

Pinnacle builds Palisade

PENNY PRYOR

Pinnacle Investment Management has formed a new infrastructure boutique called Palisade Investment Partners.

The boutique is the third for incubator Pinnacle which is headed up by former Perennial Investment Partners founder Ian Macoun.

Palisade will be co-headed by Peter Salisbury, who was formerly managing director and head of global infrastructure equity at Deutsche Bank in London and has 14 years experience with Macquarie Bank.



Ian Macoun...
"We're flexible about how we earn our revenue"

The other joint founder is Ian Mitchell who previously was responsible for Societe Generale Australia's project finance division.

Macoun said the boutique would be flexible in its approach to revenue and could initially focus on assisting clients in the sourcing, structuring and ongoing management of infrastructure deals.

"In time we want to become a funds manager with our own funds but we're flexible about how we earn our revenue," Macoun said.

Palisade means a 'strong fence or defensive barricade' which, according to Pinnacle, evokes an image of an asset class that can protect a super fund's returns during difficult periods.

Macoun identified infrastructure as the next asset class for a Pinnacle boutique after consultation with the industry and extensive research of the sector.

"I have been getting feedback from wholesale investors that they have wanted to do something in this space for a long time...so I started to talk to people in the market," he said.

Pinnacle is 85.5 per cent owned by Wilson HTM Investment Group and 14.5 per cent is held by Macoun.

Pinnacle is also set to benefit through the listing of its majority parent later this month. Wilson HTM is looking to raise \$25 million in an IPO with offers closing on June 8, 2007 and expects to resume trading on June 19, 2007.

"Pinnacle is very much a part of that story. We're not a business that needs a lot of capital but we have an open mind about new boutiques," Macoun said.

New boutiques need seed capital and Macoun said Pinnacle would not rule out buying an existing boutique if they thought they could add value to it in some way.

"This means Wilson HTM will be able to access capital if they need to and Pinnacle will have access to that capital," Macoun said.

Pinnacle's other boutiques are high conviction growth manager Hyperion Asset Management and quant manager Plato Asset Management.

BT and Mather give the funds control in revamped governance research business

GREG BRIGHT

BT Financial Group has transferred its Governance Advisory Services (GAS) business into an independent structure, in which BT will retain a stake alongside seven other equal shareholders.

The revamped company will be known as Regnan - Governance Research and Engagement.

Erik Mather, the chief executive, who launched GAS for BT (then as Westpac) in December 2001, said the new shareholding structure coincided with a major research distribution alliance with Goldman Sachs JB Were investment bank.

Mather said that BT had decided that it would rather have a smaller part of a larger and faster growing business than own all of a smaller one.

The shareholders signed to date are: super funds ARIA, HESTA and ViSuper, UK pension fund Hermes and fund managers BT and Vanguard. Two other super funds were negotiating signing up as shareholders late last month.

Under Regnan's new constitution, the funds must have the controlling shareholding in the company.

Their agreement also includes signing up as clients for the service, for a three-year period, which will mean that the business jumps from having assets under advice of about \$9 billion to about \$50 billion.

The BT GAS team has moved into new premises in Sydney and has recruited two new staff, including a head of research services.

The deal with Goldman Sachs is more significant than just allowing a different platform for distribution of the Regnan work. It also means the researchers will be providing for the first time a better and short-term link between governance-type issues and market valuations.

"Our research has traditionally been of a long-term nature," Mather said. "We're now going to look at the short term as well and how you get the appropriate valuation signal from ESG (environment, social and governance) factors."

This Regnan research will be distributed through the Goldman Sachs 'Conchead' research platform which goes to about 40 Aussie share managers.

The Conchead software will allow managers to analyse the ESG data from Regnan in the same way as they analyse other financial data.

"So, the new research focuses on performance and its implications. This is a great leap forward for us in assessing ESG on a financial performance basis," Mather said. "Adding ESG research to our existing governance engagement service breaks new ground in the valuations of ESG. Signatories to the UN Principles of Responsible Investment (UNPRI) can now



Erik Mather...
"great leap forward for us"

be confident that all six principles can be implemented in a robust manner."

He said a key part of this industry initiative was to harness the years of experience BT had with ESG analysis and deliver it to the market so UNPRI signatories, and others, could use it.

"Being owned by super funds and working with Goldman Sachs has delivered to this mandate."

When at Westpac, Mather was instrumental in contracting the Monash Sustainable Enterprises benchmarking and filtering service in 1999. The manager's usage and involvement in the area led to the formation of GAS two years later with ARIA (then PSS/CSS) as its foundation client. ViSuper is the only other former GAS client which has become a shareholder, and client, in the new company.

Mather said the restructure and new short-term valuation research had been more than a year under discussion.

Thomas Murray offers custody review in lieu of tender

PENNY PRYOR

Thomas Murray, the specialist custody consultant and bank ratings firm, has signed up two Australian superannuation funds to its custodian monitoring service which it is offering as an alternative to a full-blown tender.

Ross Whitehill, chief operating officer, said initial discussions with the Australian Prudential Regulatory Authority (APRA) indicated the regulator was considering a Thomas Murray review as reasonable due diligence for funds' outsourced provider arrangements.

As part of the RSE licensing regime, APRA has issued a guidance note on the process funds should go through when outsourcing provider arrangements. It does not actually stipulate that funds should go to tender but does state such a process would be a 'best practice' component of the due diligence process.

The Thomas Murray review is similar to the 'desktop reviews' that some mainstream consultants are being asked to provide for clients as evidence of due diligence.

The cost of a Thomas Murray monitoring report would be "a quarter of or less" than the cost of going out to tender, Whitehill said.

The service rates custodians on a number of factors such as settlements, safekeeping, income collection, corporate actions, corporate governance, tax, passive cash management/foreign exchange, active cash



Ross Whitehill...
"It's a dynamic process"

management and foreign exchange.

It will review custodian fees against their peers but also stresses to clients that fees alone should not be a determining factor in deciding to keep, or not to keep, a provider.

"It's a dynamic process, it's not just 'there you go, stick it to the custodian'," Whitehill said.

Globally, the ratings of State Street Custodial Services, Investors Bank and Trust, Mellon and Bank of New York are currently on hold because of their merger plans. "There is execution risk there," Whitehill said.

The review also includes a contract review which examines key clauses of contracts and compares them to best market practice. For example, if a contract doesn't include an exit clause Thomas Murray may suggest they include one.

Straight through processing rates are ex-
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State Street 'shadow' Vanguard on emulation

SIMON MUMME

State Street is poised to launch an emulation-style product, named the 'shadow fund', through its funds management arm State Street Global Advisors (SSGA) in the new financial year.

The play would bring SSGA into competition with index manager Vanguard, who currently runs an emulation fund for MLC and a range of products built in a similar theme to emulation, called centralised portfolio management (CPM), for other investors.

"State Street wanted to compete with Vanguard [and] SSGA are well placed to do this," James Woodward, State Street vice president transition manager securities trading, said.

Woodward said the manager had "no clients locked in" to use a shadow fund, despite the product generating considerable interest. None of the prospective clients were large super funds.

He said the merits of shadow funds would be their ability to "increase capacity, reduce turnover and reduce costs".

Under emulation, shadow and CPM arrangements, an external investor such as Vanguard or SSGA buys the investment ideas, or paper portfolio, from client funds managers and then emulates the trades. In some circumstances, a third party, or master manager, is hired to enact the paper portfolio trades.

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amined and compared to all the other clients the consultant has.

An analysis of capital market infrastructure standards in 104 countries is also included and changes are flashed to clients as they happen.

While funds can pick and choose from components of the report, Whitehill said they did not want to disaggregate.

"We don't just do price/fee analysis because that will kill our business," he said.