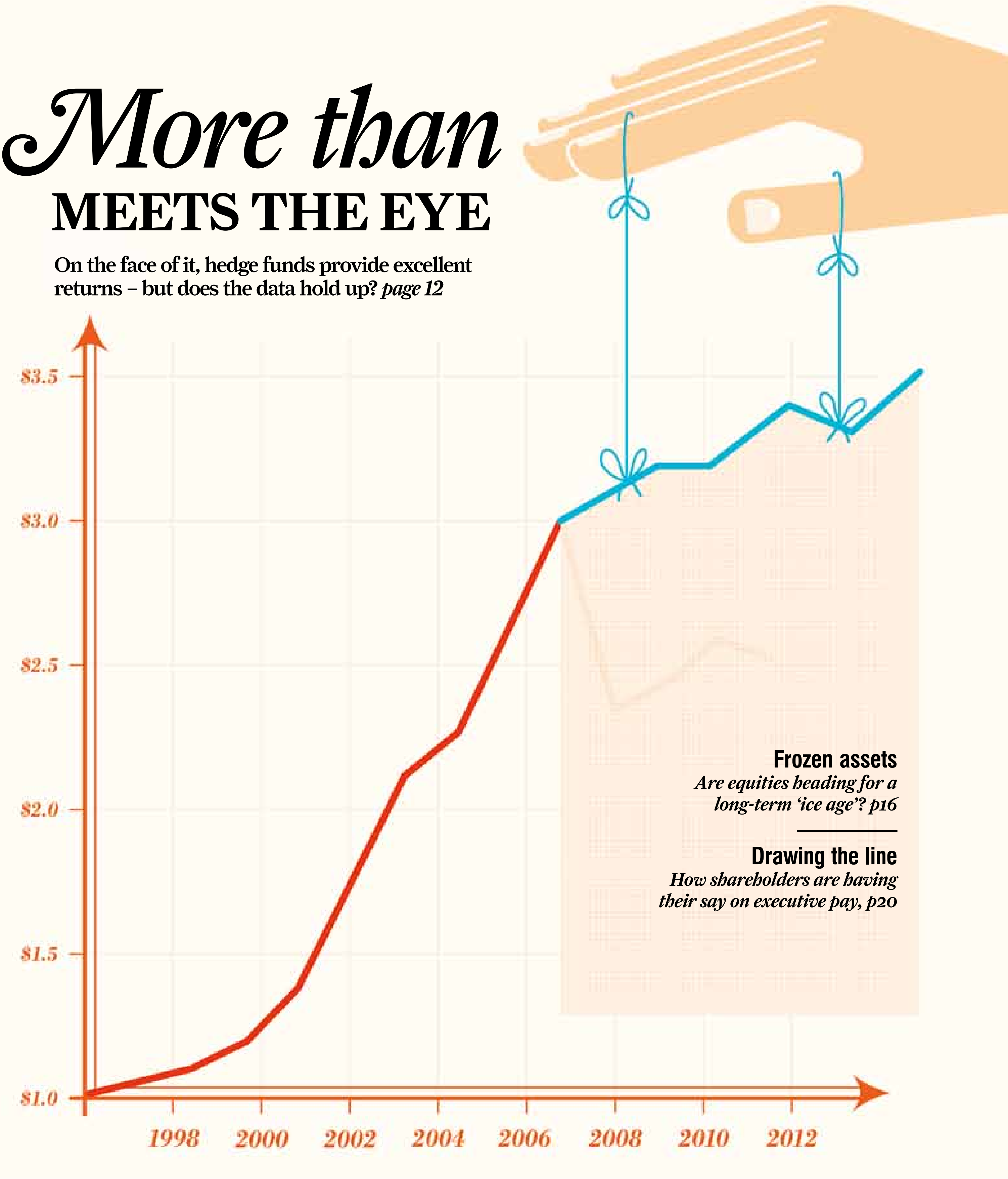
SECURITIES & INVESTMENT JULY/AUGUST 2012

REVIEW

THE MEMBERS' MAGAZINE OF THE CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT cisi.org/sireview

More than MEETS THE EYE

On the face of it, hedge funds provide excellent returns – but does the data hold up? *page 12*



Frozen assets
Are equities heading for a long-term 'ice age'? p16

Drawing the line
How shareholders are having their say on executive pay, p20

Securities & Investment
JULY/AUGUST 2012

REVIEW

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CISI OPINION

With LIBOR fixing the latest in a series of scandals to hit the City, how can the UK's financial services industry regain trust?

A question of reputation

For the UK banking and financial services industry, where trust – as exemplified by the CISI motto 'My word is my bond' – is crucial, the revelations surrounding the fixing of LIBOR interest rates strike at the very heart of the reputation that the City has cultivated assiduously over the years. Despite the very real challenges posed by the global financial crisis, the City's reputation remains a cornerstone of its attractiveness as a place to do business.

So the outrage expressed at the behaviour of those traders whose actions were designed specifically to benefit themselves is understandable. The actions of the bank itself, where it believed that LIBOR-setting rates being submitted by other banks were not reflecting reality, suggest that the 'ends justify the means' culture was not confined solely to a single bank, but was systemic in the industry.

At one of the banks, the senior executives have announced that they will forgo 2012 bonuses as a result of this scandal, as has RBS CEO Stephen Hester, following the firm's IT 'meltdown'. However, while we admire the laudable intention, it does suggest that the individuals all felt they were certain to receive a bonus, although one had not yet been awarded, implying a sense of entitlement.

For those in charge of banks who fiddled the figures some years ago, forgoing a bonus this year is commendable but it misses the point of wrongful actions that took place in the past.

Accordingly, the claw-back or forfeiting of unvested bonuses representing those years when wrongful acts were carried out, as is recommended in the CISI bonus policy principles, is surely appropriate. Furthermore, if the sums have vested and the employee is still employed at the same bank, any shortfall in recovering the total bonus awarded during the period under investigation should be taken from current and future payouts.

In the Barclays case, many of today's senior executives were also in position at the time the events took place. However, it should be noted that, in his open letter to the Treasury Select Committee prior to his resignation from his position as Barclays' Chief Executive, Bob Diamond said that "all appropriate options will be pursued for those who have a case to answer, ranging from the claw-back or withholding of remuneration, to being asked to leave the bank". This should apply up the chain of command and also in any other banks that are found to have acted improperly, when the actions of the many regulators who continue to investigate this matter are complete.

The last thing the UK needs is the suggestion that its integrity is a sham

Looking to the future

But moving on from our obvious outrage at what has happened, and without seeking to diminish the seriousness of what took place, we must also look to the future. The past five years have seen the primacy of London as a financial centre under relentless attack from both Europe and the US, which have sought to recover some of the advantage enjoyed by the City. Potential actions being proposed by European countries whose aim is to stabilise the euro are likely only to increase this pressure.

So the last thing the UK needs is the suggestion that its reputation for integrity is a sham and the standards of our bankers and traders who operate in 'the market' are no higher than anyone else's, and quite possibly lower.

All of which should mean that the paradox whereby regulatory and skill standards for retail financial markets are higher than for wholesale markets is no longer sustainable.

The CISI has been campaigning for some time for the levelling up of these standards, so that participants in the wholesale market meet the same requirements as those in the retail market. These standards should include both higher-level threshold competence exams, and a demonstrable test of ethics and integrity.

We call on the regulators and politicians to recognise that, if the UK financial services industry is to begin to recover from the damage caused by the latest round of reputation-shredding events, every avenue must be considered – not just ever-tighter and more didactic regulation. The Institute stands ready to play its part. ■

To read the *S&IR* article from May about LIBOR manipulation, visit *cisi.org/sirlibor*

Upfront

News and views from the CISI

Got a story to tell or a view to share?
Email Richard Mitchell at richard.mitchell@cisi.org

QUALIFICATIONS

Diploma keeps financiers up to date

Mark Protherough

A new Diploma in Corporate Finance has been launched by the CISI and the Institute of Chartered Accountants in England and Wales (ICAEW).

The Diploma will replace earlier versions offered by both the CISI and ICAEW to make it relevant to changing markets and employer demands.

It will consist of two exams – Techniques & Theory and Strategy & Advice – that will underpin the increasing knowledge and skill requirements of corporate finance practitioners.

CISI Managing Director Ruth Martin said: "We are delighted to announce, with ICAEW, the launch of the new Diploma in Corporate Finance.

"This will allow candidates to build on the knowledge and expertise gained through our benchmark Certificate in Corporate Finance, or the ICAEW's ACA qualification, and to address a wide spectrum of corporate finance scenarios that are relevant to individuals starting out in a corporate finance role, or who are already established in a particular area of specialisation."

Mark Protherough, Executive Director, Learning Professional Development, ICAEW, said: "Corporate finance is a profession that is growing in influence and global significance.

"The Diploma in Corporate Finance is a practical programme of study developed by corporate financiers for corporate financiers. A candidate who has studied for and passed the Diploma will have a strong working knowledge of corporate finance, from the Listing Rules and the Code through to how to structure a private equity deal or finance a large capital project."

The first exam sittings for both papers will take place in December 2012. Those students who have achieved the previous ICAEW Diploma in Corporate Finance will be eligible to study for the Strategy & Advice exam and will not have to complete the Techniques & Theory element. More than 900 people have already expressed their interest in sitting the qualification.

For further information, visit *cisi.org/dipcf*

LETTERS

Postbag

Letters to the *S&IR* can be sent by post to Richard Mitchell, Communications Editor, Chartered Institute for Securities & Investment, 8 Eastcheap, London EC3M 1AE, or to *richard.mitchell@cisi.org*

Dear *S&IR*,

You will be interested to know about a new initiative that gives you the opportunity to see your career, skills and experience in a new light – the Goodwill Exchange.

Initiated by Gina Miller, successful entrepreneur and founder of Miller Philanthropy, the Goodwill Exchange is effectively a matchmaking service that makes it simple for busy individuals like you and me to support a range of charities.

It enables financial services professionals to give in our areas of expertise to grass-roots charities that would not normally be able to access such skills. That can be a lifeline – particularly in this stricken economic climate when small but vital charities are being adversely affected at the very time they are seeing dramatic increases in the need for their services.

The know-how that the CISI membership possesses can be the difference between whether a child goes to bed loved and fed, or neglected; whether a premature a baby survives or not; whether a woman is rescued from the clutches of a sex-trafficking ring or not; whether a young person can escape a third or fourth generation of despair, unemployment and utter loss… the list is endless.

This is an initiative that offers a win-win situation; it is rewarding, and I urge you to join me as a Goodwill volunteer. To find out more, visit either *goodwillexchange.co.uk* or *millerphilanthropy.com*

Diane Henry Lepart, Chartered FCSI
Consultant, London

ACHIEVEMENTS

Exam success in Lebanon

Eighteen top performers in CISI exams in Lebanon have been recognised for their achievement. They were among high-fliers honoured at awards run by the Lebanese-based education and training institute Ecole Supérieure des Affaires (ESA).

Since 2006, ESA has been involved in the implementation of banking and financial qualifications (BFQ) in line with provisions set by the Banque du Liban, the Central Bank of Lebanon. These include four CISI qualifications – Securities, International Introduction to Investment, Financial Derivatives and Risk in Financial Services.

Successful candidates and award attendees. Pictured, front row, are Stéphane Attali, ESA's Dean and Director, eighth left, and CISI Managing Director Ruth Martin, seventh from right

At a ceremony at ESA's campus in Beirut, the best candidates in these exams and three other qualifications received prizes. Awards were also given to banks and financial institutions with the highest success rate by exam.

In a speech, Stéphane Attali, ESA's Dean and Director, highlighted the important part that the CISI had played in the development of the qualifications regime.

CISI Managing Director Ruth Martin said: "We are delighted to recognise these successful candidates, who have excelled themselves in their areas of expertise by combining busy jobs with after-hours study. We also thank the firms that have supported these candidates and invested in their development to enable them to achieve higher levels of professional competence."

170 *The number of external specialists who attended a recent reception in London to recognise their contribution to the CISI. See **cisi.org/specialists** for details of the role.*

MBE

Honour for CISI member


Brian Winterflood FCSI(Hon)

Brian Winterflood FCSI(Hon), one of the CISI's longest-standing members, has been appointed an MBE in the Queen's birthday honours list.

He has been honoured for his contribution to financial services, following a career spanning nearly 60 years. In 1953, Brian joined stockbrokers Greener Dreyfus & Co, working his way to membership of the London Stock Exchange (LSE). A founder of the Unlisted Securities Market, in 1988 he formed his own firm, Winterflood Securities, where he is now Life President.

Brian was transferred from the LSE to the Institute on its formation in 1992. He is one of only 48 Honorary Fellows of the CISI in recognition of his service to both the industry and the Institute. He said: "How will I ever be able to retire? I'm so delighted with my award."

GILT MARKET

Bond interest group kicks off


Mark Deacon

The inaugural meeting of the CISI bond interest group saw Mark Deacon, Head of Research and Analysis at the UK Debt Management Office, discuss the state of the gilt market.

The CISI, with the European Bond Commission (EBC) of the European Federation of Financial Analysts Societies (EFFAS), launched the group to discuss topics related to the bond and derivatives markets. The CISI joined EFFAS last year.

Dr Con Keating, Head of Research at Brighton Rock Group and a member of the EBC Executive Committee, chaired the meeting. "Mark's presentation was, by common agreement, a masterful synopsis of current practices and operations," said Con. "It's unfortunate that attendance had to be restricted due to the size of the facilities – demand was twice capacity. It is clear that the bond interest group is a welcome new development within the CISI."

John Cummins, Group Treasurer, Royal Bank of Scotland (RBS), will be guest speaker at the group's next meeting. The event will take place on 5 October at RBS's offices at 250 Bishopsgate in the City. A sandwich lunch will be provided.

For further information about the group, visit *cisi.org/bondgroup*. To book a place at the 5 October meeting or for enquiries, please email *bondgroup@cisi.org*

Watch Mark Deacon's presentation on CISI TV. Simply visit the Investment and Capital Markets section at *cisi.org/cisitv*

RETAIL DISTRIBUTION REVIEW

Change to SPS application process

The CISI has issued important new guidelines to applicants for the Statement of Professional Standing (SPS).

Due to the high level of incomplete or inaccurate SPS applications, individuals will now be advised by email if their application is unable to be processed and will be given three days to supply the missing documentation. Regrettably, if this information is not received by the end of the third day, the application will be returned, unprocessed.

As an FSA-accredited body, the CISI has now issued more than 1,000 SPSs, which is the certificate retail investment advisers must hold by 31 December to show their competence. It guarantees that correctly completed SPS submissions received by 31 October will be processed before the end of 2012.

For further information, visit *cisi.org/rdrsps*

60-second interview

Stanislav Denisov MCSI, expert in financial markets at private equity firm MG International in Moscow

Q ***How important to Russia is the financial services industry?***

Significant, as in any emerging market. Russia's huge economic potential can be realised only through investment support from the industry to make good on its most meaningful projects. These include a huge privatisation programme, the creation of an International Financial Centre in Moscow and growth in computer and internet-related industries. All need to be served financially to benefit companies seeking flotation and investors. Total capitalisation in the Russian market is some $700bn, and daily turnover is around $2bn.

Q ***What are the key strengths of the financial services sector?***

It provides plenty of opportunities for domestic and international investors – Russian equities are among the most undervalued in the world. The industry went through a bloodbath in 2008, and we learned our lessons. No investment is 100% safe, but the sector is now much more robust, with risk-management techniques developed to ensure greater security for investors and participants.

Q ***What are the industry's main challenges?***

Political tensions, weak commodity prices and economic stagnation. In the capital markets, lack of liquidity in some listed companies is the main issue. Initial and secondary flotations, technical listings on more than one exchange and increased use of derivative instruments are crucial tools to help enhance liquidity.

Q ***What can be expected from the next five years?***

An improving investment climate and stronger regulatory environment, with greater predictability, are likely. Oil and gas – commodities in which Russia is rich – will continue to be the main resources for fuelling your car and heating your home, and this will help the country to remain one of the world's leading economies. Government support for the construction, transport and financial sectors as part of the Moscow International Financial Centre (MIFC) will attract fresh capital inflows.

Q ***Tell us more about the MIFC***

This Government-led initiative will speed the development of our industry, to serve better both our country and global markets. We already have a strong group of banks in the investment industry, including Alfa, Otkritie, Renaissance Capital, Troika Dialog and VTB. Foreign banks, such as Credit Suisse, Deutsche, J.P. Morgan, Morgan Stanley and UBS, have also built good positions here. There is an excellent spirit of co-operation between the MIFC and the City of London – including the CISI – with steps being taken to help the communities work more closely together. The London Stock Exchange, in particular, has strong links with our markets, trading large volumes of Russian stocks on its international order book.

EVENTS

Gibraltar welcomes prize-winning writer

Professor Michael Mainelli, Chartered FCSI, pictured centre, with, from left, Mark Maloney, Chartered MCSI, President CISI NAC, Gibraltar; Praneet Shivaprasad, International Manager, CISI; and NAC members Clark Elder and Paul Tapsell MCSI

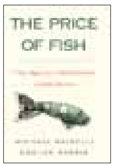
Fresh from landing a literary prize, Professor Michael Mainelli, Chartered FCSI, shared his views about the importance of long-term thinking in finance at a CISI CPD event in Gibraltar.

Mainelli, who is a director of London-based commercial think-tank Z/Yen, spoke about the Long Finance initiative, of which he is an advocate. He contrasted it with the short-term monetary systems that he claims define today's economic views.

He addressed an audience of more than 40 guests at the Eliott Hotel, including Marcus Killick FCSI, CEO of the Gibraltar Financial Services Commission. Mark Maloney, Chartered MCSI, President, CISI Gibraltar National Advisory Council (NAC), said: "We were pleased to welcome Michael to Gibraltar to present a much-welcomed talk and look forward to holding more such quality events in the future."

Michael Mainelli and his consultancy partner Ian Harris have won the Gold Medal in the Finance, Investment and Economics category of the 2012 Independent Publisher Book Awards for their book, *The Price of Fish*.

The Price of Fish examines world problems including sustainability, global warming, overfishing, overpopulation and the pensions crisis.



The Price of Fish, priced £20, is published by Nicholas Brealey Publishing. Until 15 August, it is available to CISI members for £17, with free postage and packing (UK only).

To order your copy, call *+44 20 7239 0360* or email *sales@nicholasbrealey.com*

FUNDRAISING

Auction boost for cancer charity

A classical music concert in memory of Robert Brown, a Fellow of the Institute who, in 2008, died from pancreatic cancer, aged 54, raised more than £40,000 for charity.

The event, at Cadogan Hall near Sloane Square in London, was attended by about 700 people, and a linked auction was held in aid of Pancreatic Cancer UK.

The charity funds research into pancreatic cancer and provides support for patients and their families. A previous concert in 2009 benefited the charity by raising about £30,000.

Robert worked in investment management for more than 35 years, latterly at Evercore Pan-Asset Management, which he jointly founded.

Visit *justgiving.com/robertbrownmemorialconcert* to make a donation.

AGM

Vote on CISI resolutions

The Institute's Annual General Meeting will be held at the CISI, 8 Eastcheap, London EC3M 1AE on Thursday 6 September 2012, commencing at 10.30am.

Fellows (FCSI) and Members (MCSI) of the Institute may vote on the resolutions by:

- voting online using the link in the members' section of the Institute's website at *cisi.org*
- using Form A to appoint the Chairman as their proxy
- using Form B to appoint a proxy, who need not be a member, to attend the meeting and vote on their behalf
- attending the AGM and voting themselves.

Please note that the AGM notice, the voting form and the online voting facility will be available to voting members from Wednesday 1 August 2012 onwards.

The AGM notice and voting form will also be available to voting members by post. Please apply to Linda Raven at *linda.raven@cisi.org*, or telephone *+44 20 7645 0603* from 1 August onwards.

Voting forms, whether completed online or sent by post, must be received by the Company Secretary not later than 11am on Tuesday 4 September 2012.

6,117

The number of candidates who have completed IntegrityMatters, the CISI's online ethics workshop and test. For further information about this initiative, visit *cisi.org/integritymatters*

ONLINE

BEST OF THE BLOGS

1 tinyurl.com/barry-ritholtz-hedgefunds
A recent *Wall Street Journal* article based on a Citigroup report suggested that the hedge fund industry "may more than double in size during the next five years", to $5tn. Barry Ritholtz responds to this on his Big Picture blog, giving five reasons why "the golden age of hedge funds may already be over". He cites the quickening of withdrawals, poor performance, the "consolidation and even contraction" of the industry, the closure of funds of funds and high fees as reasons why, as he puts it, "it is not a particularly great time to be a fund manager".

2 tinyurl.com/nathan-vardi-forbes
Nathan Vardi at *Forbes* also dismisses the Citigroup survey, which bases its forecast on demand from institutional investors. The average hedge fund, Vardi says, lost money in 2011, and he blames this poor performance for the $12.7bn that flowed out of the industry in the year to April 2012. With hedge funds trailing the S&P 500 for the first four months of 2012, Vardi suggests that, unless fund managers learn to better negotiate the volatility caused by the European debt crisis and improve performance, "institutional investors might have second thoughts [about] jumping into the hedge fund pool".

3 tinyurl.com/felix-salmon
Felix Salmon at Reuters praises the "very worthwhile" Citigroup report and criticises the press release to which the likes of Barry Ritholtz responded, pointing out that the $5tn figure does not appear in the report itself. Salmon writes that Ritholtz "raises some valid points", but then uses a close reading of the report to counter most of Ritholtz's reasons for his gloomy prognosis for the hedge fund industry. Salmon agrees that hedge funds won't be managing $5tn in five years' time, but he does not expect assets under management to fall. He says that his "gut feeling is to split the difference between Barry and the report".

See page 12 for more on hedge funds.

Do you have a blog recommendation?
Please send it to the Editor:
louise.reip@wardour.co.uk

CLAY *'MUDLARK'* HARRIS

Back story on Gareth Davies, Chartered MCSI, Investec

Gareth Davies' first interview for a financial services job proved that there is more than one way to be dressed for success.

Now Senior Manager for Settlements at Investec Wealth & Investment in Liverpool and a Chartered MCSI, he still remembers the start of his career more than 20 years ago.

At 16, Gareth was in urgent need of a job. He was a volunteer police cadet with Greater Manchester Police but couldn't join the force until he was 18. And the company where he was planning to do a Youth Training Scheme placement had gone bust.

Having gone into Liverpool with his parents from their home in Garswood, near Wigan, to get some clothes for an upcoming holiday, he visited the Jobcentre.

He was in luck. Rathbone Brothers was looking for an office junior and wanted Gareth to come for an interview right away. "Like this?" Gareth asked. His clothes reflected his devotion to heavy metal music – an Iron Maiden t-shirt and a denim jacket with Guns N' Roses patches. He had long hair, though it was to get longer.

Rathbones was not put off by the first impression. After a second interview, dressed a little less informally, Gareth got the job.

He did what an office junior does: the post, filing, bank runs, even taking dogs for a walk. When he began to see it as a possible career, he did a BTEC on day release. "Rathbones sent me to college," he says.

Fascinated by overseas settlements, he moved into that area. He recalls the urgency of dealing with the collapse of Barings, making certain that clients' holdings were safely transferred.

At 26, after ten years at Rathbones, he was made manager of the whole settlements team. He did that for five years before getting a phone call, out of the blue, from a local recruitment agency. Rensburg – as it was known before the merger that created Rensburg Sheppards – was planning to bring its settlements in-house and needed someone to oversee that process and run the new market settlements team. That was a big draw and a rare opportunity, and his boss at Rathbones gave his blessing for the move to a local competitor.

> When he was promoted he came under pressure to cut his shoulder-length hair

Gareth was soon appointed Senior Manager, running unit-trust dealers as well as the London-based overseas settlements team.

Investec took full ownership of Rensburg Sheppards in 2009 and brought it into the broader Investec Wealth & Investment brand in 2011. More change is in the works after Investec's purchase last year of Evolution Group, including Williams de Broë.

In 1996, Gareth sat the introductory part of the CISI's Investment Administration Qualification, now known as the Investment Operations Certificate. But another six years elapsed before he took the further two units to gain full qualification. At Investec, he says, "We actively encourage people to do [qualifications]."

His heavy-metal look lasted a few years at Rathbones. When he moved from office junior to Settlements Clerk, he came under pressure to cut his shoulder-length hair. Still he resisted. But then his hero betrayed him. After Guns N' Roses cancelled a concert at the last minute ("Axl Rose was in one of his strops," according to Gareth), he went straight to a barber and had his locks sheared.

Gareth went home, looked at the posters of long-haired musicians on his bedroom wall and thought: "I'm never going to get a girl." But he did get a girl. His wife, whom he met at Rathbones, still works there.

Gareth Davies

Senior Manager – Settlements, Investec Wealth & Investment

Do you have a back-office story?

mudlarklives@hotmail.co.uk

Illustration: Luke Wilson

HOSPITALITY

Firms steer clear of Olympics tickets

Michael Littlechild

The high cost of corporate packages at the Olympics has made firms wary of accepting hospitality at the Games, a business ethics debate at the House of Lords showed.

At the debate, senior figures from some of the UK's leading companies confirmed that when it comes to hospitality, Olympics tickets are the most likely to be turned down. This trend has been borne out by thousands of corporate entertainment packages to the Games remaining unsold, while public demand for tickets has outstripped supply.

The ethics debate was held by the GoodCorporation, which helps firms to measure and implement responsible business practices. Its Director, Michael Littlechild, said: "Businesses now have much tighter guidelines directing what they can and cannot accept as far as hospitality is concerned. With top corporate tickets to the Olympics going for £4,500, roughly five times the price of those at Lord's or Twickenham, they are effectively priced beyond the limits of many company policies."

At the time of the *S&IR* going to press, Prestige Ticketing, London 2012's in-venue hospitality provider, still had nearly 10% of its allocation of 80,000 tickets on offer. It is charging £4,500 for a ticket to the opening ceremony.

Thomas Cook, official short-break provider to the Games, is offering packages priced up to £6,499. It admitted that "corporate sales have been more difficult than consumer sales". It had more than 20% of its allocation of 300,000 tickets remaining and has made changes to packages, including reducing the duration and hotel grade for some breaks, to stimulate demand.

Andrew Hall, CISI Head of Professional Standards, said: "Anecdotal evidence suggests that the Bribery Act is having an impact, perhaps greater than intended, with firms erring on the side of caution in determining what is now acceptable. At the same time, firms are conscious of the reputational impact in the present economic circumstances of being seen to enjoy yourself at someone else's expense, particularly when that expense may run into thousands of pounds.

"The case of RBS cancelling its Wimbledon hospitality, in the light of the chaos caused by its IT failures, is a good illustration of this."

June's S&IR looked at changes in the way financial services approach sport sponsorship

Ask the experts...

FAMILY OFFICES

Adam Wethered
Co-Founder and Director, Lord North Street Limited

A family office is a professional organisation acting for a private family (a single family office, or SFO), managing its financial and administrative affairs. The 'family' may consist of one person, or 200 members, such as the Brenninkmeijers, founders of C&A. Increasingly complicated investments create complex financial, tax and jurisdictional issues, so the family offices require more sophisticated professional expertise. Hiring an in-house investment team may be uneconomical unless you have over £1bn in assets. So families often combine their assets under a 'multi-family office' (MFO).

The oldest SFOs, such as Iveagh, date back to the 19th century. Many maintain low profiles, making the size of the sector hard to gauge. But it is likely to be large, and it appears to be growing – a result of the current wealth creation in emerging markets.

Over two or three generations, the original business is often sold, the descendants' lives diverge and their focus shifts from creating wealth to preserving it. Therefore, families have increasingly sought to outsource their investment advice and management to the growing industry of 'private investment offices' (PIOs) acting as the family's chief investment officer (CIO).

Typically, the head of the SFO/MFO or the PIO will report to a board of senior family members and trustees. This governing body often seeks external advice in selecting its strategic asset allocation – the biggest determinant of long-term wealth.

Whether in-house or external, the CIO/PIO needs to be trustworthy, with no conflicts of interest. An external CIO/PIO should have no in-house products to sell and no financial incentive to encourage the family to take risk. The question to ask is whether you are paid uniformly regardless of which asset classes are chosen.

The CIO or PIO needs to understand the human and commercial context of the wealth, and the legal and tax implications of any decision. Risk in all its forms (market, credit and so on) needs to be monitored and managed. After determining the strategic asset allocation, suitable specialist managers are selected, using quantitative analysis and judgment, to implement each aspect of the investment strategy.

The CIO or PIO should provide clear, independently verifiable information, reporting on performance and providing 'attribution' analysis – measuring how and why each asset class or manager succeeded or disappointed. Family offices require 'safekeeping' of their assets by a custodian bank with the scale and technology to track, hold and value their assets in an auditable way. Families also want to be able to change the investment strategy and/or replace the professionals. Illiquid investments can make this difficult.

Why are they important?

Family offices and PIOs bring bespoke investment, professionalism and bulk-buying power to investment for their high-net-worth clients. They bypass the need for the traditional private banker and deal directly with the investment management industry, selecting a diverse range of specialist managers. They interact with other professionals such as lawyers, accountants and currency managers to design and manage optimal portfolios, and they assess and employ global custodians.

In summary, they assemble the investment equivalent of a private safari, instead of the general package tour, and take responsibility for managing the journey.

Do you have a question about anything from tax to virtual trading?
richard.mitchell@cisi.org

Lord North Street

SELECT BENEFITS

Get away from it all

Secure a great deal on the perfect holiday thanks to the Travellers Advantage service, part of the CISI Select Benefits package.

Through Travellers Advantage, you can enjoy a 10% discount on package holidays from major tour operators including Thomas Cook, Thomson, First Choice and Virgin Holidays, as well as last-minute deals.

Even if you've already booked your holiday, Travellers Advantage offers some additional money-saving travel benefits for CISI members. These include a 10% discount on airport parking and airport lounges, a 15% discount on car hire and transfers to and from their holiday resorts at a discount of 6.5%. All of the travel benefits are backed with a price promise – your assurance that whenever you shop with it, you're getting the best deals.

For more information, visit CISI Select Benefits via *cisi.org/mycisi*

Terms and conditions apply. See website for further details. Details correct at time of publication. CISI Select Benefits is managed on behalf of the CISI by Parliament Hill Ltd of 127 Cheapside, London, EC2V 6BT. Neither is part of the same group as a provider.

QUICK QUIZ

Test your industry knowledge

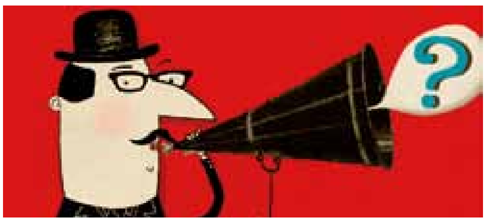


Illustration: Cameron Law

The *S&IR*'s Quick Quiz features questions from CISI elearning products, which are interactive revision aids to help candidates prepare for their exams.
☛ Answers are on page 29.

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Q1. A bank with £200,000 of cash deposits and a reserve ratio of 10% can create what maximum value of loans?
A) £180,000 ***B)*** £200,000 ***C)*** £900,000 ***D)*** £1,800,000

Q2. The UK Corporate Governance Code requires that there be a clear division of responsibility between the roles of chief executive and which other role?
A) HR director ***B)*** Finance director ***C)*** Company secretary ***D)*** Board chairman

Q3. A particular country is exhibiting an invisible trade surplus and a visible trade deficit. How would the country best be described?
A) In recession ***B)*** Post-industrial ***C)*** In balance ***D)*** Manufacturing driven

Q4. What is the maximum award the Financial Ombudsman Service can make?
A) £100,000 ***B)*** £150,000 ***C)*** £250,000 ***D)*** There is no maximum

Supercycle swansong

It is hard to find rays of light as the crisis in Europe worsens. But, depending on your perspective, there is one contender

A DECADE-LONG boom in commodities that has propelled prices for energy and raw materials to record highs may, at last, be ending.

The so-called supercycle in oil, metals and other building blocks of the global economy has been driven by the rapid expansion of China and other big emerging economies. This voracious demand has powered a remarkable upswing in prices that has sparked comparisons with past super-booms and led to predictions that such gains will continue for years to come.

Since the mid-19th century, there have been a number of supercycles. A recent United Nations paper by Bilge Erten and José Antonio Ocampo says that such upswings tend to last for ten to 35 years. The burst of US growth through the early 20th century was one such period. Another encompassed post-war reconstruction in Europe and Japan's economic re-emergence.

Likewise, the surge in prices that started in 2002 coincided with accelerating Chinese demand and a benign period of global growth, at least until the global financial crisis hit.

The effects on commodities of the 2008/09 crisis appeared short-lived. Oil, for example, which tumbled sharply from its 2008 record high of $147 a barrel, rebounded later as China continued to suck in imports and the US showed signs of recovery. The supercycle theory was intact.

But events in 2012 have undermined the belief that commodities prices will continue to rise. First, there are growing fears about a 'hard landing' in China. The worst-case concerns may prove misplaced, but as China heads into a period of slower – and less commodity-intensive – growth, many commodities prices are now falling back from recent record highs. Copper, aluminium, lead and nickel are all down so far this year. Oil has fallen from nearly $125 a barrel in March to about $100 at the time of going to press.

Ed Morse, Global Head of Commodities Research at Citigroup, says: "China's appetite for commodities remains a dominant issue for individual commodity demand, but Chinese growth is no longer the monolithic force it was in the past decade."

He says that the country's "differentiated impact" across raw-materials markets provides abundant evidence that the supercycle "may be coming to an end".

Moreover, the eurozone debt crisis is sapping investor confidence. Some European economies have fallen back into recession. And the outlook for the US recovery is looking more fragile. The debate among policy-makers now concerns whether the Federal Reserve will embark on another round of quantitative easing, or emergency bond-buying, to revive lending and growth.

Against such a backdrop, it is hardly surprising that the world's biggest miner, BHP Billiton, has reined in its outlook for commodity prices over the next three to five years. Its revised forecasts for the medium term have strengthened the view that China's industrialisation has peaked.

While this may not be great for miners' profitability (pressured margins offer justification for a pullback in the share prices of natural resources groups), it may be good news for households and businesses.

Soaring commodity prices have acted as a brake on recovery in the West, and as an indirect tax on consumers. The inflationary pressure from rising oil and petrol prices has weighed against the case for more dramatic monetary easing by central banks. Sustained falls in commodity prices and inflation are welcome if they remove barriers to further action by central banks, allow companies to plan investment more efficiently and put more cash in people's pockets.

> "Soaring commodity prices have acted as a brake on the West's recovery"

The question is, by how much will they fall? Tension with Iran could provide short-term support. But, assuming that Chinese growth stays substantially intact – successive interest rate cuts by Beijing in June and July speak to its determination to prevent a slump – then a fall to $80 to $90 for a barrel of oil looks likely.

If so, crude prices will still be well above the $18.50 average of the 1990s. Another reason why crude is unlikely to fall further than that is that it has become more expensive to produce as the cost of the materials needed has risen and supplies have become harder to access.

Miners such as BHP are likely to take a more judicious approach to capital spending, and developments could proceed more slowly. Such action on the supply side will limit price falls. So expect some relief – but not much. ■

***Christopher Adams** is the* Financial Times' *markets editor*

Central to the appeal of hedge funds is the fact that the industry has historically shown strong average annualised returns. But a new book questions the accuracy of this measure in assessing how well investors have done out of the asset class. **Hugo Cox** investigates

Depreciating RETURNS

INVESTORS SEEM ATTRACTED to hedge funds come what may.

Yield is almost impossible to find and equity markets are experiencing historically low returns (see feature on page 16). Last year, hedge funds saw net inflows of $71bn, according to leading index provider Hedge Fund Research (HFR), despite an average return across the industry of –5%. The memory of 2008, when returns were –19% and investor outflows were $154bn is, it seems, a distant one.

No wonder, then, that hedge funds have become an increasingly important part of the asset landscape. Assets under management have ballooned from $167bn in 1994 to $2.1tn today. This is an all-time record, with almost every part of the institutional investment landscape now involved.

"Sophisticated institutional investors are increasingly allocating assets to hedge funds as a powerful strategic portfolio complement to existing traditional holdings," says Ken Keinz, President of HFR.

The industry has come a long way since 1949, when *Fortune* magazine reporter Alfred Winslow Jones set out to prove his thesis that 'hedging your bets' could improve investment returns. He set up the first hedge fund incorporating short-selling – which allows investors to profit from the decrease in the price of the stock – and leverage, or borrowing to increase returns.

More than six decades later, hedge funds own a huge proportion of the world's assets, making them integral to the financial system and attracting the attention of the regulators. The FSA has been running its Hedge Fund Survey (HFS) since October 2009; the latest found that, in September 2011, hedge funds held 3% of the world's interest-rate derivatives, 4% of the commodity derivatives and 7% of the total market of convertible bonds.

Illustration: Denis Carrier for Synergy Art

At first glance, investor interest in hedge funds makes sense: annualised investment returns have been good. An April report by academics at Imperial College London, commissioned by KPMG and the UK's Alternative Investment Management Association (AIMA), looked at hedge fund performance going back to 1994. It concluded that hedge funds earned investors an average return (after fees) of 9% between 1994 and 2011, compared with 7% for stocks or commodities and 6% for bonds. Despite hedge funds' notoriously high fees – typically a 2% management fee and 20% of the fund's performance gains – the majority of funds' gains ended up with investors, according to the report. It stated that "investors received approximately 72% of all investment profits over this period, compared with 28% for the managers". But a closer look at the data used in the AIMA report raises questions. It draws its data from HFR's HFRX Equal Weighted Strategies Index. This gives an equal weighting to each of eight groupings of sub-strategy indices, despite that fact that some strategies contain considerably more assets than others and so, arguably, should be more heavily emphasised. The more widely used index – the HFRX Global Hedge Fund Index, which weights each strategy by assets – gives a return of 7.3% between 1998, when it was started, and 2010. This compares well with returns on the S&P 500 (with dividends reinvested) of 5.9% and US Treasuries, of 3%.

Late arrival

This still does not tell the whole story, however. Looking at the average return over the whole period does not reflect the lot of most investors, because the majority came to the industry towards the end of that period, when hedge funds were performing worse. When the industry was performing at its best, it was small: very few investors knew about, or were prepared to risk, investing in hedge funds. When it got bigger, its performance deteriorated. While only a few investors benefited from strong returns in the 1990s, many others have suffered from poor returns over the past decade. This phenomenon is shown by the two graphs opposite, taken from Simon Lack's recent book *The Hedge Fund Mirage*. In Figure 1, the bars show the percentage return of the industry that year, from 1998 to 2010: the industry had a poor 2008 but has generally done quite well. Figure 2 shows returns in terms of money made and lost each year by investors.

Getting bigger, getting poorer

The performance of hedge funds, like that of mutual funds, is generally measured in annualised average returns. But when an industry grows rapidly, as this one has, the approach can distort how much money investors have actually made. The following example illustrates this.

You invest £100 in year 1; the industry returns 50% and you end up with £150. You then invest another £100 – you now have £250 invested – but in year 2 the industry returns –50%. This time, you have lost £125. From your point of view, you have put in £200 and you have been left with £125 – a loss of 38%. But from the industry point of view, returns are flat: up 50% one year, down 50% the next.

For investors, the way the industry performs when it is at its largest is much more important than how it performs when it is at its smallest. Figure 1 shows that the hedge fund industry did very well in the early years when it was small (before 1998, returns were even better), and badly in more recent years when it was big.

Figure 1

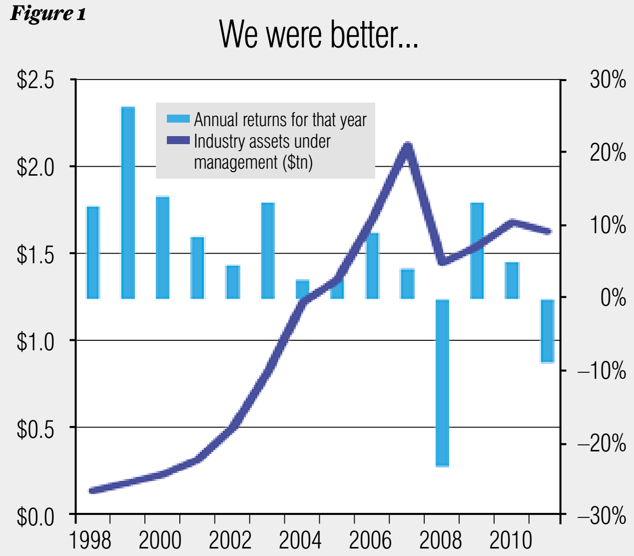
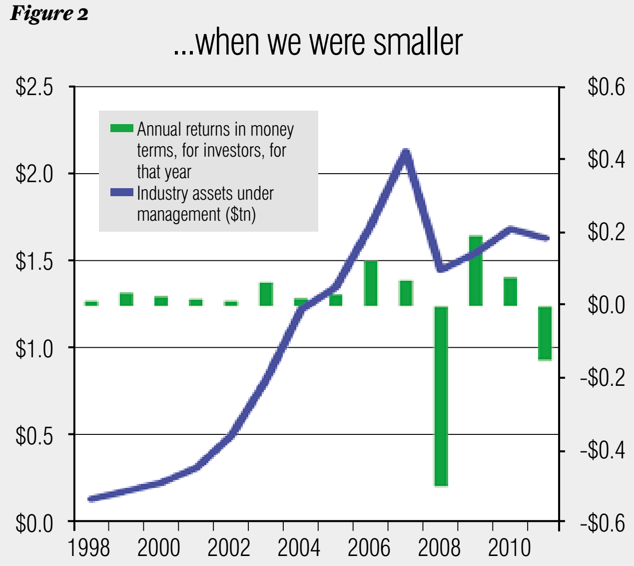
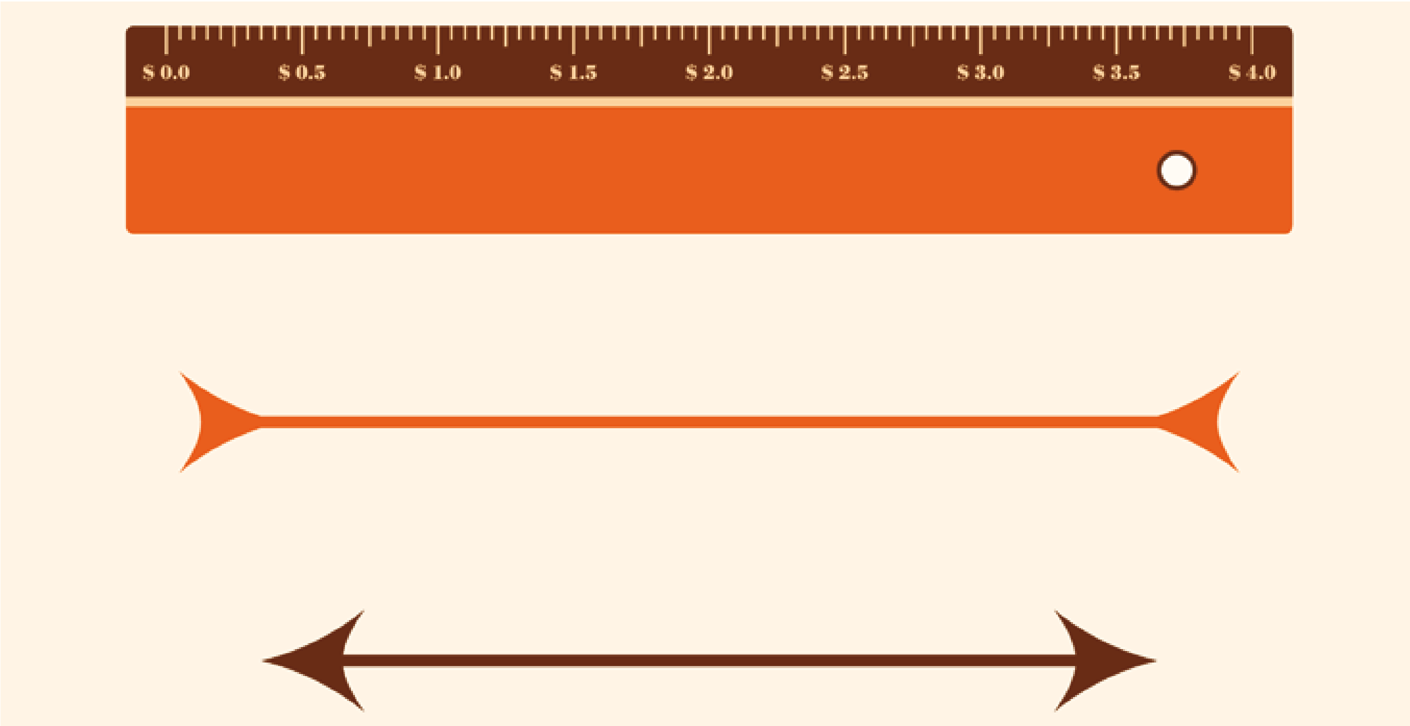


Figure 2



Source: Simon Lack,* The Hedge Fund Mirage, *John Wiley & Sons, Inc., 2012



"In 2008, the hedge fund industry lost more money than all the profits it had generated during the previous ten years," Lack comments. "It's likely that hedge funds in 2008 lost all the profits [they] ever made."

Internal rate of return

Lack suggests a more accurate way of looking at hedge fund performance. Rather than examining annualised return, investors should consider the 'internal rate of return' (IRR), which gives greater weight to how the industry performed when there was more money invested in it. This is the measurement method used by private equity funds and property investors. Over the period between 1998 and 2010, IRR figures from the alternative-investment database BarclayHedge give returns of 2.1% for hedge funds. (See box, 'Getting bigger, getting poorer', for an explanation of why these numbers differ.) The second area in which Lack's story challenges the conventional picture is fees. His 23 years at J.P. Morgan included setting up the JPMorgan Incubator Funds, two private-equity vehicles that took economic stakes in emerging hedge fund managers. "We knew that hedge fund fees were where the money was," he explains. His own analysis, again using data from BarclayHedge, found that, between 1998 and 2010, hedge fund managers kept 84% of the profits made in their funds – a long way from the 28% quoted in the KPMG report. Questioning the accuracy of annualised returns to measure hedge funds' value to investors over the year is not to deny that the asset class has made some investors a great deal of money. US university endowments such as those of Yale and Princeton benefited substantially from increasing allocations to the asset class in the 1990s. In September 2010, Rick Sopher at Edmond de Rothschild Group researched the ten all-time best hedge fund managers for investors. The list, published in the *Financial Times*, included those who are themselves among the world's richest people: George Soros, John Paulson, Ray Dalio, Alan Howard and Louis Bacon. But investors would benefit from looking closely at how well the asset class has performed since it has become a staple part of portfolios. For Lack, this means looking not at annualised returns but at the IRR. In this regard, for the large cohort of investors who came late to the party, the pickings have been slim. ■

> ***"In 2008, the industry lost more money than all the profits it had generated in the previous ten years"***

Selection bias

How you measure returns from hedge fund data is not the only challenge. There is also the issue of who reports to hedge fund databases. The major hedge fund indices all rely on managers to report; they can choose to stop reporting at any time.

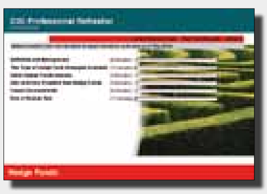
Numerous academics have noted that this 'self-selection' bias has historically inflated hedge fund returns and has proven especially pronounced in the recent crisis.

Xiaoqing Eleanor Xu, Professor of Finance at the Stillman School of Business in the US, explains: "Since hedge fund performance reporting is not mandatory, hedge funds going through their final months of survival have little incentive to report to any hedge fund databases, leading to an overstatement of their performance and consequently an understatement of investor losses. This hidden reporting bias was especially serious during the recent financial crisis, when the attrition rate of hedge funds was extremely high."

Interested in finding out more about hedge funds?

CISI members can purchase *The Hedge Fund Mirage* by Simon Lack and save 40% on the standard price of £23.99, thanks to publisher John Wiley & Sons. To take advantage of this offer, order the book at wiley.com before 30 September 2012, entering the discount code VB863.

Additionally, a new module about hedge funds has been added to the CISI's Professional Refresher elearning tool. This module, along with more than 40 other subjects covered by Professional Refresher, is free to all CISI members.



Visit cisi.org/refresher for further information.

The next ice age?

There are warning signs that western equities still have some way to fall. **Dan Barnes** considers whether we could be entering an extended bear market for the battered asset class

MOST EQUITY MARKETS around the world have seen a drop in value over the past decade. This has contrasted with the rising value of most 'risk-free' assets – notably government bonds. While many sovereigns in Europe are continuing to wobble, the value debts of large safe-haven economies such as the US and Germany are near to historic highs. Debate is raging over whether we are in a long-term 'ice age' equities bear market. Bulls say that the fall in valuations of the last decade means that the market is now underpriced. Bears say that the bad times are here to stay, pointing out that the high equity risk premium (ERP) of the second half of the 20th century – which saw the FTSE finish 1999 at a record high of 6930.20 – is gone forever (the ERP represents the excess return that stocks provide over the risk-free rate). Doom-mongers point to similarities between history's earlier secular bear markets – where cycles of recession developed into long-term underperformance – and the current situation. Top of the list of these is Japan's 'lost decade', which lasted from 1991 to 2000. Following its economic success in the late 1980s, Japan experienced an asset bubble based around equity and property markets fuelled by speculation and leveraging. When the Bank of Japan hiked interest rates to control the bubble, stock prices collapsed, falling by 60% from 1989 to 1992. "I think we are locked in a secular valuation bear market in the US, just like the one that Japan suffered," says Albert Edwards, a leading equity analyst at Société Générale. He titled a February briefing note *The Ice Age only ends when the market loses hope: there is still too much hope*, and believes that stocks are likely to continue their decline. "Equities go from extreme of expense to extreme of cheapness over many cycles," he says. "In US history these have taken four or five recessions to play out. We have had two phases since 2000." Martin Pring, Chairman of Pring and Turner Capital Group, a US investment adviser, agrees that we are only part of the way through the bear market (see Figure 1). He defines a secular bear market as an 18-year cycle spanning four or more recessions and showing a decline, adjusted for inflation, of somewhere between 65% and 70%. If he is correct, the current bear market's ten-year duration and decline of 39% suggests that it still has some way to go.

Will the real premium stand up?

Is the ERP really dead? Although there is no single agreed ERP figure, 7%–8% has long been quoted in textbooks and academic studies. Gary Baker, Head of European Equities Strategy at Bank of America Merrill Lynch, believes that, even if it does not disappear, the ERP will drop. "A lot of analysts would look at a normalised risk premium of 4.5%–5%," he says. An analysis beyond the bull markets of the late 20th century supports that the 7%–8% range is a thing of the past. Elroy Dimson, Paul Marsh and Mike Staunton, academics from the London Business

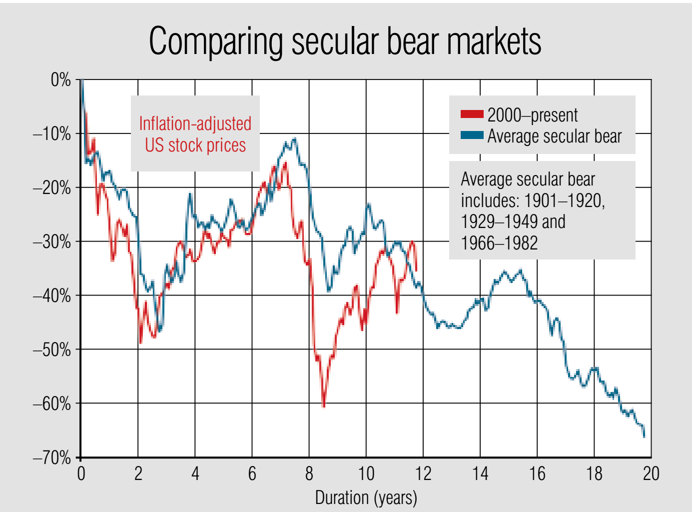
> ***"Equities go from extreme of expense to extreme of cheapness over many cycles"***

School, examined global data from 1900 to 2005. This showed that the country-average ERP for markets worldwide was actually 4.5% and for the US was 5.5% – significantly lower than that quoted by most studies with a narrower date range, or a limited geographical focus. The research also suggested that much of the premium is derived from unprecedented growth in productivity and efficiency, accelerating technological change and better quality management and corporate governance. These developments were at the heart of the dramatic equity increases seen during the 1990s, but have have largely run their course now. As a result, Dimson and his colleagues predict that the ERP will drop to a range of 3%–3.5% in the future. Investors should not be surprised: increased transparency means that equity investing was riskier 50 years ago, so why should they expect higher returns? "There have been improvements to transparency that made the risk of investing in equities pre-war higher than in the late 20th century," says Tim Gardener, Head of Consultant Relations at AXA Investment Managers.

The other view

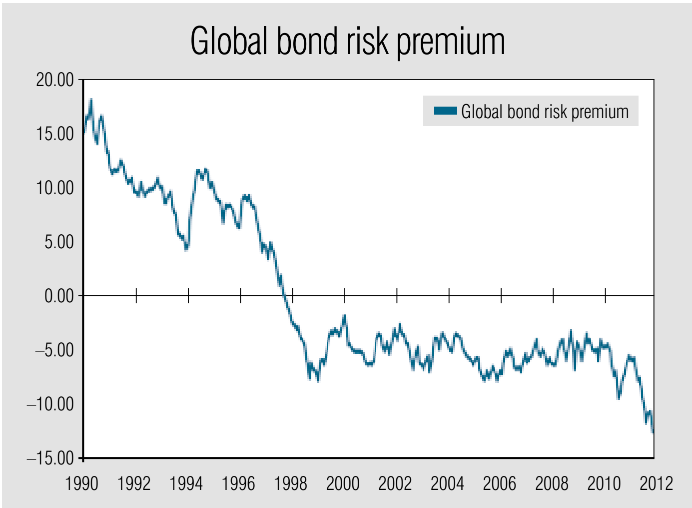
But not everyone is bearish. Gary Baker, at Bank of America Merrill Lynch, believes that everything is still to play for. "People look at Europe and look at Japan and say there are parallels; does that mean we have further to go down?" he asks. "I think that depends what our policy response looks like. There are ways through this crisis, but it will take a skilful set of policies to navigate." Other analysts point out that prices have overly discounted equities owing to the tough current conditions. On 21 March 2012, in his research note *A long good buy*, Peter Oppenheimer, an analyst at Goldman Sachs, noted: "A combination of regulatory change, high volatility, lower inflation, demographics, deleveraging and fiscal austerity have conspired to dramatically reduce growth expectations and limit the demand for equities as an asset class. Given current valuations (see Figure 2), we think it's time to say a 'long goodbye' to bonds, and embrace the 'long good buy' for equities, as we expect them to embark on an upward trend over the next few years." There are certainly obstacles: deleveraging leading to lower growth; the collapse in investment spending; and the ageing population, reducing long-term demand. But, as Baker points out, there is a good deal at stake: "You find that at various times in the market there is an intellectual purity associated with being bearish, and of course it's all doom and gloom. I tend to think that you are dealing with individuals who will do everything they can to try and avert the ultimate disaster. There is no evidence of a policy of benign neglect anywhere; authorities are doing a hell of a lot." Bulls like Oppenheimer may be in a minority – it's easier to see the dangers over the next year than the prospects for imminent improvement. Importantly, too, the prospects for equity markets have taken on a political dimension that historically they have lacked. Among the most significant risks facing investors today, at least two – the European sovereign crisis and the recurrence of a stand-off in the US over the debt ceiling – have major political components. Averting another equities ice age may be in the hands of Congress and the German Chancellor. ■

Figure 1



Source: Pring Turner Capital Group

Figure 2



Source: Goldman Sachs Global ECS Research

CV snapshot

2011 – Non-Executive Director, the CISI

2006 – Awarded OBE for work for Ministry of Defence

2001 – Director, Institute of Business Ethics

1999 – President, the Association of Corporate Treasurers

1994 – Non-Executive Director, Ministry of Defence, later Chairman of Defence Audit

1979 – Group Treasurer, Bowater Industries

1977 – Assistant Manager, Citibank N.A.

1976 – BA(Hons) in Geography, University College London

Hugo Cox speaks to Philippa Foster Back OBE, Director of the Institute of Business Ethics, about what the cause and effect of the Bribery Act say about the path to more ethical business in the UK

Fair INCOME

FOR PHILIPPA FOSTER BACK OBE, Director of the Institute of Business Ethics (IBE) and CISI Board member, the initial confusion over the Bribery Act 2010 was not a total surprise.

The IBE encourages high standards of business behaviour based on ethical values and, under the last Government, Foster Back had sat on the steering committee responsible for drawing up guidance on the act, a process interrupted by the general election in May 2010. The act received royal assent the month before the election, but its enforcement was delayed until July 2011 amid worries that widespread business practices might now be considered bribes.

"The problem first time around was that there was a lack of clarity about the intention: adequate procedures had not been fully formed," Foster Back explains.

Her guidance role for the new act followed her involvement in the scrutiny of BAE Systems. The scandal surrounding the UK defence contractor had done considerable damage to the reputation of the commercial dealings of UK companies abroad, which was one reason for the new act.

It was alleged that BAE Systems had engaged in political corruption to help sell arms to a range of countries; it had been the subject of long-standing investigations by the Serious Fraud Office (SFO). Foster Back sat on the independent review committee, chaired by Lord Woolf in 2008, that investigated the firm's practices and produced a critical report that included 23 recommendations.

Foster Back was no stranger to the kind of forensic scrutiny required by Lord Woolf. She had developed an eye for detail in several corporate treasury departments, first as a banker at Citibank and then at consumer packaging firm Bowater, which she left in 1988. Close scrutiny was then required in her position at the Ministry of Defence, where she worked as a Non-Executive Director and, eventually, as Chair of the Defence Audit Committee. By 2006, this work had earned her an OBE.

The CISI has been a beneficiary of her work, too: Foster Back has been a member of the Institute's Integrity and Ethics Committee since it was reformed in 2004. She is the director of Investing in Integrity, a new charter-mark initiative launched by the CISI and the IBE for organisations wishing to demonstrate their commitment to doing business the right way.

Foster Back's attention to detail was inspired by that of her father. His had been refined as an RAF pilot during World War II, and it made a lasting impression on the young Philippa. "He had a very keen eye for the world around him," she says.

Her father also piqued Foster Back's interest in business. While at school, she spent holidays working odd days on the production line in his plastics factory.

> *"The Government wanted something that would take the UK on from being seen to be lax on policing corruption"*

Here, it was a fascination with the process of business, as well as its commercial opportunities, that captured her imagination – an interest that was still with her 30 years later.

"At Bowater, I used to love going out to see the factories," she says, explaining excitedly the detail of how the production processes differ between filling milk cartons and soup cartons. (Apparently, you can seal milk cartons through the liquid because it does not contain bits.)

Tackling corruption

She transferred this attention to detail to her work on the Woolf Committee. But, despite her best efforts, the committee's findings did little to placate public outrage in the UK at BAE Systems' practices abroad. When the SFO investigations were dropped, partly on grounds of national security, there was widespread anger. (The firm was later convicted in the US of conspiracy to defraud.)

The UK public was not the only group that was perturbed. "The Organisation for Economic Co-operation and Development was sceptical that the SFO was serious about bringing prosecution, because it had had so little success," says Foster Back. "It was felt that there was not adequate transparency over government contracts overseas.

"The Government wanted something that would take the UK on from being seen to be lax on policing corruption."

The Bribery Act emerged, and the second consultation process launched by the incoming Government produced the much-needed guidance for its implementation. Its calming language – "proportionality", "a recognition that the UK cannot succeed on its own" – assuaged firms' fears that long-standing activities were inadvertently criminal.

In the interim, however, law firms profited handsomely from whipping up these fears, notes Foster Back. She was most provoked at an event in the House of Lords at which she was speaking. "What made me really angry was the story of one audience member," she says. "He was a volunteer for a charity that, every Christmas, ran a local event in which he simply encouraged some of the local suppliers and customers to participate. He had been advised that this would fall foul of the act. I couldn't believe it.

"Some professionals spied a keen business opportunity by scaring everybody rigid. And they succeeded in the sense that all sense of proportion was lost," she adds, saying that some behaviour "bordered on the unethical".

This is not to say that the new act is soft. Failure to prevent bribery and not reporting it could be a criminal offence. "You can go to jail, with an unlimited fine," she says. "That is an amazing test if you're running a company of a couple of hundred thousand people in a hundred countries around the world."

Foster Back is supportive of both the content and effect of the act: the latest guidelines and adequate procedures have helped to shift firms' focus to reshaping bribery procedures and policies.

But there is more to business ethics than bribery. "We [the IBE] deal with interpersonal issues – from bullying, harassment and diversity issues through to which countries to do business in and who to work with in the supply chain," she explains.

In terms of governance, she notes, great strides have been made through the work of the Financial Reporting Council since the financial crisis. Notably, last year it issued guidance to the UK Corporate Governance Code 2010 to include 'soft' issues, which has produced a wider awareness of ethics both in the City and in business more widely.

"Banks, as a result, are beginning to think about business leadership and value-driven strategic decision-making," says Foster Back. Greater participation at the IBE's quarterly business breakfasts provides an informal barometer of this growing engagement.

The IBE has no ties to the City and is independently funded. Readers of the *S&IR* should be encouraged by Foster Back's assessment of improving ethical standards. The aims of the IBE chime with the CISI's own objective: "To set standards of professional excellence and integrity...". Compliance with the Bribery Act is a start, but Foster Back's work reminds the sector that the obligations of member firms and their employees go well beyond this. ■

For further information about Investing in Integrity, the joint initiative of the CISI and the IBE, go to ***investinginintegrity.org.uk***

Photo: Johanna Ward

In the first of two features considering the growing importance of corporate governance, **Dan Barnes** looks at recent shareholder activism over executive pay. British politicians are empowering shareholders to control remuneration for the first time; board members on both sides of the Atlantic should take note

Shareholder Spring

Vince Cable, the UK Government's Secretary of State for Business, Innovation and Skills, proposed new rules in June that, for the first time, will give a firm's shareholders binding authority over the pay of senior company directors.

Cable's amendments to the Enterprise and Regulatory Reform Bill (see box, opposite) will force firms to publish figures for total pay for senior executives, which shareholders will then decide in a legally binding vote every three years.

Europe does not have a unified regime for votes on remuneration, but Michel Barnier, European Commissioner for Internal Market and Services, has plans to propose similar binding votes across Europe; a solid framework for his proposal is expected in the autumn.

"I am convinced that this year we have seen the balance of power shifting, in favour of institutional investors as a whole, on remuneration issues," says Guy Jubb, Global Head of Governance and Stewardship at Standard Life Investments. "Cable's proposals, taken as a whole, are pretty sensible. In terms of the consequences, I sense that they will put even more influence into the hands of institutional investors, like Standard Life Investments, acting on behalf of their clients."

The Government's move follows growing shareholder frustration in both the UK and the US that executive pay is increasing while shareholder returns are decreasing. Proxy voting agency Manifest, which surveys the pay practices of 642 listed companies, found that, in 2011, the median increase in total remuneration awarded to CEOs in FTSE 100 companies was 10%, following a 13% increase in 2010. By comparison, the FTSE 100 median return on equity fell to 18% in 2011, from 20% in 2010, according to River and Mercantile Asset Management.

Public frustration, meanwhile, has focused on disproportionate rewards for executives when compared with other employees. Brian Bell, a research fellow,

> ***"Companies will seek to ensure that their leading investors are on side before they go to the ballot box"***

and John Van Reenen, Director of the Centre for Economic Performance at the London School of Economics, noted the disparity between 2001 and 2011. For every increase in shareholder returns of 10%, CEOs received on average an extra 3% in pay; employees received only 0.2% more. Although CEOs may see a pay cut or even be fired if the company does badly, their wages do not fall by the same measure as they rise, in part because the increases are driven by performance-related bonuses that are not matched by similar penalties.

The result of the public's frustration has been growing shareholder activism over pay. Protest votes against remuneration, which have steadily increased since 2006, spiked this year (see graph, 'Growth in shareholder protest votes on remuneration'). PIRC, the corporate-governance consultancy for institutional investors, says that of the 253 London-listed companies that have had shareholder votes on pay in 2012, six – Central Rand Gold, Pendragon, Cairn Energy, Centamin, WPP and Aviva – have had pay recommendations opposed. This represents 2% and, according to PIRC, is a record number.

Peter Clark, Chief Executive of hedge fund Man Group, whose share price had fallen to 62p on 6 July 2012 from £2.46 on 6 July 2011, was reportedly asked of his own pay packet, "Sir, does it really feel like a $7m year to you?" at the company's annual general meeting (AGM). In the US, of the 1,875 firms in the Russell 3000 Index (which represents the 3,000 largest US-traded stocks) that have conducted votes on earnings this year, 51 (3%) have failed to pass the vote, according to executive-compensation consultants Semler Brossy.

There have been many high-profile rebellions, such as at US giant Citigroup, where CEO Vikram Pandit's $15m pay packet was voted down in April 2012. Pandit retained his pay anyway: AGM votes of this type in the UK and US are

Proposed UK rules vs French, German and US rules for a remuneration vote

	UK	France	Germany	US
Frequency	Every three years	No vote required	Annually	Every one to three years
Authority	Binding	Non-binding when it takes place	Non-binding vote	Non-binding
Transparency	Disclosure of CEO total as a single figure	Disclosure of CEO pay	Disclosure of CEO pay	Disclosure of ratio of CEO pay to median company pay and executive pay compared with the financial performance of the issuer
Scope	FTSE 100 companies only	No requirement by law	Voluntary (in practice, the majority of firms)	All public companies

still non-binding (though Cable's reforms will change this in the UK).

Indirect impact

Though they are non-binding, votes over pay have had an impact. At Aviva, concerns were raised about the amount the company's incoming UK Chief Executive, Trevor Matthews was to be paid. After the vote, Andrew Moss, the Group CEO who had received a resounding vote of confidence from shareholders, stepped down (but the proposed pay deals – including his own – went ahead). "A lot of companies address these issues behind closed doors," says Liz Murrall at UK buy-side trade body the Investment Management Association. "After Tesco received a 40% vote against remuneration in 2010 it consulted its shareholders, revised its policy and its 2011 proposal was voted through as a result. Some companies listen to shareholders' concerns, and others don't."

US politicians are also intervening to ensure that shareholders have greater influence on remuneration in order to reflect shareholder returns.

Part of the Dodd-Frank Act of 2010 requires companies to hold non-binding votes on compensation "not less frequently than once every three years". That brought it into line with a regime that the UK has been running since 2002, which requires all large companies to provide a non-binding vote on remuneration.

But the latest UK Government reforms go further, and will increase consultation with shareholders over pay. "The binding vote means that companies will seek to ensure that their leading investors are on side before they go to the ballot box," says Jubb. "It will ensure better engagement in the run-up to the vote, and will avoid public spats that we have had this year as issues are ironed out in advance," says Murrall.

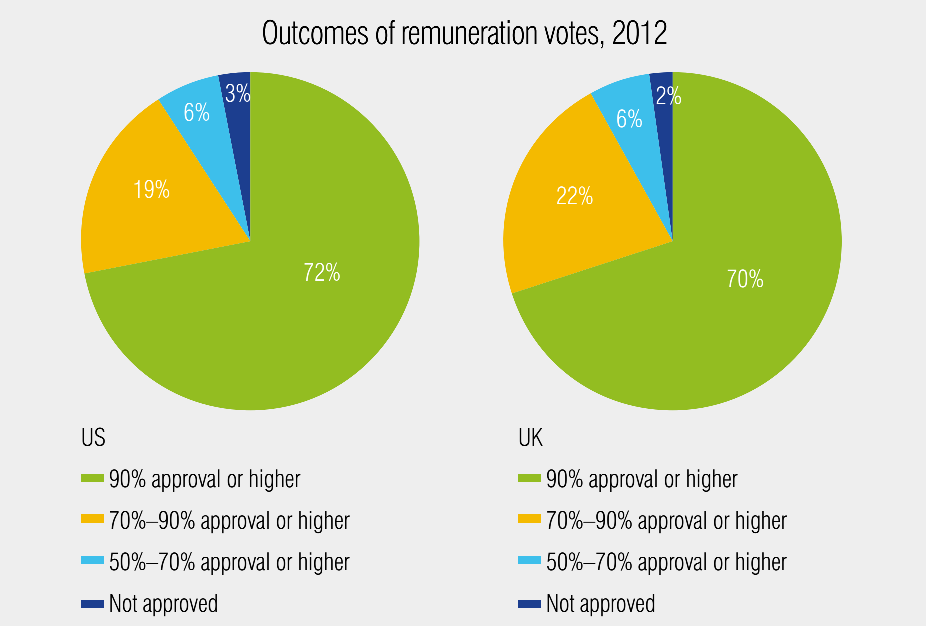
However, the reforms do not address all the concerns voiced by shareholders. "If you read the detail of the consultation, there is no intention to extend the vote on remuneration to smaller companies," says Roger Lawson, Chairman of ShareSoc, a UK society for individual shareholders. "The focus continues to be on FTSE 100 companies where, while there are problems, they are possibly not as abusive as in some smaller companies."

In certain circumstances, the new powers enjoyed by shareholders could be counterproductive, fears Murrall. She worries that the length of time between votes may tie boards' hands when a new CEO is required in a hurry. "What if a company needs to recruit an all-singing, all-dancing chief executive to cope with unforeseen circumstances, but having voted on its pay two years ago is unable to match a candidate's existing package?"

There is still time to iron out such deficiencies. The Enterprise and Regulatory Reform Bill has some way to go before it is passed: it is currently at the committee stage in the process, and will need a third reading in the House of Commons before going through the House of Lords. This gives time for further amendments to be made.

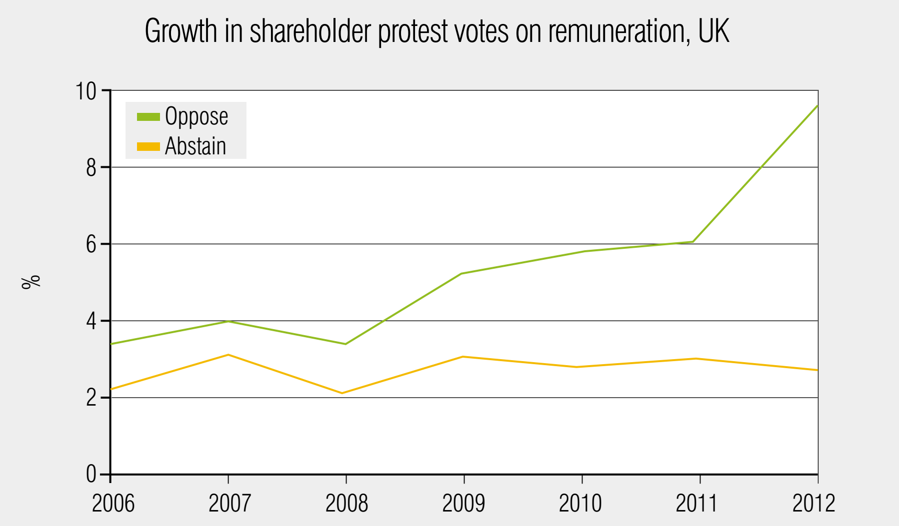
In any event, shareholders seem set to enjoy greater transparency on executive pay. Will this mean better management? We must wait and see. "One innovative aspect of the policy proposals is the single figure for earnings," says Jubb. "It will be interesting to see how it is used, and whether it will give rise to decisions that are in the best interests of the company and its long-term investors." ■

In the next issue of the S&IR, *a follow-up feature on the growing importance of corporate governance will consider mixed messages from the FSA as it attempts to provide greater scrutiny of the so-called significant influence functions.*



Source: Semler Brossy

Source: PIRC



Source: PIRC

Proposed amendments to the UK Enterprise and Regulatory Reform Bill

Binding vote to be held on the remuneration implementation report, which will contain:

- single total figure of remuneration for each director
- detail of performance against metrics for long-term incentives
- total pension entitlements (for defined benefit schemes)
- exit payments made in year
- detail on variable pay awarded in year
- total shareholdings of directors
- chart comparing company performance and CEO pay
- information about who has advised the remuneration committee
- shareholder context.

Introducing securities lending

European investors earned more than €1bn from lending securities in 2011. Who are the players and how does the system work? **Kevin McNulty** explains

SECURITIES LENDING INVOLVES a transfer[1] of securities (such as shares or bonds) to a third party (the borrower), who gives the lender collateral in the form of shares, bonds or cash.

The borrower pays the lender a fee each month for the loan, and is contractually obliged to return the securities on demand within the standard market-settlement period in the relevant market. The borrower will also pass over to the lender any dividends/interest payments and corporate actions that may arise.

In essence, the lender will retain the key rights they would have had if they had not lent the securities, except they will need to make special arrangements if they want to vote on the shares. Securities lending does give rise to certain risks, however, which need to be considered.

How big is the market?

Lending markets can be measured in two ways: the asset values made available for lending, and the asset value that is lent at any given time.

There are two key benefits to securities lending. First, it provides a low-risk incremental income for investors; second, it provides liquidity to the market. Conservative estimates suggest that European investors earned €1bn in 2011.

Market participants and their roles

Participants in securities lending can be broadly divided into two categories: lenders and their agents, and borrowers.

Lenders and agents

These are typically large-scale investors, such as pension funds, insurance companies, collective investment schemes and sovereign-wealth funds. These investors would normally employ an agent (such as a custodian) to arrange, manage and report on the lending activity.

Borrowers

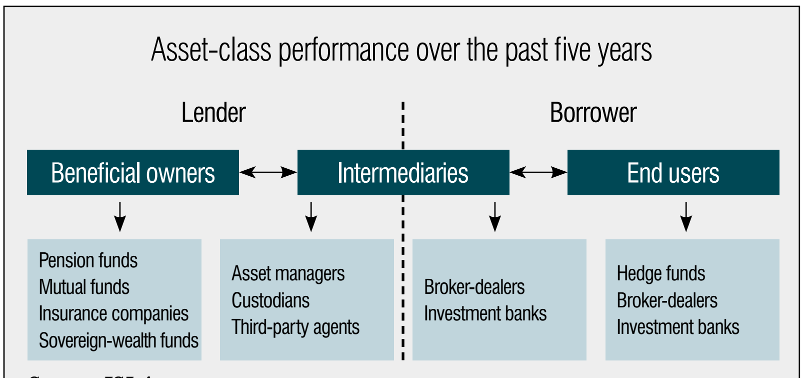
These are typically large financial institutions, such as investment banks, market makers and broker-dealers. Hedge funds are among the largest borrowers of securities, but they will borrow through investment banks or broker-dealers rather than directly from the investors.

The role of intermediaries

A beneficial owner may well be an insurance company or a pension scheme, while the ultimate borrower could be a hedge fund. However, the activity is usually undertaken by two intermediaries on behalf of each party.

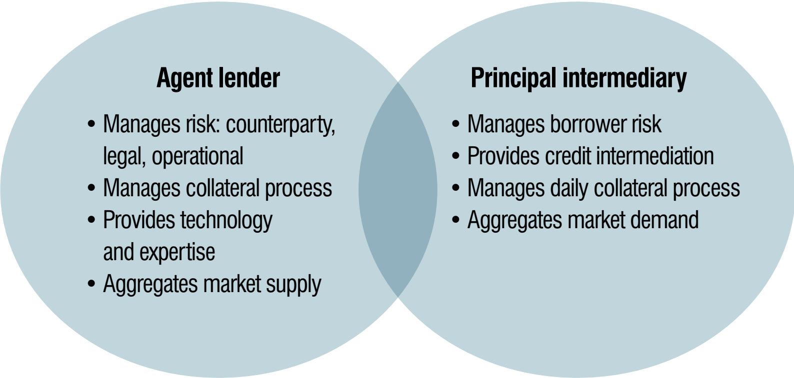
Managing the lending process is a specialised business and requires expensive investment in systems and human resources. Beneficial owners of securities usually employ a specialist agent such as an asset manager, custodian or independent third party to lend on their behalf. The beneficial owner goes through a due-diligence process to identify and appoint the most appropriate agent lender for their specific circumstances. The International Securities Lending Association (ISLA), along with a number of other market associations and the Bank of England (BoE), has published guidance on what should be considered during this process.

The beneficial owner remains the principal to the transaction, and where funds are sufficiently large, may conduct the lending activity directly – although this is somewhat rare. It is usual for the agent to seek compensation for the various services it offers, through a fee-sharing arrangement rather than



Source: ISLA

[1] Legally, a securities loan is the transfer of title against an irrevocable undertaking to return equivalent securities. This means that registered securities, such as shares, will be transferred out of the lender's name into that of the borrower and registered back when they are returned.



Source: ISLA

charging a flat fee. This ensures that the beneficial owner incurs costs only when revenues are generated, and aligns the interests of the third party to the beneficial owner in ensuring that the activity is profitable. The amounts charged by agents vary, but 30% of the income would be a typical amount.

The main borrowers in the market are also specialised firms, such as prime brokers, which borrow securities for their own firm's requirements (for example where they have internal-trading desks or market-making operations) or for clients such as hedge funds. Beneficial owners will often be reluctant to take on credit exposures to borrowers that are not well recognised, regulated or who do not have a good credit rating – which would exclude most hedge funds. In these circumstances, the principal intermediary (often acting as prime broker) performs a credit intermediation service in taking a principal position between the lending institution and the hedge fund. Prime brokers are compensated by the hedge fund client through a 'spread' on the amount that they pay to borrow from the market.

Collateral management

Securities lending is always fully collateralised by the transfer of either eligible assets, referred to as non-cash collateral, or cash collateral. Haircuts are applied to the collateral value depending on a number of factors, including, but not limited to, the quality and liquidity of the collateral and the correlation it has to the lent securities.

The lender retains the market risk of assets while they are lent and does not incur the market risk of collateral during the lifespan of a loan. Loans and collateral are marked to market daily, and collateral values are restored on a same-day basis. If an asset held as collateral defaults, the counterparty immediately replaces it with another.

In the event of a counterparty default, the collateral held by the lender has to be liquidated and the lent positions purchased and restored to the portfolio. In order to achieve this quickly and efficiently, the liquidity and volatility of collateral needs to have been considered, and appropriate haircuts applied to mitigate the risk of having insufficient funds to replace the lent assets. Hence, the price correlation between lent security and collateral is an important factor when determining collateral haircut requirements, and should be considered when defining a lending policy.

Market-led developments

The securities-lending market has seen many developments over the past ten years that have reduced risks and increased transparency.

As securities lending is mostly conducted between intermediaries, the end lender and borrower are not necessarily directly connected. It is important that the lender fully understands the risk profile of their specific activity, and it was apparent after the Lehman Brothers default that some beneficial owners may not have been fully aware of the counterparty and liquidity risks involved. Therefore, agent lenders have been engaging with beneficial owners to discuss their lending programmes and the risks involved. The industry has also published educational material for beneficial owners, which was co-ordinated via the BoE's Securities Lending and Repo Committee and endorsed by a number of market trade associations.

> ***Over the past ten years, the use of tri-party collateral managers has increased significantly***

Tri-party collateral managers

Managing collateral transactions can be complex and expensive. Over the past ten years, the use of tri-party collateral managers, who focus only on collateral, has increased significantly. Acting as an intermediary between lender and borrower, the tri-party collateral managers receive loan valuations from both lender and borrower on a daily basis. They automatically transfer eligible collateral, which is defined by the lender prior to transacting, from the borrower's account to the lender's segregated collateral account.

This process happens in real time, and enables the lender to transact on a same-day basis with the knowledge that collateral can be secured immediately.

There are four main tri-party agents: Euroclear, J.P. Morgan, Bank of New York and Clearstream.

Central counterparty developments

The costs and benefits of new infrastructure such as central counterparties (CCPs) are being considered by the market. These are widely used in repo transactions and some other derivatives transactions, with collateral being posted to the CCP.

When using a CCP, both loan and collateral assets would be delivered directly to the CCP, with the loaned security being delivered on, and the collateral being held, by the CCP. Both lender and borrower will provide margin to the CCP as protection against default. Provided the CCP is sufficiently secure, they could be potentially beneficial by reducing market-wide counterparty exposure.

Standardised margin methodology may also provide a more consistent margin requirement and avoid sudden margin calls on banks, which can cause them liquidity issues. However, difficulties exist in the range of eligible collateral and the additional costs to lenders, which currently receive margin directly and do not provide any.

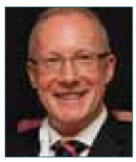
If CCPs become a legal requirement, it is possible that the additional restrictions and costs involved may lead many lenders to withdraw from the market, which in turn may have a significant impact on market liquidity. ■

For further information, please visit ***isla.co.uk***

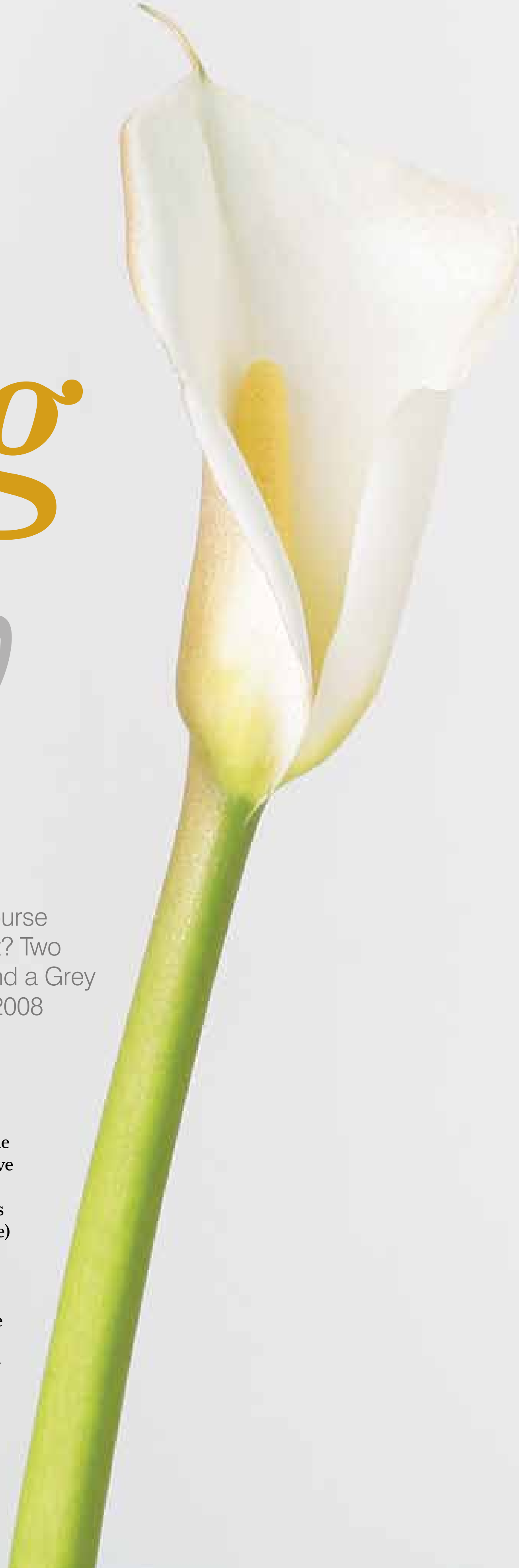
Kevin McNulty is addressing a CISI CPD seminar on this issue on 11 September. For further information, visit ***cisi.org/capitalcpd***

Kevin McNulty is Chief Executive of the International Securities Lending Association

ISLA



Gilding the lily



At what point does refining a CV become falsification, and what is the appropriate course of action when discrepancies come to light? Two fairly recent, high-profile cases bring to mind a Grey Matters dilemma published in the *S&IR* in 2008

READERS MAY HAVE followed the story in the media some weeks ago concerning the recently recruited Chief Executive of Yahoo, Scott Thompson, who was forced to resign after some three months in post following the disclosure that his CV contained a qualification (a degree in Computer Science) that he had not been awarded. The 'error' was revealed by a shareholder in Yahoo as part of a campaign to increase its influence over the company. Thompson resigned, without offering a convincing explanation for the discrepancy. At the other end of the spectrum is the story, revealed last year, of John Campbell – a mining veteran and former Executive Director of mining giant Anglo American – who admitted that he had claimed to be a doctor until 2001, despite having failed to complete his doctorate. Nevertheless, Sir Julian Horn-Smith, Chairman of Vallar plc (since renamed Bumi plc), Campbell's new employer, excused the "discrepancy", saying that a 20-year track record of "creating value" in the mining industry was much more relevant, adding that Campbell "was a young man at the time". One might usefully compare that outcome with the courses of action offered in one of our Grey Matters articles, originally published in 2008, which also featured in *City A.M.* newspaper shortly before the Yahoo story appeared.

A little white lie

Background

You are a non-executive director of a well-known firm of fund managers. One of the firm's star managers is Brian Poole, who, after spells as a fund manager with a number of competitors, has now been with your firm for seven years. Due to his consistent success and high profile, Brian is regarded as a valuable asset to the firm and there are plans to invite him to join the board. Currently, he is also intended to be the face of a major new fund that the firm is about to launch. A few weeks ago, your nephew, Robert, had mentioned seeing Brian being interviewed on television, and commented that he had been at Casterbridge University with him. Robert recalled him becoming ill midway through his degree course and going home. Robert said he believed that Brian had never returned to complete his degree. At the time of that conversation, the proposal to invite Brian to join the board had not been made and, with a number of other – seemingly more important – matters on your mind, you thought no more about it. You have now received papers for the next board meeting, including an item relating to Brian's proposed membership of the board and a copy of his CV. On looking through this, you see that Brian's qualifications include a BSc in Economics from Casterbridge University and you recall your conversation with your nephew. Your papers also include a mock-up of the advertisement for the new fund, where you notice that Brian is described as 'Brian Poole BSc'.

The dilemma

There may be an obvious temptation to try to rationalise the situation by saying to yourself that your nephew must be mistaken and Brian had later returned to university to complete his degree. Or, that it was all nearly 20 years ago, was only a youthful indiscretion and what really counts is Brian's performance for the firm, where he is regarded as a pillar of rectitude. Such thoughts represent a soft option that should leave you feeling very uncomfortable. Accordingly, some response is required and, from a practical perspective, the correct course must be to take your concerns to the Chairman, who is in a position to set in motion the appropriate action.

These actions, or inactions, could include:

- dismissing the matter as being of no material concern
- asking Brian for clarification and, depending on his response, carrying on as planned, while making sure that any marketing or other literature does not show Brian as having a BSc degree
- acknowledging the 'mistake' and imposing a financial penalty, such as withholding Brian's bonus or asking him to pay it to charity
- asking Brian to resign
- sacking Brian.

Optimum solution

From an ethical perspective, the correct course of action must be to ask Brian to confirm whether or not he was awarded his BSc degree and, assuming that he was not, to ask him to resign. Arguments that his degree, or absence of it, is not material to his performance and that many people 'exaggerate' their CVs do not address the issue that falsification of one's CV represents a breach of trust, which is central to the proper functioning of the industry. For the firm to impose a financial sanction does not appropriately address this issue and, effectively, may be seen to condone it. The action of claiming to have achieved a qualification that one has not may not seem like a major issue, particularly many years after the event; indeed, it may be regarded as 'victimless crime'. It is no such thing. Qualifications are awarded by bodies that are stakeholders in, and trustees of, the standard displayed. To claim that you have achieved that standard when you have not represents a fraud upon the awarding body, those students who have achieved the standard and all those people who may legitimately expect that holders of an award have actually achieved it. Consequently, the correct way forward must be to seek Brian's resignation. Whether this represents the end of his career depends largely upon how he responds. With his demonstrable skill and an established track record, it is probable that, after a period, Brian will be able to rebuild his career, but based upon what he has achieved, rather than what he has not. In actual fact, once the truth comes out, it may be only a very short time before he is offered another job, but that does not mean that the proposed course of action was inappropriate. ■

> *There is a world of difference between presenting yourself in the best possible light and lying about a qualification*

Sweet and sour

"Every single person out there has lied on their CV. This whole thing has been blown out of all proportion.

"When some of the so-called high-flying executives who work for me leave because they decide that the grass is greener somewhere else, I like to have some fun by getting their CVs sent back to me, just so that I see what they've said – 'located a factory myself' or 'designed a new range of computers'. A pack of lies. It's what people do."

These typically forceful comments from *The Apprentice*'s Lord Sugar, in a *Daily Telegraph* interview, followed the revelation that the winning candidate on the TV show had exaggerated his academic achievements on his CV.

However, the CISI cannot let the comments go unchallenged. There is a world of difference between drafting a CV to present yourself in the best possible light, and actually lying by claiming that you have obtained a qualification that you have not been awarded or held a job that you have not done. With the increase in checking of CVs that is becoming the norm (albeit not universal), the chances of getting away with it are diminishing.

Photo: Johanna Ward

Need to read

The latest publications and study aids supporting CISI qualifications

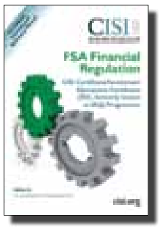
NEW WORKBOOK AND ELEARNING EDITION

International Certificate in Wealth Management

The objective of the International Certificate in Wealth Management (ICWM) is to provide candidates with an understanding of how the fundamentals of providing financial advice can be used to find solutions appropriate to clients' needs. A new edition of the *ICWM* workbook and corresponding elearning product (covering exams from 10 September 2012) is out now, and includes:
- the financial services industry and economic background
- fiduciary relationships
- financial assets and markets
- investment funds.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

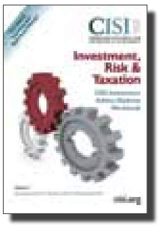


FSA Financial Regulation

The aim of this unit (part of both the Investment Operations Certificate, formerly known as the Investment Administration Qualification, and the Certificate programmes) is to ensure that candidates have an understanding of the regulations and legislation that underpin the financial markets and the conduct of investment business. A new edition of the *FSA Financial Regulation* workbook and corresponding elearning product (covering exams from 21 November 2012 until further notice) is due out in August. Topics will include:
- the regulatory environment
- the Financial Services and Markets Act 2000
- the FSA's Conduct of Business Sourcebook/client assets.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

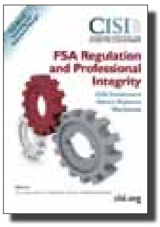


Investment, Risk & Taxation

The objective of Investment, Risk & Taxation is to ensure that candidates can apply the knowledge, theory and practical techniques required to assess a client's current financial position and future requirements, make suitable investment recommendations, monitor performance and respond appropriately to changing needs and circumstances. A new edition of the *Investment, Risk & Taxation* workbook and corresponding elearning product (covering exams from 31 October 2012 to 30 October 2013) is due out. Topics covered will include:
- asset classes
- the macro-economic environment
- principles of investment risk and return
- taxation of investors and investments
- investment products, planning and advice
- portfolio performance and review.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION

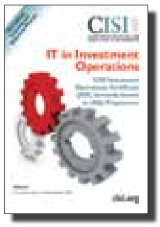


FSA Regulation and Professional Integrity

The objective of FSA Regulation and Professional Integrity is to ensure that candidates can apply appropriate knowledge and understanding of UK financial markets, regulation and ethics to financial planning, advice and management for retail customers. A new edition of the *FSA Regulation and Professional Integrity* workbook and corresponding elearning product (covering exams from 11 November 2012 to 10 November 2013) is due out in August. Topics will include:
- UK contract and trust legislation
- integrity and ethics in professional practice
- the regulatory infrastructure in the UK
- the FSA supervisory objectives, principles and processes
- FSA authorisation of firms and individuals
- complaints and compensation.

Price: £100 for the link pack (combined workbook and elearning product)

NEW WORKBOOK AND ELEARNING EDITION



IT in Investment Operations

Information Technology in Investment Operations (ITIO) is aimed at IT staff new to the financial services sector. It is the first exam designed specifically for IT staff working in operations. It offers financial services IT staff a relevant and practical unit of the Investment Operations Certificate (IOC) – formerly known as the Investment Administration Qualification (IAQ) – and facilitates greater understanding and communication between operations and IT staff. A new edition of the *ITIO* workbook and corresponding elearning product (covering exams from 11 November 2012 until further notice) is due out in July. Topics covered will include:
- IT and the functional flow of financial instruments
- the impact of IT on financial control
- IT management
- the globalisation of IT services.

Price: £100 for the link pack (combined workbook and elearning product)

ONLINE TOOL

Professional Refresher

The CISI's Professional Refresher elearning tool enables you to remain up to date with regulatory issues and changes, maintain compliance and demonstrate continuing learning. The product now consists of more than 40 modules, including:
- anti-money laundering
- corporate actions
- Foreign Account Tax Compliance Act (FATCA)
- financial crime
- investment principles and risk
- professional taxation
- the UK regulatory structure.

Price: Free for all CISI members; otherwise, it costs £150 per user. There are also tailored module packages available for individual firms. Visit cisi.org/refresher for further information.

External specialists

The CISI relies on industry practitioners to offer their knowledge and expertise to help create and maintain its exams, workbooks and elearning products. There are several types of specialists: authors and reviewers for workbooks and elearning products, item (question) writers, item editors and exam panel members. All of them receive a number of benefits to thank them for their involvement.

There are currently about 300 external specialists who have volunteered to assist the Institute's qualifications team, but more are required.

The CISI would particularly welcome applications from specialists to help with developing its *Derivatives*, *Securities* and range of Middle East titles.

To register your interest, please contact Iain Worman at *+44 20 7645 0609* or download the application form available via *cisi.org/externalspecialists*

Diary

Events to attend over the coming months

CISI Annual Dinner

6 SEPTEMBER
Guildhall, Gresham Street, London, EC2

Guest speaker: Lord Green, Minister of State for Trade and Investment and former Group Chairman of HSBC Holdings

Bookings are now being taken for the CISI's premier social event of the year, its Annual Dinner, sponsored by London Stock Exchange Group, which will celebrate the Institute's 20th anniversary. Please email *flagship@cisi.org* for further details. To book, visit *cisi.org/annualdinner12*

Branch events

11 SEPTEMBER **The Flagship Bristol Seminar Series**
Bristol & Bath: TBC

14 SEPTEMBER **Football Tournament**
Liverpool & North Wales: Lucozade Powerleague, 2 Whittle Street, Kirkdale, Liverpool

18 SEPTEMBER **Transparency: ETFs Under the Microscope**
North East: Brewin Dolphin, Time Central, Gallowgate, Newcastle-upon-Tyne

20 SEPTEMBER **Annual Dinner & Awards Night**
Scotland: The George Hotel, 19–21 George Street, Edinburgh

21 SEPTEMBER **An Update from the Bank of England**
Yorkshire: Doubletree by Hilton Hotel, 2 Wharf Approach, Leeds

27 SEPTEMBER **Annual Investment Briefing: Time for Equities?**
Guernsey: The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey

19 OCTOBER **Annual Dinner**
Isle of Man: Mount Murray Hotel, Santon

9 NOVEMBER **Annual Dinner**
South Coast: RNLI College, West Quay Road, Poole

15 NOVEMBER **Annual Dinner**
West Country: Somerset County Cricket Club, The County Ground, Taunton

To book:
cisi.org/eventscal *region@cisi.org* *+44 20 7645 0652*

London CPD events

11 SEPTEMBER **Securities Lending**
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

27 SEPTEMBER **Sir Thomas Gresham Docklands Lecture – Russia Today**
East Wintergarden, 43 Bank Street, Canary Wharf, E14

11 OCTOBER **Managing Human Capital**
America Square Conference Centre, 1 America Square, 17 Crosswall, EC3

29 OCTOBER **Leading at the Top: Power and Politics Symposium**
Gresham College, Barnard's Inn Hall, Holborn, EC1

14 NOVEMBER **Measures Beyond Money**
Birkbeck, University of London, Malet Street, WC1

For further information about London CPD events, visit *cisi.org/capitalcpd*

To book:
cisi.org/eventscal *clientservices@cisi.org* *+44 20 7645 0680*

Member and Fellow discounts

Professional courses discount: Fellows 35%; Members 30%; Associates 20%.

The following discounts are applicable only to one workshop per year: Affiliates 30%; Students 20%.

To book:
cisi.org ***clientservices@cisi.org*** ***+44 20 7645 0680***

Professional courses

Venue: London unless otherwise stated

1 AUGUST **Investment Principles & Risk (IAC)* £500**
1/2 AUGUST **Investment Principles & Risk (LSE)* £900**
8/9 AUGUST **Derivatives** (Manchester) £900**
13 AUGUST **Investment Principles & Risk (PCIAM)* (Birmingham) £300**
13 AUGUST **Investment Principles & Risk (IAC)* (Birmingham) £500**
13/14 AUGUST **Investment Principles & Risk (LSE)* (Birmingham) £900**
16 AUGUST **Investment Principles & Risk (PCIAM)* (morning) £300**
16 AUGUST **Investment Principles & Risk (PCIAM)* (afternoon) £300**
22/23 AUGUST **Derivatives** £900**
10 SEPTEMBER **Investment Principles & Risk (IAC)* £500**
10/11 SEPTEMBER **Investment Principles & Risk (LSE)* £900**
12 SEPTEMBER **Operational Risk: Taking it to the Next Level £500**
18/19 SEPTEMBER **Derivatives** (Edinburgh) £900**

*This event fulfils the requirements for qualifications gap-fill between existing CISI exams and the new Retail Distribution Review exam standards

**This event fulfils the above criteria and requirements for qualifications gap-fill for CII exams – Advanced Financial Planning Certificate and Fellow/Associate (life and pensions route only)

Professional interest forums

Looking ahead at risk

The Investment Horizons event

The question of what will happen in the financial markets over the next few years was tackled at the CISI's risk professional interest forum (PIF) annual Investment Horizons event.

Making their predictions were four industry experts: Trevor Williams, Chief Economist, Wholesale Banking & Markets, Lloyds Bank; Kevin Gardiner, Managing Director, Global Investment Strategy, Barclays Wealth; Clive Lambert, Founder, FuturesTechs; and Mark Tinker, Global Fund Manager, AXA Investment Managers.

The speakers were more optimistic than might have been expected. The panel considered that the global economy was performing fairly well, although there were significant crosswinds.

It was felt that there were areas in which growth could be expected and returns achieved. Emerging markets, such as the South American and Asian economies, are continuing to grow, and the US is coming out of recession. Europe, however, will continue to face challenges as it tackles its debt crisis. Most of the speakers expect Greece to leave the euro, but the currency to remain in some form or other.

In terms of asset classes, equities were viewed as potentially attractive, provided a long-term view was taken, especially if taking into account total returns on dividends and price. There were concerns over precious-metals prices, and the view was that gold should be seen as a risk asset, given its volatility and tendency to attract speculative investment using borrowed money. It should not be considered a safe haven.

There was a consensus that sovereign bonds were not currently pricing in risk properly, and it was also felt that they were unlikely to provide a real yield in the foreseeable future.

For the UK, there was no expectation of significant inflationary fears to fuel the need for interest-rate rises in the near future. However, its prospects remained a concern as long as fear remained and credit availability remained tight.

To join the 400 members already signed up to the mailing list of the risk PIF, or to book a place at one of its events, please email riskforum@cisi.org. For more information about the CISI's seven PIFs, visit cisi.org/pifs

Star speaker at forum dinner

Financial Times columnist Mrs Moneypenny will entertain guests at the fourth annual dinner of the CISI's corporate finance forum with her insights into business and life.

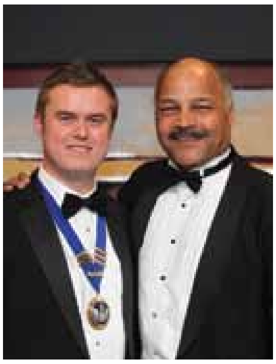
Mrs Moneypenny is former stockbroker and investment banker Heather McGregor, who now owns and runs an executive-search business, teaches at Cass and London Business Schools and has penned bestselling books including *Careers Advice for Ambitious Women*. She has also become a familiar face on TV through hosting Channel 4's money series, *Superscrimpers*. And if all that were not enough, she has even bagged a private pilot's licence along the way.

Sponsored by Mazars LLP, Gowlings and mergermarket, the dinner will take place from 7pm on 26 September at the Naval and Military Club, 4 St James Square, London SW1Y 4JU. Tickets cost £75 (including a three-course meal and wine). To book your seat, email corporatefinanceforum@cisi.org or call Claire Parish on +44 20 7645 0696.

EVENTS

Special guests add glitz to annual dinners

Former world champion boxer John Conteh proved a knockout success as guest speaker at the annual dinner of the CISI's Liverpool & North Wales branch.



Liverpool & North Wales branch President Glyn Edwards, Chartered MCSI, with John Conteh

More than 120 guests enjoyed the event at the Crowne Plaza Liverpool Hotel – an increase of 50% on last year's attendance.

A raffle raised £1,080 for locally based Clatterbridge Cancer Care, and Gift Aid increased the amount to more than £1,300.

An update on local activities was given by branch President Glyn Edwards, Chartered MCSI, while CISI Global Development Director Kevin Moore, Chartered MCSI, highlighted Institute-wide developments that would benefit members.

The event was sponsored by ETF Securities, Baillie Gifford and Investec Asset Management.

Contemporary magician Ben Hanlin conjured up a fun evening for about 100 guests when he appeared at the annual dinner of the CISI's Birmingham & West Midlands branch. New branch President Benedict Crabbe, Chartered FCSI, who looks after investments for private clients, trusts and pension funds at BRI Asset Management, addressed the event. CISI Regional Director Richard Bennett also gave a speech.

Pictured at the Birmingham & West Midlands event are, from left, immediate past President Gordon Harvey, Chartered FCSI; his successor Benedict Crabbe, Chartered FCSI; the Lord Mayor of Birmingham John Lines; and the Lady Mayoress Kathleen Lines

Sponsored by Legal & General Investment and M&G, the dinner was held at the Hyatt Regency, Birmingham. Guests included Councillor John Lines, Lord Mayor of Birmingham.

Membership admissions and upgrades

MCSI
Bank of America
Merrill Lynch
Sandra Mottoh
Barclays
Paul Freeman
Alastair Susans
Fadi Zaher
Berry
Jamie Berry
Mark Sherwood
Broadridge
Laxmikanth Venkatraman
Brown Shipley
Gordon Campbell
Capital International
Jacques De Villiers
Citi
Christophe Daviron
Clariden Leu
Nilesh Shah
Charlotte Walford
Complispace
Priscilla Shire
Coutts
Ray Hollis
Mark Pearce
Mark Priestley
Mark Stuchfield
Credit Suisse
Alexis Antonatos
Andrew Cattle
Stephen Coleman
Christopher Fisher
Iryna Markelevych
Marco Stauber
Alexander True
Delauney
Andrew Searle
Deutsche Bank
Jonathan Bond
Evergreen
Sunil Shah
Fairbairn Private Bank
Rebecca Williams
FSA
Shamik Ghosh
Generali Portfolio
Alexander Holbech
HB Markets
Stephen Greenwood
Henderson
Fortune Chigwende
HSBC
Arietta Bortot
Richard Gomersall
Vinod Gothandaraman
Shailesh Jaiswal
Willem Sels
IFS Capital
Kai Kong Tsang
In2 Consulting
Petra Spirkova
Integrated Financial Arrangements
Luke Carrivick
LJ Athene
Barnaby Horwich
LJ Capital
Ruzhen Li
Lloyds TSB
Jane Le Sueur
London Wealth Management
Timothy Norris
Merrill Lynch
Fei Yu
Morgan Stanley
Razwana Ahmed
Thomas Allan Grieve
Octopus
Hugh Costello
Prudential
Allan Stobie
Rathbone
Paul Chavasse
Kerry Clayton
Stuart Moody
Lisa Williams
RBC
Andrew Martin
Schroders
Nicol Bennett
SCM
Alan Miller
Seven
Andrew Donald
SG Hambros
James Richards
Shaw & Co
Myles Hamilton
Speirs & Jeffrey
Vicki Linton
Timothy Sinclair
Stockdale
Alan Duff
TMF
Andrew Hudson
UBS
Dermot Campbell
Kate Richardson
UK Portfolio Management
Jared Hancock
United Gulf Bank
Deepanjali Chandrasekhar
Vistra
Mark Andrews
Marc Farror
Marina Gall
Tanya Scott-Tomlin
VSA Capital
Andrew Raca
Whitley
Louise Rettie
Others
Onyinyechi Adanganga Izuagba
Xiang Liu
Christopher Northway
Tengjiao Wang

ACSI
Adam & Co
Gareth Welshman
Albert E Sharp
Frances Ellis
Analysis
Alexander Slinger
Asante
Simon Gold
Atlantis
Stefano Vaglietti
Barclays
Stuart Cummins
Stephen Godfray
Simon Kinsella
BCMS
Michael Taplin
Bedrock
David Schwartz
Bestinvest
Benjamin Mayers
BNP Paribas
Denise Richards
Sandi Simon
Bourse
Mark Edmonds
Brewin Dolphin
Richard Atherton
Andrew Coles
Samantha Dolby
Luke Evans
Antony Herbert
James Holt
Emma Liddell
David Spokes
Lucy Walter
Brooks Macdonald
Christine Leung
Brown Shipley
Martin Higgins
Campbell Lutyens
Nicholas Spencer
Capital International
Stefanie Cowley
Gillian Porter
Tamsin Webb
Cavendish
Sylvie Huang
Cazenove
Mary-Anne Daly
Alexander Dudgeon
Michael Weeks
Charlemagne
Stephen Fox-Hulme
Citibank
Rahul Marde
City
Sandra Hoyland
Clariden Leu
Vikrant Bhalerao
Keith Simpson
Bryan Wang
Computershare
Gemma Powell
Credit Suisse
Mark Elliott
Debt Management Office
Abiodun Akanbi
EFG
Jennifer Walden
Jon Wright
Everys
Thomas Leahy
Friends Provident
Alison Jenner-Jones
Fx Pro
Simon Smith
Fyshe Horton Finney
Hardeep Tamana
Generali Portfolio
Timothy Stocks
Gibraltar Financial Services Commission
Joanne Beiso
Graham
Julia Peach
HSBC
Timothy Watkin
Investec
Leanne Keane
Investment Funds Direct
Andrew Hooper
JO Hambro
Joshua Oakley
Jefferies
Mario Santos
Killik
Richard Morris
LJ Capital
Anthony Davies
Julia Scheufler
Lloyds Bank
Andrew Sidebottom
Marlborough
Jon Dudley
Michelle Evans
Michael Gilkes
Gurjit Soggi
Merrill Lynch
Joshua Maguire
Hendricus Schalkwijk
Miller & Co
Peter Miller
MLC
Sung-Soo Hong
Modesty Ventures
Ikenna Umeizudike
Musbury
Thomas Gregory
Nair & Co
Kunal Khilnani
Nokia Siemens Networks
Sarawanan Iyer
Optimus
Christopher Fitzsimmons
Principal
Martin Phelps
Quilter
Clive O'Mahoney
Anthony Stilwell
RMG
David Man
RBS
Peter Stringer
RF
David Beck
Roberts Boyt
Huw Roberts
Royal Bank of Canada
Daniel Vaysleyb
Royal Bank of Scotland
Simon Bentley
Seymour Pierce
David Daly
SG Hambros Bank
Despina Ragia
Société Générale
Philip Clarke
St James's Place
David Stow
UBS
Zaenab Javed
University of Ulster
Kylie Heggarty
Valbury
Owen Ireland
VSA
Paul Renken
Wealth at Work
Malcolm Sedley
WestLB
Benny Zachariah
WH Ireland
Edward Welsby
Yealand
James Hilton-Robinson
Others
Eleanor Cooper
Willem De Klerk
Ishak Kalkavan
Maas Shamraz Kitchilan
David Smith

Chartered FCSI
Barclays
Emma Buckley
BPP
Nigel Sydenham
Brewin Dolphin
Gareth Evans
Rhianna Parrish
Charles Stanley
Christopher Bolshaw
Mordaunt Cracroft
Jon Curtis
Gillian Fleming
Shelley Leaney
Peter Lefevre
Gordon Martin
Simon Scott-White
Warren Terry
William Walker-Arnott
Holly Ward
Jason Winslow
Citigroup
James Close-Smith
Close
Leanne Hallworth
Forex
Demetrious Zamboglou
HB Markets
James Dolan
David Woodfinden
Investec
Alistair Drage
Richard France
JM Finn
Scott Avent
Bruce Johnson
Kleinwort Benson
Sebastian Volpe
NW Brown
Oliver Phillips
PSigma
Nicholas Grant
Quilter
Gordon Ferguson
Matthew Field
Thomas Haydon
Daniel Ingram
Michael Montgomery
Redmayne-Bentley
David Cake
Scottish Widows
Sarah Wall
Whiteford
Nolan Stanton
Other
Stephanos Kazantzis

Chartered MCSI
Affinity
Julia Warrander
Brewin Dolphin
Christopher Rew
Charles Stanley
Andrew Dyson
David Hamilton Stubber
Harvey Rawlings
Clariden Leu
Dimitrios Masselos
Valentina Tacchino
Collins Stewart
Matthew Ellis
Credit Suisse
Assad Malik
Deutsche Bank
Blair Winton
Fyshe Horton Finney
Robert Ward
HSBC
Louise Keytel
James Brearley
Paul Finnan
Christian Gawne
Killik
Alex Spreckley
Kleinwort Benson
David Reynolds
Pilling & Co
Nicola Tovey
Rathbone
David Holmes
Speirs & Jeffrey
Thomas Brown
Scott Dickson
Arlene Ewing
James Johnston
Gavin Paterson
Dean Young
Other
Andrew Howat

This list includes admissions and upgrades from 27 April to 23 May 2012

Answers to the quiz from page 10: 1:D, 2:D, 3:B, 4:B

Steve Wallace took up fencing in 2004 and now competes in events in the UK and mainland Europe

Sparring partner

Attending the finals of the fencing competition at the London Olympics will be an education for Steve Wallace, Chartered MCSI. **Lora Benson** reports

Steve Wallace, Chartered MCSI

STEVE WALLACE OWES a debt of gratitude to the UK's unpredictable climate and London's traffic congestion. These were the factors that helped him fall in love with the sport of fencing.

During his younger days in Australia, where his family had emigrated when he was a child, Steve's sporting passion was bike racing. But, he says: "When I moved to London in 2004, given the traffic and pollution, coupled with the weather, getting on my bike didn't really appeal any more. I was looking to take up a sport that was different and that I could enjoy all year round."

A solution presented itself when a friend suggested that he join him on a ten-week fencing course at London's Lansdowne Club. Steve, Managing Director of Bryan Garnier Asset Management in London, says: "I was immediately hooked. The club has a rich history of fencing – the British Olympic team has trained there – so it was a great place to learn.

"Fencing keeps you fit and is challenging. You need to be agile, tactically aware and adaptable – every opponent differs in style and timing."

Steve is a member of three fencing clubs, and trains at each club on one evening a week. He explains: "Sparring at different clubs enables me to test myself against a range of opponents, rather than getting comfortable competing against the same people."

The sport of fencing is divided into three disciplines, which involve different weapons and rules. The sword Steve uses is the épée, a triangular, cross-section blade that targets the opponent's entire body. To score a point, a hit must be with the tip of the blade. Depending on the competition, the winner may be the first to register either five or 15 points.

Steve regularly takes part in competitions around the UK and, due to the open-entry nature of many fencing tournaments, has found himself up against some of the country's top fencing talent.

> ***"Fencing keeps you fit and is challenging. You need to be agile, tactically aware and adaptable"***

"At my first event, in Cardiff in 2008, I fought against an opponent who I only later discovered was the British number-three fencer," says Steve. "While I lost, I still learned something and it was great experience."

Sharpening up

"I'm ranked about 330th in the British Fencing Association listing, so being able to fence regularly against people in the top 50 in the sport enables me to develop and get better," says Steve.

His proudest achievement was reaching the semi-finals of a tournament at Keele University, Staffordshire.

Steve is also no stranger to fencing overseas, having fitted tournaments in locations including Luxembourg, Prague and Trieste around work.

He says: "I would recommend fencing. It is accessible, as there are a lot of clubs, especially in the London area.

"Provided you wear the right equipment, it's pretty safe. The worst I have ever suffered is a few bruises."

The modern-day fencer's clothing includes a mask, protective breeches and gloves and a plastron, a type of padding that is worn under the jacket.

Steve says: "To start, you can usually borrow everything from a club. If you then decide to buy your own equipment, the cost is only equivalent to a mid-range bicycle and it lasts for years."

Steve will attend the final of the women's individual foil-fencing competition at the Olympics.

"It will be great to see fencing at that standard and to sample the Olympics atmosphere," he says. "My wife Fulvia, who is Italian, will accompany me. Italy has a very good record in fencing, so she is hoping to have plenty of reasons to cheer." ■

For further information, see *britishfencing.com*

Got an interesting hobby? Contact Lora Benson with your story at ***lora.benson@cisi.org****. If it is published, you will receive £25 of shopping vouchers.*