

## James Hambro & Partners: BITA Star

How James Hambro & Partners has  
taken suitability to the next level

case  
study

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# Beyond box-ticking – How James Hambro & Partners has taken suitability to the next level

BITA Star has been deployed for six discretionary portfolio managers (plus five financial planners qualified to run investments) who together run 600 client accounts with a total a AUM of £1.35bn

**James Hambro & Partners**, the London-based boutique which spun out of J O Hambro Capital Management in 2009, has been working with BITA Risk virtually since launch. To understand why requires a look back to the genesis of the firm and how its partners put together its investment proposition.

Andy Steel, chief executive, explained that a strategic review accompanied Gavin Rochussen joining JOHCM as CEO in 2008. The result of his deliberations with Jamie Hambro, chairman of the JOHCM group, was a plan to launch a private client business with a joined-up investment process with the institutional business. The aim, said Steel, was to “create an institutional-quality investment process but with a boutique level of client service.” This, he notes, “was hugely attractive to me, having spent quite a long time doing it the other way round – having a private client business and trying to build a funds business inside of it in my previous role.” And so James Hambro & Partners was born, with Steel coming over from his role as CEO of J O Hambro Investment Management to take the helm.

James Hambro & Partners’ marketing literature speaks of capital preservation through long-term investment in good-quality equities. But how does that translate into discretionary portfolios at a time when suitability documentation is top of the agenda? Steel explained that the approach taken by the partners (who include investment director John Langrish) was to first of all come up with the range of mandates they believed they should be offering clients – eschewing the ubiquitous balanced, income and growth approach and instead looking carefully at a range of volatility and risk/return profiles to suit various client segments’ aspirations. Once these four mandates (named 1-4, with 4 having up to 100% equity exposure) were decided on,

BITA Risk was called in.

BITA Risk was initially commissioned to undertake a research project on historical returns because the partners believed the 10-year backward look most firms are satisfied with to be “woefully inadequate”. “We wanted to understand how the portfolios we were constructing would have behaved across a whole raft of economic cycles like the oil crisis and the tech bubble, and all of the various time periods that would encompass,” said Steel. “That involved us asking BITA Risk to assist us in going back 40 years and looking at the how the four mandates we wanted to put together would have performed.”

## no surprises

The aim of all this research was so that advisers would be able to say “these are the risk and return characteristics of the portfolio we’re proposing”, said Steel. “So if we’ve said the portfolio should have a 12% drawdown and we get 12% that doesn’t come as a shock to the client.” Setting clients’ expectations correctly was also the reason why the mandates were named numerically. “We wanted to do away with any misconception around the label and just say ‘this is what it does in terms of risk and return,’” added Steel.



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## a common-sense overlay

Bringing both technological and human input to bear is actually characteristic of how BITA Star works at James Hambro & Partners, explained Steel, noting that blindly accepting quantitative outputs can lead to poor client outcomes. “We don’t override the system regularly, but it is possible that a mandate is proposed which doesn’t stack up with what we’re seeing in terms of the client’s attitude,” he said. “Then we’ll add a common sense overlay based on our knowledge of the client.”

Steel concedes that asking advisers to go through a risk-profiling questionnaire with clients they had had for decades might have felt “odd”.

However, any initial reluctance was soon swept away once the software became seen as a tool to remove the possibility of misunderstandings between client and adviser, he said. BITA Star has also gone over well with clients. “It’s really useful from a sales and marketing perspective. It’s easy enough for a client to understand and it helps us articulate our mandates and how they apply to the type of client they are,” said Steel. Like a growing number of tech-savvy wealth managers, James Hambro & Partners uses tablets to illustrate investment scenarios to clients at onboarding and this process of reviewing things “live” continues throughout the relationship. “We go back to clients once a year to see if any of their questionnaire answers would be different,” said Steel. “If so, we re-generate the proposal to make sure we’re always managing a mandate in line with the client’s profile.”

This kind of suitability documentation is rapidly looking essential, following the regulator’s thematic review of the UK asset management sector on this point. However, as several wealth management have also said, Steel would actually like to see the emphasis more on client outcomes rather than avoiding censure. “Although there is a regulatory side to this, I think we’ve approached it correctly by saying ‘Let’s design something which really works for the clients’ rather than ‘Let’s design something which ticks the regulatory box’,” he said.

This approach certainly seems to be paying dividends for James Hambro & Partners. From essentially a standing start, the firm has gathered £1.35bn in assets under management in just four years, including a growing book of intermediary business. The next step is for BITA Star’s profiling capabilities to be extended to the firm’s financial planning arm (the result of a 2012 merger with Calkin Pattinson) and also integrated with Wealth Dynamix for CRM – a development which Steel said will help automate the process of repeating a client’s risk profile back to them.



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It was here that Steel identified one further benefit to come out of using BITA Star: educating clients about how much risk they have to assume to fulfil their investment objectives – something which is all too often missed out of the risk conversation given the regulatory climate. “I think the industry is in danger of letting the risk tail wag the return dog. Sometimes you can focus so heavily on risk and lose the fact that actually what the client is telling you is, ‘I want an 8% return’,” he said. “Actually one of the important things to say is ‘for that return requirement this is the level of risk you’re going to need to take on’. That’s an extremely helpful part of the tool.”



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