

Interview

Bernard Sabrier: Being a hero matters less than avoiding big mistakes --- Unigestion's chairman made a prescient call on the risk of liquidity drying up; now he's looking eastward

BY WILLIAM LYONS

In 2007, Bernard Sabrier, chairman of Geneva-based asset-management firm Unigestion Holding, talked with his chief executive, Patrick Fenal, about the time bomb they believed was ticking under hedge funds. They agreed there was a major potential liquidity risk and mismatch between certain funds of hedge funds that exposed investors to enormous risks.

In short, they argued that there were certain funds of funds in which investors could redeem their investments faster than the fund could liquidate its own. Were there to be a sustained run of redemptions on such funds, the fund could exhaust its liquidity, and the last group of clients to redeem wouldn't receive their money back on the due date. Instead, they would find themselves locked into an investment for longer than they expected, to their possible disadvantage.

Their findings, which helped guide their investment philosophy, were eventually published in a paper authored by Mr. Fenal.

"Everyone, including some of our own colleagues, thought we were crazy," says Mr. Sabrier. "Our staff kept asking why are you putting us at a deliberate disadvantage. Everyone is saying liquidity is not a problem and you are the only one who has constrained us on liquidity."

A year later, liquidity became a problem at many firms. Investors wanting to redeem their money from such funds of funds were delayed, and those that remained invested longer than they wanted to and suffered significant losses.

Not that the 57-year-old Mr. Sabrier took much pride in his prescience. "There was no triumphalism," he says. "It's not about being right or wrong; it's about avoiding major mistakes."

In fact, Unigestion, didn't remain immune to the 2008 financial storm, but it fared better than most. Assets under management declined from 7.8 billion euros at the end of 2007 to 7.5 billion euros at the end of last month, a fall of only 3.8%.

"Alternative asset management" -- such as hedge funds, which can use leverage to multiply the effect of their positions in stocks and bonds -- "is not an easy game," says Mr. Sabrier, who has run Unigestion since buying it from his father in 1976. "But the results are pretty powerful, which sometimes leads many people to believe this business is about being a hero. We are not here to have an ego, nor to be heroes. We are here to work very hard, around strong values, to have a very thorough process, know what we are doing and have a long-term plan."

Mr. Sabrier, who has weathered the downturns of 1990, 1994 and

2000, is philosophical about the way hedge funds have become the whipping boy of choice for the global economic crisis.

"The politicians want to find someone to blame, and it is easy to blame hedge funds. They are high-profile and easier to blame than banks," he says as he sips coffee in his London office. "But in reality, hedge funds only manage a tiny percentage of the world's wealth. I can't believe that with only 1% or 2% of the world's wealth you can stir the markets, cause the collapse of Greece or the default of Lehman Brothers. Maybe the general public can believe it, but the truth is not there."

These are tricky times for hedge-fund managers. Many European finance ministers have accused the industry for using billions of euros in borrowed money to destabilize the financial markets during the 2008 crisis. They have also been rebuked for fuelling a speculative attack on Greece's sovereign debt. This summer, EU finance ministers will vote on proposals drawn up by the European Parliament's Economic and Monetary Affairs Committee. A swathe of new regulations will be introduced as part of the Alternative Investment Fund Managers directive. Proposals range from requiring funds that routinely borrow money to boost returns to disclose information about their borrowings to EU and

national authorities, to requiring non-European funds to apply for a "passport" to be able to market to investors in Europe.

Given that funds may be prevented from complying with the latter measure by financial regulations in their home countries, analysts say it would not only limit the presence of U.S.-based hedge funds in Europe but may also affect European-based funds registered in tax havens such as the Cayman Islands and Bermuda.

Mr. Sabrier says he doesn't believe the tighter regulation of funds proposed by the European Union will prompt an exodus to Geneva. "After all," he chuckles, "we can't all move to Switzerland as there will be some major infrastructure problems if we do."

Most of his funds, he says, are domiciled in Guernsey, one of the U.K.'s Channel Island offshore financial havens, but, pending the shape of the regulations, he says that he may look to move some to Luxembourg if necessary. The real beneficiaries of the EU regulations will be places such as Singapore, Hong Kong, Shanghai and Beijing, which will create markets and take business, he says.

"My worry is that the French and German politicians thought: first we have to kill London; if we put the London financial sector on its knees, the financial capital of Europe will be Paris and Frankfurt. They are making a mistake because, if they do succeed in putting London on its knees, they will only succeed in accelerating the shift of capital from West to East as Paris or Frankfurt don't have the flexibility or the pool of talents in the financial sector."

Mr. Sabrier has opened an office in Singapore, where he spends much of the year. He said he feels the real opportunity is in the Far East - and only by living and working there can one truly show a commitment and understanding of its cul-

ture.

"In hedge funds, the shift to the East is not obvious yet. We see some of the best managers on Asian equities based on the west coast of the U.S. or in Europe because they still do not want to live in Hong Kong. But there are new funds every month, the Asians are traders in their soul. At the moment they are less disciplined than the U.S. or the British who have been managing money with leverage for a very long time, but they are learning fast."

Early in his career, Mr. Sabrier was employed at Renault Finance in Lausanne, Switzerland, where he worked in group currency hedging and fixed-income instruments. With the capital he made at Renault, he bought Unigestion and began a series of private-equity-backed acquisitions, including the purchase of Banca della Svizzera Italiana. Four years later he sold it to Swiss Bank Corp. , a deal that at the time was one of the largest in the Swiss financial sector and made him a multimillionaire by the time he was in his early thirties.

In the early days, Unigestion was involved mainly in private banking, focusing on traditional investment vehicles. But after experimenting with hedge-fund investments using his own money, Mr. Sabrier became convinced these were the investment vehicles to focus on.

That's a view he still holds. Despite all the fears that rules on bonuses will prompt an exodus of London's hedge funds, Mr. Sabrier still believes that in whatever form they take, "in the future they are probably the only way people will manage money."

"We have lived through a period of excess in the financial world," he said. "The success of the asset-management business was geared on greed. Clients were greedy, employees were greedy and shareholders were greedy. . . . The

answer doesn't always have to be regulation. The best regulation is still common sense. But the problem in the past is that everyone lost their common sense."