment management to private clients, charities and endowments. The business has been profitable for the past few years and has 100% recurring income.

Earlier this month, Russell and van den Berg relaunched and renamed the business Victoria Private Investment Office in order to give the business more of an emphasis on advisory. Russell says this was motivated by the team identifying growing demand from clients for advice, particularly in terms of monitoring assets on a holistic basis in relation to investment performance and the amount of risk in portfolios across multiple managers. The move coincided with the hire of Heather Maizels as managing director from Barclays Wealth, where she helped to build the private banking business.

'It is important for clients to know we are profitable and not chasing after business because then there is a tendency to give bad advice. We are solid, comfortable and will grow in time'

'The last few years has brought it back to most investors that while they need to take risk to make a return, you need to manage that risk and take the correct amount of risk for what you personally are prepared to tolerate and for what your wealth can withstand. In the 1990s up to 2008 it was too easy. Markets were booming generally, people had money and I would say by far the majority of people had far too much risk in their portfolio for what they really could tolerate,' Russell explains.

During the market falls in 2008, he received a lot of phone calls from people he knew - who were not even clients - asking for advice about where to put their money.

He adds: 'We realised investors at large did not trust their bankers anymore, otherwise they would have been asking them the question and not us. There was a sea change in confidence, in security and we have since nurtured that need into what is now this business. Not only did it happen in 2008, it is probably happening now. People see they need advice and guidance through this process of

wealth preservation as well as investment. If they can turn to someone they can trust and know is not selling product, they feel more comfortable.'

It is for this reason that Victoria has a range of charges, including an hourly charge as the team views its role in some cases as being more akin to a lawyer or accountant, through to advisory and discretionary management which ranges from 0.5% to 1.5% depending on the size and complexity of the mandate. The monitoring of risk across portfolios remains a key focus for the team, which runs a broad asset allocation overlay.

'So many institutions are too big and are not providing a personal service. They put you in their growth or balanced portfolio - which is one size fits all anyway, so it is probably wrong - and it is there for six months to two years and it does not change. They say they have got tactical allocation, but they do not.

'Each portfolio has to be managed and adapted as conditions change. We urge our clients to give us the information and allow us to work

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THE VICTORIA INVESTMENT STRATEGY

Our clients want advice.

They are unhappy with the dwindling returns generated from a typical investment portfolio with the standard mix of equities, bonds, alternatives and cash, and are increasingly concerned with capital protection and overall risk. Increasing taxation, inflation, world uncertainties and local unrest fuel further risk concerns.

Significantly however, private investors and charitable foundations often do not recognise the risks they are taking. It is evident from recent performance data that portfolios still hold too much risk for the average investor.

Volatility in risk assets such as equities and commodities is not being sufficiently mitigated in this low interest rate/high inflation rate environment by the

uncorrelated returns normally offered by bonds and cash.

We give our clients independent advice to alleviate these issues. Our focus currently is on replacing the low yielding bond and cash exposures with better performing assets that, according to our modelling, also offer the necessary return profile that is uncorrelated to equities.

We have designed and implemented portfolios using increased exposure to alternative funds and include infrequently used currency strategies as an asset class to enhance cash returns.

Doing nothing and persisting with typical investment models is no longer an option for our clients, who continue to be unhappy with the unexpected risks implicit in traditional models.

with their investment managers giving constant reports about what the portfolio looks like and what the performance is. You can see the marked variance in how managers are performing, even with the same mandate,' he explains.

He says the difference is evident in portfolio construction and returns, while in many cases portfolios are not set up the way the investment manager proposes from the outset. It is for this reason that Russell is not surprised by the findings of the FSA's suitability review and subsequent 'Dear CEO' letter.

'Rather than give each manager the same mandate, let's pick the best manager in each asset class and give them the allocation and we will run the overlay asset allocation model ourselves with the client,' he explains.

This revolves around Victoria's best of breed approach, with which one particular client has generated an extra 2.75 % per annum, Russell says.

When the team directly manages assets for clients, portfolios are run on a bespoke basis with

flexibility to invest in direct securities and collectives, both active and passive, with stress-testing against scenarios. While the firm says average performance figures and typical asset allocation were hard to generate due to the bespoke nature of portfolio management, Russell uses a multi-asset portfolio created for a charity as an example. It has generated a 6% annualised return over the past five years with the largest drawdown around 7%.

Looking ahead, he views the sovereign debt crisis in Europe as his greatest concern over the next six to 12 months. 'I am not confident there is political will to come up with a tough solution for Europe to enable markets to really gain confidence,' he says.

Against this backdrop, the team will increasingly back creditor nations although this will prove a gradual and cautious move due to the volatility associated with some emerging markets. The team is currently allocating between 5% and 15% of portfolios to emerging markets, dependent on market conditions and risk profiles.

Meanwhile, equity allocations are relatively

defensive, with a bias towards companies with strong balance sheets and exposure to emerging market growth. Russell has taken advantage of valuations to increase exposure to equities and said he was looking to lock in profits after the recent rally. To reduce potential volatility the team can also execute a hedging overlay on request for clients.

With the hire of Maizels as managing director and the relaunch under way, Russell is hoping the firm will continue to grow by attracting business from private clients, charities, endowments and intermediaries. However, the chief executive is unwilling to sacrifice service for growth.

'What is important to us is to maintain our principles and that is to have people with market experience, who understand risk and have the same ethos about the business we are in. We will build gradually and will remain profitable. It is important for clients to know we are profitable and not chasing after business because then there is a tendency to give bad advice. We are solid, comfortable and will grow in time.'