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How Blu Family Office is doing away with predictions

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How Blu Family Office is doing away with predictions

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Burnt-out and retired after spending years working in banking and hedge funds, Christian Armbruester had no intention of returning to the industry.

But all this changed when he was asked to manage his family's wealth by his German father.

'I am a former proprietary trader at Bankers Trust and then Credit Suisse, then I built two hedge funds and I was actually retired when my dad called. I was burnt-out from a career in finance and had no desire to come back,' he recalls.

'It was just when I decided to look at what was happening with my family's money that I decided that I could do this better.'

The family wealth was generated from a physical commodities business, and was managed for the first generation by a number of private banks, asset managers and assorted advisers.

'I am second generation and got involved in late 2009. We took a long look at the offering. We met the managers, we met the private bankers and very quickly we decided that we were paying too much money.'

At the time, Armbruester did not know what a family office was, but he decided that he would close all the family accounts and start one from scratch.

A year later, a Dutch family asked him to manage their wealth the same way, which is how he ended up forming a company that was at the time known as Blu Asset Management.

Armbruester then moved the company to the UK from the Netherlands, where his family is based, and began recruiting, most notably hiring Dominik von Eynern, who had done a similar job for his own family. The pair joined forces and in 2011 established Blu Family Office, with Armbruester chief investment officer.

One of the things that attracts investors to the firm is the alignment of interests, says Armbruester. 'For me it is about doing my father proud and when families come to work with us, we form the same bond I have with my father, because I do not want to let them down. Most of them have gone through a lot of the same experiences we went through, in that they received expensive, hard to understand advice that may not even work,' says Armbruester.

'We take away the pressure that they have to do something and that everyone knows something they do not.'

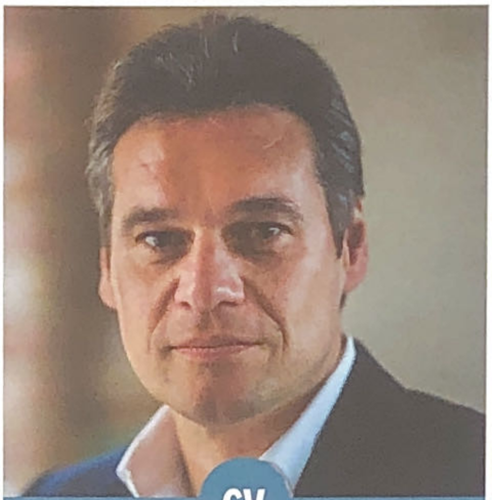
The Richmond-based company was determined to throw out the rule book in its quest to help clients avoid unrewarded risks and unwarranted costs, he says. To begin with, the multi-family office eliminated the expense of paying for economic research.

'If no one can predict the future, why are we all paying these guys to forecast it for us?' asks Armbruester.

'It was a big turning point for us because not taking a view did away with the prevailing model. Everybody does predictions, that is the whole industry and it works because people would like to believe it.

'We did away with a lot of costs by eliminating forecasts. We have no chief economist, no analysts, we do not go to conferences to hear people's views on where the markets will go, we do not buy outlook reports and we do not take a house view. This all saves us a heck of a lot of time and money.'

With the firm belief that 'to make money, you have to take risks' Armbruester says that asset allocation decisions are focused on



CV

CHRISTIAN ARMBRUESTER

2010 to present
Founding partner & CIO
– Blu Family Office

2011 to present
Founding partner
– Blu Asset Management

2003 to 2009
Chief investment officer
– Cologico, Nulogic Capital

1999 to 2003
Director, proprietary trading
– Credit Suisse

1996 to 1999
Senior associate – Bankers Trust

diversifying that risk.

'There is no such thing as a free lunch and, in the same way, there is no such thing as 10% annualised risk free returns. The trick is how do you properly group risks together so that you can diversify effectively and not cross contaminate your risk buckets.'

The company's investment universe is grouped into four key types of risk: credit, equity, arbitrage and convex, or the risk that a specific investment outcome does or does not occur.

'A lot of our time is spent trying to assess what type of risk each new investment presents. After you have accurately placed the risk into one of these buckets the next thing we look at is whether or not the price of this investment is good risk to reward,' he explains.

'This mainly involves looking at fees, what am I paying to take on this risk, because risk is a fairly efficient pricing mechanism. If you take on higher risk you will generally get rewarded for that. It is just a matter of how much you get paid to take on that risk.'

The proposition

This model of investing has proved popular, helping the firm grow its assets under management to £500 million.

Its clients are made up of five large families with combined assets of over £100 million and around 200 smaller clients who invest directly into its funds. Armbruester estimates the average net wealth of the smaller clients at £2 million.

The firm currently offers a range of managed accounts and four funds, with a multi-asset strategy planned for later this year.

In order of lowest to highest risk, the four funds target credit, arbitrage, equity and convex risks and are called Blu Income, Blu Alpha, Blu Beta and Blu Gamma, respectively.

Management fees on the funds range from 0.75% for the Income fund to 0.25% for the Beta fund, which is a passive product. Similarly, the firm's passive strategies charge 0.25%, but for discretionary asset management the firm levies 0.5%.

Armbruester also has plans to roll out UK versions of Blu's funds, which will charge 1%.

The majority of Blu Family Office's smaller clients invest in the Beta fund, which has a minimum investment threshold of £75,000. It has returned 73% over the past three years, compared to the MSCI All Countries World

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index's 71% rise over the same period.

The best performing fund in the range is the Gamma fund, which has netted investors 160% since inception in 2012, compared to its benchmark, a composite of its peers based on the Eurekahedge database, return of 26.7% over the same timeframe.

Meanwhile, the Alpha fund, which uses long/short strategies, rose 59.4% over the past three years, compared to the 45.7% rise of its benchmark, again a peer group average based on Eurekahedge data.

The most popular fund in the range at the moment is the Income fund, Armbruester says.

'We launched the fund, which can invest in private debt, in November 2016 and it is yielding around 6.5% in a negative yield environment, with a one-year duration. It is secured to boot, making it really popular with yield hungry investors,' he says.

'When we started investing in 2011, bond yields where still positive, but this went away after a couple of years. So with the help of Absolute Return Partners [an investment advisory firm] we began venturing into the private debt space.'

The relationship with Absolute Return Partners proved so strong that Blu ended up hiring its managing partner Nick Reese to be its CEO and lead a planned European expansion, earlier this year.

Looking to the future

The firm is gearing up to open an office in Germany and also has plans to set up a branch in Zurich, expanding its activities from its core markets of the Netherlands and the UK.

As a result of Reese joining the firm, Armbruester will take a step back from leading the business operations of the firm to focus on investment. 'One of the reasons we brought in Nick is that I wanted to focus more on the investment side,' he explains.

'I did not want to run a business and in Nick we have a really experienced operator. It was really lucky that he was looking for a new challenge and that we knew him because of our work with Absolute Return Partners.'

He adds: 'We got our own FCA licence in April and will be able to market our funds directly to clients. We are planning to launch some of our long-only relative trading strategies into the UK market.

'Our plan is now to grow our asset under management through launching new products and increasing our distribution channels.' ●

How we set up a family office

By Christian Armbruester

When Blu Family Office was set up in 2010 to look after the wealth of my family, we were in a truly unique situation. The first generation handed over the management of the assets without any constraints and the second generation had the expertise from prior professional careers in investment management. There was also no agenda and it was purely about managing the assets in the best way for the next generation.

We began with research and talked to many service providers, getting access to top class expertise from some of the most renowned global investment banks, hedge funds and asset managers. After more than 18 months of analysis, we concluded that no one knows what will happen in the future. The only thing we know is diversification works and costs matter, because they compound over time.

In hindsight, this is a rather obvious conclusion. But it is in the implementation that we began to understand the ramifications of adhering strictly to such a philosophy. For one, it takes away the most frustrating part of investing: trying to predict the unpredictable. But, moreover, by shifting our focus on gaining operational efficiency, we were able to tangibly add value to our investment process. Since we started implementing our strategy, we have saved more than 50% in total costs and fees on our investments.

So how do you diversify your investments if you don't know (and don't care) what is going to happen? You have to make sure you are truly diversified. Different parts of the portfolio have to behave differently, only then can we protect our capital against any random downturns. The asset classes by definition are much too broad and have therefore proven to be very inconsistent diversifiers in the past. This necessitates a much deeper understanding of the underlying risks of the individual investments and ultimately categorising them by type.

Once we know what we want comes the hard part: getting exposure to the different types of risks in the most efficient way. We look for strategies, managers, or models that can deliver the different risks most purely and we analyse the so-called total cost of exposure (TCE). This includes everything from commissions, to management and performance fees, taxes, administration and monitoring expenses that are incurred when making an investment. We also build many investment strategies ourselves where we have economic or operational advantages.

Putting it all together, we started investing the assets of our family in late 2011. Soon thereafter, we were asked by another family whether we could also help them, and we started managing external assets in 2013. By sharing our philosophy and technology with others, allows us to align interests and benefit from economies of scale.

Today, Blu is a multi-family office operating out of the UK, Holland and Germany, providing encompassing investment and advisory services to our clients.