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ALLIANCE FEELS scandal pressure

CHALLENGER BACKS BOUTIQUES in a big way

Meeting of minds:
MIR's quant/qual partnership

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the quant/qual partnership of MIR Investment Management

Michael Triguboff's final asset management venture is a shop unlike any other. *Michael Bailey* reports.

Michael Triguboff did not take many half-measures in assembling his new Australian equity boutique, MIR Investment Management.

MIR's health care analyst is a doctor. Its head of quantitative research is a PhD in pure mathematics. And it can turn to an industry advisory council boasting household names like Peter Kirby and Harry Triguboff.

The chief strategist, meanwhile, is no less a figure than Emeritus Professor Ron Bird, who in addition to his duties at Sydney's University of Technology, has teamed up with Triguboff in order to: "finally implement all the ideas I've gained after 30 years in this industry".

Triguboff has also set up an investment process committee, to promote transparency and consistency of approach, and appointed one of the industry's best-known asset consultants, Ray King, to chair its monthly meetings.

There's no doubt it's all impressive. But is it a case of too much infrastructure, too soon, for a start-up which has just begun approaching asset consultants, is still simulating portfolios, and whose only assured mandate is the money of its own investment staff?

Triguboff doesn't think so. His phenomenal success in establishing Lazard in Australia in 1994, not to mention Bird's successful setting up of GMO here a year later, means the financing of MIR is secure compared to most boutiques.

Triguboff also knows it becomes far more difficult to shape an orgainsation once it is established.

"For Ray, Ron and myself, this is likely to be the last investment business we're involved in, and we want it to be the best it can be. The way to ensure that is to have it all in place from day one," he says.

"It's cheaper for a boutique to hire top talent than train up beginners, we need that experience to get the healthy cynicism we're after. Are we top-heavy? I prefer to describe us as well-muscled."

One thing MIR has done by halves is design its investment process, evenly splitting the inputs between the qualitative and quantitative realms.

Both Triguboff and Bird believe it's the first "genuine partnership" between the two disciplines in Australia, and one of the few in the world, mostly because it's so hard for a firm established on one side to incorporate the other.

"I remember when I was at Westpac," Bird says, "Bob Joss used to

Ron Bird (seated), Brett McElwee, Owen Evans & Michael Triguboff (seated)

talk about when Wells Fargo tried bringing qualitative people into its quant shop. The quants regarded them as the enemy, and vice versa. In Bob's words there was blood on the streets, and Wells Fargo is still basically a quant shop today."

Even at the US offices of GMO, Bird says the quant and qual streams of the business are seated separately. They might "learn from each other", but there had never been a move to combine them in a single product by the time Bird finished up with the manager last year, despite his advocacy of the benefits.

An example of those benefits, according to Triguboff, might occur where a company announces a reduced dividend. A quant process would usually view this as a negative and possibly downweight the stock, but in a blended process an analyst might talk to the company's management and find the money was being used to fund a worthwhile opportunity, turning the reduced dividend into a positive event.

Other instances where a combination of quant and qual insights can deepen understanding, according to Triguboff, is in the significance of sell-side analyst forecast revisions, and the extent to which accrual accounting is being used to mask financial problems at a company.

So it is that from the moment MIR moved into its Sydney offices, head of quant research Brett McElwee was seated within speaking distance of chief investment officer Owen Evans (the former head of cyclical companies at UBS); while healthcare/materials/media analyst Dr Gillian Eagles is a few footsteps from quant analyst Greg Saunders.

To give the marriage its best chance of being a happy one, the investment staff were all hired with a mind to their temperaments being suitable to the unique structure.

Investment process committee chair, Ray King, explains: "We didn't want the kind of broking analyst who'd keep second-guessing the quants. People like Owen and Gillian are known for their intense research on single companies, they don't mind only having 50 stocks left for them by the screens."

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The partnership of quant and qual, and the self-policing investment process committee, are not MIR's only strikes against being a 'me too' manager.

The formal involvement of academic research in the process will be at a level rarely seen in Australia, according to Bird.

"Not many funds managers recognise that there are thousands of academics working for them around the world, free of charge, seven days a week," he says.

The central tenets of MIR's process are already based on strong academic research, Bird says, including the blending of quant and qual, and the combination of value and momentum screens to prevent a proven foible of the value investor - buying too early, and selling too early.

"Momentum investing itself is an even worse, price-ignorant way of investing than indexing," Bird declares, "but having a momentum screen there stops us being the misguided hero, standing in front of the roaring train as a stock plummets in price."

Another behavioural finance insight, that investors hate to crystallise losses far more than they love to cash in gains, has inspired MIR to establish a maximum holding period for its stocks. Triguboff won't specify how long that period is, but says it can only be broken in unforeseeable circumstances.

Bird says his role at the UTS Finance Department will keep him at the cutting edge of new academic research, including the behavioural finance insights he argues are becoming more valuable as more price-insensitive investors play the market.

MIR has committed to thoroughly testing any new academic insight, for possible review by Ray King's committee (which also includes Bird and Triguboff) and possible implementation following a full explanation to investors.

Apart from looking to the halls of academia, MIR will also have a hotline to the 'coalface' of business through its industry advisory council.

Triguboff thought the concept worth reviving from his time with Lazard, and three of that council's members have in fact come across with him to MIR - Beyond International chair Ian Ingram (whose media expertise will be sought), former www.consult chief executive Ramin Marzbani (who is on call for advice on the tech and financial services sectors), and Meriton boss Harry Triguboff (Michael's uncle who, needless to say, will be an ear to the ground in the property market and building industry).

Contacts within the small cap sector will provide further valuable information, Triguboff says, explaining this is why MIR already has both a large and small cap capability.

"The owner-operators of these smaller companies, some of whom are on our advisory council, they really live and breathe their businesses, talking to them gives you great insight into how businesses work," he says.

"You learn a lot more about Woolies from talking to its small suppliers than you do from talking to Woolies itself."

The ideas MIR gains from sources both internal and external will be put to active use. The tracking error which falls from its 40-stock large cap process is around 7 per cent, with the qual analysts able to reject up to 20 per cent of the 50 stocks they are left with by the value and momentum quant screens, while 20 per cent are allowed to be as much as double-weighted.

While the 'hit-rate' of outperforming stocks within a typical value portfolio is 45 per cent, MIR's simulated portfolio has improved this to an average of 55 per cent, based on six month holding periods back to the inception of its database in 1992.

MIR also plans to launch a long/short portfolio, once its large and small cap portfolios are established. ❇