

# ETF STRATEGY

## Quartet: Taking a bespoke active & ETF approach

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Investment management firm **Quartet** was founded in late 2009 by a group of experienced investment professionals to provide bespoke discretionary investment management services to investors both onshore and offshore. The firm is based in leafy Richmond, a stone's throw from the offices of tech titans eBay and PayPal. It believes in an active *and* passive approach to investment, and says that it doesn't "shoehorn" its clients into predetermined solutions.



Colin McInnes, Managing Partner & Investment Manager, Quartet Investment Managers.

Structured as an independent partnership it means that all clients are able to deal with Quartet's owners and decision-makers. It currently manages £200m of client money.

This bespoke approach, combining active strategies and passive exchange-traded funds, makes it one of the only UK firms with this investment model. Rebecca Hampson, associate editor at ETF Strategy, talks to Colin McInnes, managing partner & investment manager at Quartet.

### **Rebecca Hampson: Why do you believe in an active & passive approach?**

**Colin McInnes:** We like both approaches and don't believe you have to be in one or the other. We usually look at using 40-60% of passives in each portfolio, with the balance in actives, but there are pros and cons to both. With ETFs we find that they are low cost and good for an asset allocation view. They are good for knowing what performance you are going to get and they can perform better than active managers. However, with ETFs there is no chance of outperforming the underlying and we find that some indices are skewed.

With active managers there is a decision-making process involved, which can raise issues, but there is also the chance of outperformance.

### **RH: Why do you believe people are in either one or the other, active or passive?**

**CM:** This is usually because of their background. If you come from a fund selection world, then you're going to take an active approach, as this is what you know. But there are also people from a passive background who believe in the passive approach and an expected performance.

**RH: How do you choose your ETFs?**

**CM:** We prefer physically backed ETFs. We have used synthetics rarely in the past, but I am not keen to take the risk – no matter how small – on swap counterparty risk. After we are sure that the structure of the ETF is right, then we look at tracking error and cost.

**RH: How many portfolios do you currently run?**

**CM:** We currently have around 160 clients and each one has about three portfolios (on average).

**RH: Why do you not offer model portfolios?**

**CM:** We are a fully bespoke service. We find that model portfolios offer a very different business proposition and they can be judged fully on price and performance. We see a lot of providers 'pile it high and sell it cheap', but we are not in that game.

We believe in tailored solutions and that people like to have relationships with the people managing their money. We believe that people still want to have their money managed and invested – especially when cash rates are at 0.5%.

**RH: What are your fees?**

**CM:** They range from 0.5% to just under 1%. But we also have performance fees as well. Our fee model is consistent; we have never taken retrocessions and we have always been fully transparent. We were RDR compliant before it came in. If the work is likely to be profitable, then we will do it. But we are not a charity.

**RH: What is your investment strategy?**

**CM:** We take an asset allocation approach. So, in short, we consider ourselves a top down macro house. We look at what a client wants in terms of their risk/return objective and we then model that. For 99% of the portfolios we put together we use the Monte Carlo simulation. We don't use active managers in more popular markets as there is not much point.

Almost all (85-90%) of our clients are directed by financial intermediaries to us, to manage their money on a mandate. For the small amount of clients that are new to investment then we will use an adviser at inception, and we have relationships with a raft of advisers.

**RH: Who are your competitors?**

**CM:** There are very few direct competitors because we find that people take either an active or passive approach, not both, or the firms offer model portfolios as well. There doesn't seem to be anyone who directly competes with us, which is ultimately offering a bespoke-only service using an ETF and active approach.

**RH: How do you keep clients abreast of any changes to portfolios, or in the market?**

**CM:** We try to communicate this as often as possible, so we try to see them a couple of times a year. All our portfolios are reviewed weekly or bi-weekly and if asset allocation shifts then we will review individual client portfolios.

**RH: What is your outlook for this year?**

**CM:** Markets will remain very volatile and it is likely that we will see equity markets have another shake-out. Saying that, Japan and pockets of Europe look to offer better value.

Fixed interest will do rather well because of rates not going anywhere and it will work as a hedge to equity volatility. We also believe that certain parts of property and infrastructure could do well. It is also likely that small-cap will outperform large-cap.

But this year is going to be about grinding out some returns.