

## Innovator builds on its traditional offerings

### Face to Face

Young Chin, CIO at Pyramis, tells Steve Johnson he anticipates growing interest in absolute return strategies

Republican groups across the US have been holding mock Boston Tea Parties of late, but Pyramis Global Advisors would have been justified in holding a Boston Flee Party last September.

That was the point at which Pyramis's last "crew", as it refers to its employees, relocated from parent Fidelity Investments' Boston HQ to Pyramis's gleaming glass and steel structure in Smithfield, Rhode Island.

Fidelity created its wholly owned Pyramis arm in 2005 to attempt to strengthen its institutional investment offering, which had hitherto been in the shadow of Fidelity's more successful retail business.

It opted for a physical separation of the two to emphasise the operational independence of Pyramis, which manages \$113bn (£78bn, €87bn) of Fidelity's \$1,200bn. Relocating to a state whose capital is Providence can only be seen as a positive omen.

"The US side of Fidelity has been working with institutional clients for about 25 years but it's best known as a mutual fund house," says Young Chin, the former co-chief investment officer of the Gartmore Group who was drafted in as CIO of Pyramis in 2006.

"It was the decision of the Johnson family [Fidelity's founders and major shareholders] to really dedicate resources to institutional investors.

"Fidelity has been very successful with institutional clients both in the US and outside, but primarily these were products built for a retail base that had applicability in the institutional marketplace.

"We took those mandates with the expectation we would begin to build products specifically for the institutional marketplace, rather than selling products specifically built for the

mutual fund marketplace." Some might argue that retail and institutional investors are seeking the same holy grail – strong risk-adjusted returns with low volatility. Mr Chin sees things differently.

"Institutional investors say 'show me you can deliver alpha, demonstrate where it's coming from, why it's repeatable and why it's uncorrelated with other money we already have in our stock programmes'," he says.

Although traditional long-only equity and fixed income vehicles constitute the bulk of Pyramis's assets under management, Mr Chin is particularly enthused by its expanding platform of equity market neutral, long/short, 130/30 and absolute return funds, which now boasts about 15 products at various stages of production, some fully commercialised, some seeded with company money

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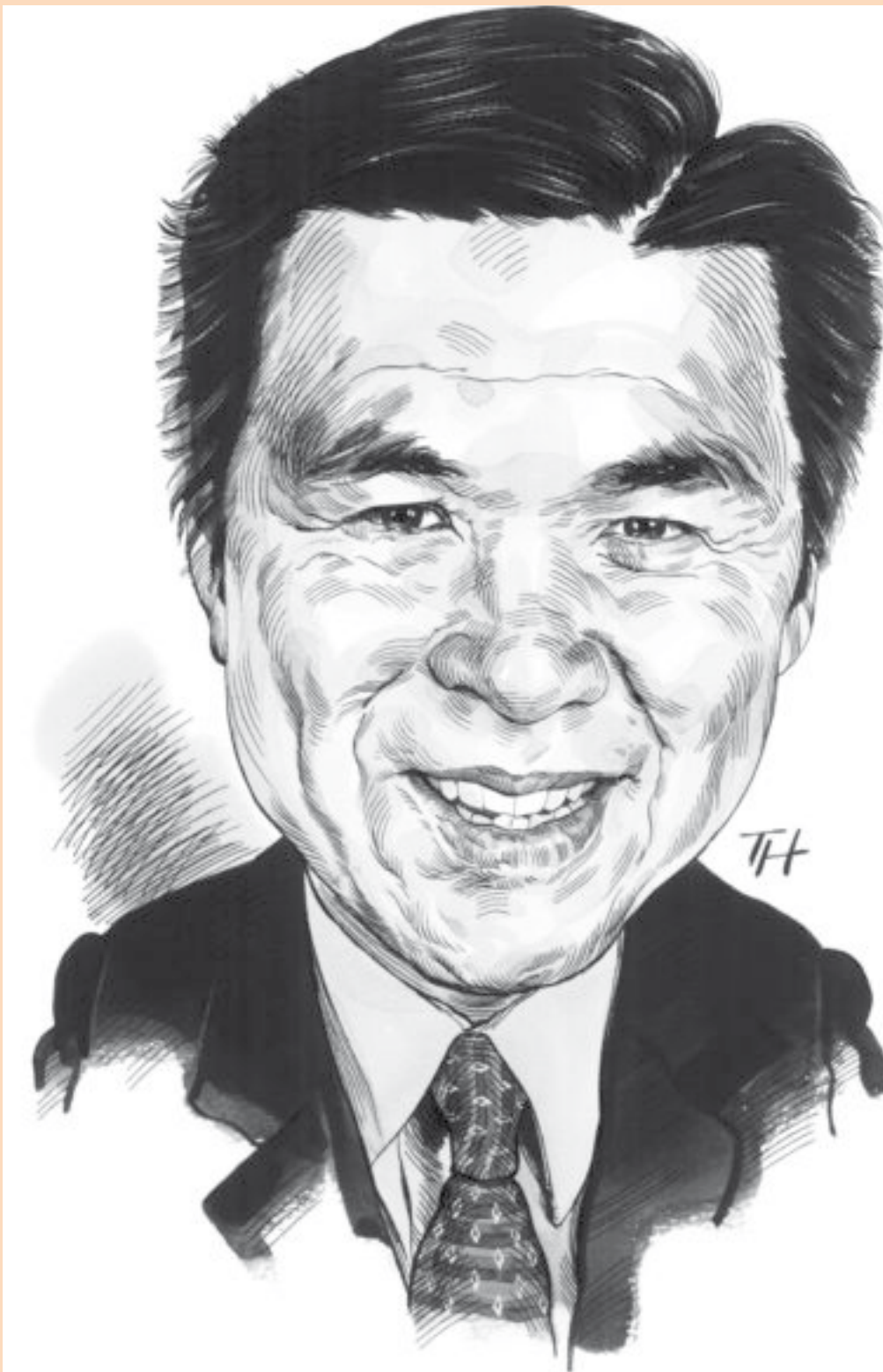
and one, the flagship US market neutral product, now closed to new investment.

Mr Chin anticipates growing interest in this arena, particularly with many institutional investors feeling let down by hedge funds.

"Hedge funds in general are getting a little bit of a black eye. These long/short portfolios are sometimes categorised in the broad hedge fund definition. Our view is that absolute return strategies are going to become more institutional, more common. We want to legitimise, if you will, an area that has had a lot of negative press."

To this end, Pyramis is working with its long-only equity managers to determine if they can, and indeed want, to build long/short versions of their offerings.

It prides itself on providing a "laboratory" environment in which portfolio managers can experiment with metrics such as the number of securities and rate of turnover, as well as mastering compliance



### Pyramis Global Advisors

**Established:** 2005  
as a division of Fidelity Investments

**Assets under management:** \$113bn

**Offices:** Smithfield, Rhode Island; Toronto; London; Hong Kong

**Employees:** 1,151, including 115 investment professionals

Others don't have that base behind them, so where do they get this strength of stock selection without these analysts? Only the sell-side can compete but we would argue that the quality of sell-side research has been in decline."

As well as the sheer number of analysts in the Fidelity stable, Mr Chin believes the internal career structure helps ensure their quality.

"The role of the analyst in our organisation is closer to being equal in stature and respect to a fund manager than in other organisations. It's a question of whether you are an alpha generator. There is no need to progress to fund manager.

"We expect to have career sector specialists, as opposed to a research analyst being a stopping ticket to learning all the sectors and ultimately landing in a portfolio manager job.

"We have people who have been specialists in their sector all their life, even in the most boring sectors like utilities and consumer staples. That gives us a competitive advantage."

Mr Chin adds: "Last year was not good for fundamental investing but we had few redemptions. Where we have had them often [investors] have apologised."

requirements, using in-house capital "before a single dollar of client money is invested in a new strategy".

"Some others are learning with clients' money," says Mr Chin, who believes Pyramis is also learning from the mistakes rival fund houses have made in the field, for example being able to avoid repeating some of the "dead ends" he encountered at Gartmore.

He stresses that reluctant long-only managers will not be pressured into launching jazzed up versions of their existing funds. "It is all optional, there is no push to force our managers to launch long/short strategies. Some can do it but don't like it. It requires a closer connection to your Bloomberg, your data feeds."

Pyramis, which recently opened its first overseas offices in London and Hong Kong, is concentrating on engineering "low to medium" volatility funds targeting returns in the low teens in favourable markets, given investors' current focus on capital preservation. "There is little interest in high volatility at the moment," he states.

It is among the coterie of houses that are creating long/short vehicles based on fundamental stock analysis, rather than more mathematical quantitative analysis.

Mr Chin feels this is an area where Pyramis, thanks to its links with Fidelity, has an inbuilt advantage in identifying profitable short positions.

"It's very difficult to have the idea generation to really create market neutrality. We are fairly unique because of the depth of our operation. We have over 500 stock analysts," says Mr Chin. "There is no other buy-side organisation with that type of research army behind it.

### Curriculum Vitae

**Young Chin**

**Born:** 1957

**Education:** University of Chicago, BA economics (1978), Masters in business administration (finance), (1982)

**1978:** Practice leader, investment consultant, Harris Bank

**1992:** Chief equity officer, PNC Asset Management.

**1997:** Management committee, BlackRock

**1999:** Managing director, head of equity management, Brown Brothers Harriman

**2001:** President and chief executive, Gartmore Global Investments; co-global chief investment officer, Gartmore Group

**2006:** Chief investment officer, Pyramis Global Advisors