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CAIA Association
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THE VIEW FROM TORONTO: RATIOS AREN'T SET IN STONE

On Oct. 29, the AIMA Canada Investor Forum 2018 convened at Sheraton Centre, Toronto.

The event focused on new innovations in the world of alternative finance, brought about by a combination of investor demand and technological change.

The forum kicked off with a discussion about the current role of hedge funds. One of the panelists, Robert Janson, chief investment officer, Westcourt Capital, a Toronto-based investment advisor, shared his thinking with AllAboutAlpha prior to the event.

AAA: Could you start by telling us a little bit about Westcourt Capital?

Janson: Westcourt is a registered portfolio manager for high-net-worth and ultra-high-net worth individuals and families, across all asset classes, including equities, bonds, hedge funds, real estate, private equity and so forth. We have a very different mindset from that of typical bank-centered Canadian asset management. We do have a few institutional clients, but at least 95% of our clientele consists of individuals and families.

Needs Largely Unmet

AAA: And could you give us some of your own background? What were you doing before Westcourt?

Janson: I left Canada in 2000 to pursue a finance career in Switzerland and France. At UBS in Switzerland, starting in 2006 I was a high-net-worth portfolio manager for the "executives and entrepreneurs" team.

In 2010 I returned to Canada and became the director of ultra-high-net-worth wealth management for all of UBS Bank Canada. I take from my experience with UBS a wealth management philosophy and an understanding that there is a large unmet need for these services in this country.

AAA: Is there a rule of thumb you would apply as to how much of a high-net-worth investors' portfolio can sensibly be put into hedge funds and alternatives in general? For example, is there a percentage of the portfolio that might appropriately find its way to hedge funds?

Janson: It is too simplistic to think of a fixed percentage. If a particular portfolio can serve the needs of its owners without the benefit of any stocks, then I would happily manage that portfolio without stocks and the risk they represent. We have gotten away from the idea that you have to start with a 60/40 split equity/debt and then pick away at that and make some room for the alternatives. We have a lot of arrows in our quiver. We build a portfolio from the ground up as opposed to starting from a static 60/40 and working backwards…

AAA: Do you follow a risk parity approach?

Janson: We don't have anything set in stone. We are concerned with risk of course and we understand that leveraging up the low-risk asset classes is one approach. But it is not a mantra for us.

Illiquidity and Its Premium

AAA: Some advisors argue that for most investors it's better to invest in the hedge-fund-linked indexes, the so-called liquid alternatives, rather than in the underlying funds themselves. I guess this will produce the beta of the alpha seekers. What do you make of that argument?

Janson: Liquid alternatives have a role to play, surely. But that's chiefly for situations in which liquidity is an imperative. A retail investor wants to have access to his/her money as needed.

For a HNW or UHNW investor, there is more tolerance for illiquidity. If an investor has a long time horizon, it may well be wiser for that investor to invest in the underlying funds. We are big believers in an "illiquidity premium" and if you can accept tying up your funds, you should be rewarded with a higher rate of return.

AAA: In the fourth quarter of 2018, are we at a moment when sensible investors want to keep their powder dry? The stock market bull is very old, and I understand a concern that one doesn't want to be locked in at the moment of a turn, so liquidity may be at a premium.

Janson: Yes, the month of October has been quite tumultuous in equities. Looking back a decade, the S&P 500 has lulled people into a false sense of security, with its long upward run since 2009. We suspect that a correction is on its way. There's an old adage: trees don't grow to the sky.

AAA: Thank you for your time.