

# FINANCIAL TIMES

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## An iconoclast whose Swiss house could be a landmark

### Face to face

Alex Orus's new enterprise is a game-changer, he tells **Steve Johnson**

Alex Orus has spent the past two decades inculcating himself in the ways of the asset management industry, latterly as managing director of GMO in Europe.

His conclusion; the industry is getting it all wrong, badly letting down investors in the process.

As a result, Mr Orus has jettisoned the safe, predictable career ladder to co-found his own independent house, Blue Diamond Asset Management, where he is now ensconced as managing partner and chief investment officer.

He hopes Switzerland-based Blue Diamond will help propel an evolutionary leap in the industry away from chasing nominal returns to one where real returns, factoring in inflation, take centre stage.

"I want an asset management company that meets the real needs of investors. It needs to be about maximising real returns," says Mr Orus, who founded Blue Diamond with Jonas Andersen, formerly head of quantitative analysis at Pemba Credit Advisers, a Zurich-based affiliate of Man Group.

"The first generation [of the industry] was benchmark oriented. The second generation, the hedge fund industry, measure themselves in the absolute return space with Libor as their benchmark. I don't think this is it," he says, pointing out that while UK inflation is either 4 per cent or 5.7 per cent, depending on the measure, one-month Libor is just 0.62 per cent.

"The real need of a UK investor has to be in sterling and to beat inflation. Why isn't the industry doing this? We are paying for what they are not doing."

While switching from a nominal to a real return mindset may, on one level, seem a small change, it sets

in train a series of knock-on effects. For instance, Mr Orus believes a focus on nominal returns means the industry is overpaid by even more than the \$1,000bn-plus recently claimed by IBM in an unpublished report.

"The overpayment is tremendously high and even higher than this number because the entire asset management industry has been getting paid in nominal terms. If the nominal return is 10 per cent and inflation is 2 per cent, why am I charging the client for the 2?" asks Mr Orus, who says Blue Diamond's soon-to-be-launched fund range, aimed at "qualified investors", will cost 80 basis points plus a "success fee" of 15 per cent, levied only on positive real returns.

He believes the benchmark-focused nominal returns approach has come to dominate because it is in

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the interests of asset managers.

"It's much easier to manage against a benchmark. You see a lot of active managers hiding and producing index-like returns. You don't have career risk," he argues.

Of course, many would argue that asset classes such as equities and commodities, which represent a call on real assets, should be inherently inflation-proofed anyway.

Mr Orus' view is that while this may be so, an asset class will offer little protection if it is bought when it is overvalued.

Consequently, the core of Blue Diamond's strategy, accounting for 80 per cent of the portfolio, is a valuation process that aims to calculate the fair value of an array of asset classes, based on a premise that everything reverts to the mean over a market cycle.

"Fundamental valuation of asset classes is the



anchor of what we do," he says, with both long and short positions in equities, bonds, commodities, currencies and cash permissible. "The lead indicator of a market correction is not volatility, as most models will tell you, it's price."

The remaining 20 per cent is a "momentum" pot, which aims to profit from short term price trends, an approach that Mr Orus freely concedes is "specifi-

### Curriculum Vitae

**Alex Orus**

**Born:** 1965

**Education**  
**1987:** University of Connecticut, BA in Economics

**Career**  
**1989:** Senior consultant, Andersen Consulting (later Accenture), Zurich

**1999:** Managing director, State Street Global Advisors, Switzerland

**2003:** Managing director of Europe, GMO

**December 2009:** Co-founder, managing partner and chief investment officer, Blue Diamond Asset Management

cally engineered to do the opposite of what valuation does".

"Momentum will play in the casino but the anchor of the portfolio is a conservative guy," he adds. This momentum strand is currently leading the strategy to hold gold and energy, helping to balance the valuation bucket which is 65 per cent in cash, partly driven by Blue Diamond's belief that we are in a "fixed

income bubble".

"Interest rates only have one way to go and that is up, therefore we are avoiding bonds," says Mr Orus.

The Swiss house also has an unusual take on measuring risk, eschewing the likes of valuation at risk and the Sharpe ratio, a commonly used measure of risk-adjusted return.

"The industry is mixing up loss with price fluctuation. That is wrong. The primary risk of investing is permanent loss of capital," says Mr Orus, who instead favours the Calmar ratio, which measures annualised returns divided by the maximum drawdown.

Using backtested figures, Blue Diamond claims the dollar-denominated version of its strategy would have returned an annualised 8.3 per cent after fees between 1997 and 2010, well ahead of equity, bond and hedge fund indices and US inflation of 2.4 per cent, while its Calmar ratio of 2.7 and

### Blue Diamond Asset Management

**Established:** December 2009, but officially launched in March 2011

**Employees:** 5

**Head office:** Wollerau, Switzerland

**Ownership:** A wholly owned subsidiary of Impact Investment Partners

Sharpe ratio of 1.1 also tower over those delivered by such indices.

Blue Diamond currently only manages money for staff, friends and family, but is looking to raise \$100m or so this year. Mr Orus says it is already in discussions with potential investors from Switzerland, the US, the UK and Norway, with family offices likely to be among the first external investors.

"They understand this concept. They are always talking about a real asset, whether an industrial company or property. They get this," he says. "Family offices have also been disappointed with hedge funds. They say 'I'm paying an arm and a leg and when I wanted protection in 2008 [my fund] was down 20 per cent'. This product is a stabiliser."

He adds: "This is a paradigm shift and our industry doesn't have much interest in doing this. Our objective is to make an impact and get people thinking again. We want to stop the nonsense out there."