Book Reviews

Multi Asset Class Investment Strategy

Guy Fraser-Sampson

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So much has been written over the years about portfolio theory that it is refreshing to come across a totally new approach, although ‘totally new’ is perhaps slightly inaccurate as the basic idea upon which this book builds is David Swensen’s Yale Model, which has been public knowledge for at least five years following the publication of his book *Pioneering Portfolio Management* in 2001. Fraser-Sampson openly acknowledges this debt and, indeed, some of the book is taken up with discussing the Yale Model in action.

The main thrust of the book is that given the fact that Swensen’s best-selling book has been common knowledge for five years, and that the Yale Model had been discussed in financial circles for the best part of a decade before that, then this makes it all the stranger that it should never have been adopted by a single European pension fund. This can hardly be due to its lack of success; we are told by Fraser-Sampson that the Yale Endowment has quadrupled in value since 1996 and has ranked consistently within the top percentile of US investment performance. As the author says:

‘When we see the world’s leading investment thinkers doing one thing, and being vindicated by a quarter of a century of outstanding returns, and yet pension funds and other institutions doing precisely the opposite — apparently on advice that this is the correct approach to take on a ‘risk adjusted’ basis — then clearly something is profoundly wrong.’

From this intellectual starting point, Fraser-Sampson shows how a Yale-type strategy could and should be adopted by pension funds everywhere, and examines and demolishes in turn the main stumbling blocks which seem to stand in its way (although only, he argues, in the mind), chief among which are risk and liquidity.

I know others have said this already, certainly in some of the reviews I have seen on Amazon, but it really does bear repeating. His views on risk are little short of revolutionary, though they seem intuitively to represent and build upon a common-sense approach. Why should the risk of any one investment be the same for every investor, for example, and why should we even believe that it is actually possible to capture with any measurement all the risk inherent within it? I know that there are many (including Yale) who are already using mean variance analysis as a substitute for, or complement to, the traditional CAPM approach. However, it is with the use of vintage year returns rather than periodic returns that Fraser-Sampson’s demonstrates his ability to think outside the box.

I believe that in years to come these ideas may well be increasingly adopted as mainstream theory and that this will come to be recognised as having been a truly groundbreaking book, no less influential than Swensen’s own. The logic is simple yet compelling: a long-term investor should only be concerned with whether she earns her target rate of return over a decade or more, not with whether she achieves a particular annual

or quarterly return from any asset class in any particular period. Thus why should periodic returns be at all relevant, let alone used as the basis for risk calculations which may drive the investor's whole strategy? Incidentally, the discussion on risk, with its analogy of a train journey, demonstrates the writer's ability to argue complex concepts not with pages of formulae but from ordinary, everyday images, thus ideally reaching out to a much wider readership than would normally be the case for a finance book.

With liquidity too, he says, there is a basic truth which pension funds are missing, namely that 'liquidity is a bad thing to be avoided wherever possible, rather than a good thing to be sought out'. He quotes the by now well-known words of Swensen to the effect that investors pay a heavy price for liquidity in the shape of lower returns, and that intelligent investors seek out less liquid market segments (as Yale have done with things like private equity and property). As with so much else in the book, Fraser-Sampson asks the fundamental questions that others have forgotten, or do not dare to ask for fear of appearing simplistic: how much liquidity do we need, and why?

Again the recognition that pension funds are long-term investors points the way to the answer. Pension funds, even the worst funded of them, do not have a short-term solvency problem, therefore liquidity is useful only as a sort of doomsday reserve to avoid ever having to be a forced seller of any asset into a falling market. He calculates that the typical UK pension fund, for example, probably has about ten times too much liquidity, and postulates that this has cost them dear in terms of missed opportunities over the years.

The chapters on individual asset classes make interesting reading for a generalist investor and give some valuable insights into how investment programmes might actually be implemented in each case. The discussion of private equity is particularly informative given the writer's own

high-level experience in this area. Nor should it be overlooked that the various performance figures which he has sourced from different data providers are normally available only at a high price, and have never previously been published, certainly not together.

I have read many finance and investment books over the years, but have never enjoyed one as much as I did *Multi Asset Class Investment Strategy*. Not only is the content fresh and persuasive but also the book is extremely well written — at times it reads more like a novel. The breadth of intellectual coverage is impressive, ranging through philosophy, military strategy and the history of thought to name but three, and all sorts of interesting connections are made that I would not have thought of for myself. The mark of a good book in this area is not just whether it convinces you that the author's views are correct but also to what extent it sets you thinking, and challenging some of the things you have previously taken for granted. I think it will succeed for most readers on both these points.

In fact, my only real criticism of the book emerges from this very success. I wish that it could have been longer. I would have liked to hear more about the Total Funding Model, for example, and a separate section on correlation would have been useful, although the author does explain in the introduction that certain compromises had to be made in the interests of scale and balance. (I was intrigued to read, for instance, that the Total Funding Model was originally intended to be the subject of a book all by itself.) Perhaps in due course Fraser-Sampson, like Swensen, will be prevailed upon to write a follow-up book in which a lot of these ideas can be explored in more detail. If so, I will certainly be buying it.

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