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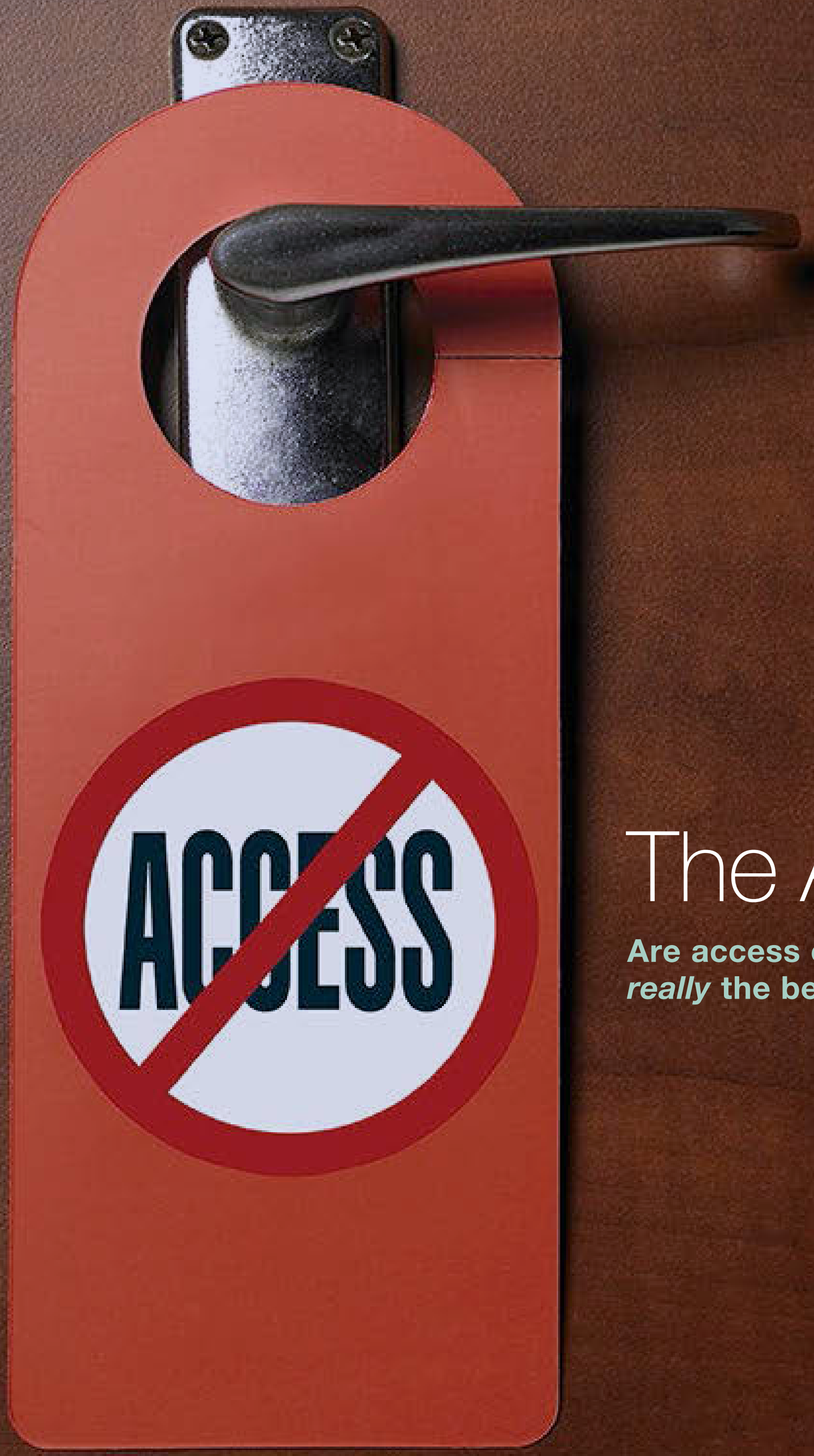
PERSPECTIVES



The Access Myth

Are access constrained private investments *really* the best performers?

OUR ANSWER BEGINS ON PAGE 3

A Message from Sandy Urie

EARLIER THIS YEAR we told you about a few changes on our senior management team at the firm. Our new leadership structure aims to formalize our practice areas and better integrate our investment, capital markets, and manager research efforts. The reason for making these changes is simple: to ensure that we continue to deliver innovative investment research, actionable recommendations, and cutting-edge portfolio advice.

When we introduced David Shukis as head of Global Investment Services, David Jallits as head of Global Investment Research, and Celia Dallas as Chief Investment Strategist, we promised that you would hear and see more from them in the months to come.

In this issue of *CA Perspectives*, we introduce a new feature, “Cambridge Conversations,” which does just that. “Cambridge Conversations” aims to give you deeper knowledge of the people leading our firm. In what we expect to be a regularly featured segment, we will introduce a member of our leadership or investment team in a one-on-one discussion to give you a closer look at what happens inside the walls of the firm. With our singular goal of delivering superior results to you, our hope is that these conversations give you insights into the strategies we develop and actions we take as part of our overall commitment to your success.

In this inaugural segment (*page 7*), we feature David Jallits. As the new head of Global Investment Research, David is focused on ensuring that our investment manager ideas and capital markets research are aligned, innovative, and actionable to deliver strong results for you. In this article, David discusses Global Investment Research in general, explains how we identify and capitalize on new ideas, and outlines his vision and philosophy for the research organization going forward.

In addition to “Cambridge Conversations,” this issue of *CA Perspectives* is filled with other thought-provoking articles. To start, in “What Really Drives Private Investment Performance?” (*page 3*), Managing Director and private investment specialist Jeff Mansukhani debunks the common perception that access-constrained managers typically equate to top-performing funds in the private investment space. In “Understanding Currency Risk: A European Family Perspective” (*page 14*), Head of European Private Wealth Practice Chris Ivey and Managing Director Naomi Friend explain how currency risks affect global investors, particularly European families, and offer strategies for addressing these risks within the portfolio. The Fondation Leducq, a Paris-based foundation, is the focus of our client profile (*page 11*). We speak with President Martin Landaluce and Executive Director David Tancredi about the foundation’s focus on funding internationally collaborative research in cardiovascular and neurovascular disease. We also remember the matriarch of the foundation and the Leducq family, Madame Sylviane Leducq, on the occasion of her passing one year ago.

As we remain committed to being the leading, innovative, dynamic investment firm that you have watched us be for more than 40 years, we invite you to be part of that commitment to success with us. I hope you enjoy this issue of *CA Perspectives*.

Sandy Urie

Sandra A. Urie
Chairman and CEO

The Access Myth

What Really Drives Private Investment Performance?

Many investors clamor to invest in oversubscribed funds. But does "access constrained" really translate to "top performing?"

BY KRISTA MATTHEWS

WITH THE EXPECTATION of outsized returns relative to public markets and the desire to diversify high equity allocations, investors often turn to private investments to help drive long-term performance. In fact, top-quartile endowments and foundations for the 20-year period ended June 30, 2014, had, on average, a 28% allocation to private investments such as hard assets (energy, private real estate, and timber), non-US private equity & venture capital, US private equity, and US venture capital.

A number of factors contribute to private investments' role as a key driver of superior long-term performance. Time frame is perhaps the most important. By focusing on a lengthier time horizon, private investors can focus solely on advancing the ongoing success of the company for the benefit of its investors. Unlike public companies that face shareholder scrutiny over hitting quarterly numbers, private companies do not manage to short-term targets at the potential expense of creating long-term value.

"All things being equal, a better-capitalized company and a better-run company is going to outperform one that is less so," explains Jeff Mansukhani, Managing Director and private investment specialist at Cambridge Associates. "A good, smart private equity investor should, in theory, help optimize both the structure and the performance of the company to generate premium returns."

But private performance can vary dramatically. With return differentials of more than 500 basis

Jeff Mansukhani
Managing Director

> *“Of the top ten funds for each vintage year, 86% were happy to accept new capital from investors.”*

points between median and top-quartile private investment performers, good fund selection can mean the difference between trailing and significantly surpassing public equity returns. So how does an investor find the top funds?

The Access Myth

While many investors equate “access constrained” to “top performing,” quantitative data debunk the assumption that access-constrained managers are the best performers, says Mansukhani. “If you look at the top-performing funds across the last decade, you quickly realize that ‘access constrained’ or popularity are not correlated to performance,” observes Mansukhani.

Indeed, a close analysis of the ten top-performing funds from 2003 to 2010 in hard assets, non-US private equity & venture capital, US private equity, and US venture capital in Cambridge Associates’ proprietary private investment database shows that access was not an issue for top funds.

“Of the top ten funds for each vintage year, 86% of those managers were happy to accept new capital from investors. In other words, only 14% of the top ten managers in those vintage years were difficult to access. In some sub-sectors less than 10% of the best funds were difficult to access,” says Mansukhani.

Not only did being access constrained not lead to top-ten performance, it did not even guarantee above-median returns. In hard assets, non-US private equity, and US private equity, CA’s analysis shows that an investor’s likelihood of being in the top two quartiles was only 1% to 3% greater by investing with a fund that was access constrained. “In fact,” says Mansukhani, “investors were nearly as likely to be in either the third or fourth quartile with access-constrained managers, and in US buyouts they were better off avoiding such managers.”

Venture capital proved to be the only exception, with investors having a 58% chance of landing in the top two quartiles with access-constrained

Are Private Investments Just for Large Investors?

TOP INVESTORS CONTINUE to invest in private investments for the expected return premium and diversification benefits. For some, private investments create access to companies, investments, or countries that they might not otherwise be able to access through another equity or debt vehicle.

But can investors of all sizes enjoy the long-term return benefits that private investments offer? “Private investments are absolutely available and accessible to investors of all sizes,” says Jeff Mansukhani, Managing Director and private investment specialist at Cambridge Associates.

In fact, many private funds are better suited for smaller investors than larger ones. For example, a lower-middle-market buyout fund, defined as $250 million to $500 million, is typically viewed as an administrative burden to a very large investor with a minimum investment size that might be considered too large for the fund to absorb. Smaller investors, however, are able to invest with these smaller, nimbler managers.

And historically the outsized returns have come from those smaller funds. “At the fund level, there are many examples of these small pools of capital returning four, five, and six times,” Mansukhani says. “You would be hard pressed to find examples of mega funds returning those multiples.”

managers. Mansukhani attributes the persistence of returns in venture capital to well-known managers having the ability to attract the best deal flow and entrepreneurs. “Confident entrepreneurs with the hottest companies willingly accept lower valuations from elite venture capital managers because they believe the caché, networks, and reputation of certain firms compensate for lower valuations,” he explains. “If an entrepreneur thinks he or she has the next Google, a slightly lower valuation is viewed as a small concession when presented with the opportunity to partner with a handful of highly coveted venture firms. We do not see this as often in the buyout space.”

If access-constrained managers are not driving returns in private investments, why are investors so focused on getting access to them? There are several reasons, explains Mansukhani. Prior performance is one. Many investors expect that strong performance in years past will continue in subsequent funds. With this hypothesis, Mansukhani and his team looked at 20 years of data to analyze performance of current access-constrained funds plus the prior fund that was raised by each access-constrained manager. The team surmised that access-constrained status was earned in large part by performance of a prior fund. Including the previous fund in the analysis arguably gave an advantage to the access-constrained manager when compared to the broad universe.

Once again, only in venture capital did the access-constrained managers have a slight edge, but not as much as expected. “Access-constrained managers were more likely to avoid losses and return one to two times invested capital compared to accessible managers,” says Mansukhani. “But investors were just as likely to earn a five times or better return, or a homerun, with a random fund as they were with an access-constrained fund.”

Another reason is reputation. Investors often vie for access to funds with a highly visible managing partner or a prior headline-grabbing deal. Many investors target managers that are oversubscribed

The Best Funds Are More Accessible Than Many Believe

Source: Cambridge Associates LLC. Methodology: Initially, the top 10 funds from each vintage year 2003 to 2010 were selected for each asset class. Top 10 funds for each vintage year were determined by IRR ranking as of September 30, 2013, according to CA’s database. The funds for each asset class were given a rating for how open they were likely to be in accepting new LPs. Accessibility was based on CA’s assessment during fund raising of the likelihood of new investors gaining access to each fund. Funds without an accessibility rating were excluded from the analysis. Resulting number of funds included in the analysis: US VC: 74; US PE: 72; Hard Assets: 71; and Non-US PE and VC: 66. Vintage years since 2010 were not included due to their immaturity.

and enjoy the perception of quality simply because they are difficult to access. "Investors with limited time and resources, faced with thousands of global opportunities, understandably default to targeting well-known popular firms. But every firm has a natural life cycle. Investing with yesterday's winner and making decisions based on industry demand may result in suboptimal performance," observes Mansukhani.

Is all this to say investors should avoid access-constrained managers? No, insists Mansukhani. But popularity should be secondary to conducting thorough manager due diligence and laying the groundwork to find and vet the top-performing managers and funds.

"You are looking for tomorrow's top performers, not yesterday's."

Finding the Winners

How then do investors identify the best opportunities for success in private investments if access is not an effective yardstick? While investing in appropriate vintage years and in undervalued sectors are important components of success, Mansukhani asserts that the team and the organization are what investors most need to get right. "A great team can take something very average and make it great. A bad team can take something great and ruin it," he says.

While investors often look for repeatable performance patterns, they should not assume that past success will survive into the future. Mansukhani reminds investors that there is no obligation to continue investing in new funds raised by managers already in their portfolio. He emphasizes the importance of reviewing the size, team, strategy, and sector decisions of the new fund before making an investment decision. The due diligence process, he suggests, begins from scratch on each new fund.

And while past performance is a key consideration, how the general partner drove that performance is what is paramount. "Let's assume a particular fund was top quartile and very difficult to access with its prior two funds that were $500 million," explains Mansukhani. "Now the team is in the market raising $1.5 billion, one of the partners who created a lot of value in the prior fund just left, and they have announced the intent to invest in two new sectors. They have tripled in size, and now they have to write bigger checks, interact with new intermediaries, and invest in companies that are very different from when they achieved top-quartile performance. That fund will likely be access constrained, but it is very different than the prior funds that helped establish the firm's reputation."

Investors should re-underwrite every fund, directing due diligence efforts on a variety of key questions for each new offering. Do the fund terms show that my interests are aligned with those of the general partners? Is this team hungry? Is it cohesive? Does its strategy make sense for the chosen sector? Does the team collectively have an edge to outperform the market and find the best opportunities?

Doing the legwork to identify the top-performing managers takes both time and resources. With the sheer volume of funds in the market and the now global nature of the opportunity set, investors need to allocate a significant amount of time to fund due diligence if they want to invest in the private investment space. Says Mansukhani, "In private equity, investors need to engage in thorough and comprehensive underwriting for each fund. There are material inflection points associated with private investment firms; these are defined as 'fund raising.' Unlike in other asset classes, you only have the opportunity to make an investment decision every three or four years in the private space. So your decision should be made without concern for whether or not a manager is access constrained or popular. You are looking for tomorrow's top performers, not yesterday's."

Cambridge Conversations

David Jallits

Head of Global Investment Research

BY KRISTA MATTHEWS

In this multi-part series, CA Perspectives *speaks with a member of the firm's leadership to discover what's new and learn more about what to expect going forward.*

Tell us about your background before you joined Cambridge.

Before joining Cambridge Associates, I managed money for 25 years. Over that time, I led a proprietary trading group inside a large commercial bank, managed several billion dollars at a mutual fund complex, and eventually managed a $4 billion global macro hedge fund for 12 years. To show how times have changed, my fund started with just $4 million in AUM. That would be a non-starter today. I eventually retired from managing money and was excited to have the opportunity to join Cambridge Associates in 2007 after a year-long "sabbatical."

How does your background as a money manager influence your philosophy on manager research? What's the biggest lesson you've kept with you as your career has evolved?

I've always believed that managing other people's money is a privilege. Today I believe that attitude needs to be top-of-mind for the managers we recommend to our clients. Part of our job is to ascertain where managers are in their professional "life cycle": their focus, their drive, and their alignment of interests with our clients. This can all clearly impact how they manage their funds and their firms. If we believe a manager no longer appreciates the privilege he or she has been afforded, we will discuss priorities with that manager. It is, of course, also important that managers be good business partners with us in terms of access and transparency, and we must have the utmost confidence in their operational and compliance capabilities.

The biggest lesson I took from managing money is that there's no single way for an investment manager to be successful. Managers need to be consistent in the way they approach investing, but you can't drop every manager into the same template. You've got to be open to and understand different approaches, whether it's their use of leverage, momentum, value investing, and so on. As researchers, we have to know how to judge these different ways of managing money, have a deep understanding of them both quantitatively and qualitatively, and then know how best to fit them together in a portfolio on behalf of our clients.

How is Global Investment Research structured?

Global Investment Research includes Investment Manager Research and Capital Markets Research. We brought the two groups together to ensure that our market research ideas can be implemented by the managers we select and to make sure we have appropriate context for our manager decisions. We have seasoned individuals who oversee each investment asset class in both Investment Manager Research and Capital Markets Research. We also have a dedicated Business Risk Management team that conducts operational due diligence and a robust operations team that supports us. The broader leadership team that works with me, and the experience and industry reputations they possess, are invaluable and critical to our success.

“Our job is to identify the best investment opportunities and drive client capital toward them.”

What is the primary focus of your team?

Our job is to identify the best investment opportunities and managers for our clients and to drive client capital toward them. We also strive to be thought provoking and show a willingness to raise investment issues that we believe our clients and colleagues should be considering. We hope to be a serious input into a world where, to be successful, you need to think for yourself rather than follow the herd.

Our due diligence is deep and ongoing, and we ask ourselves a number of questions regarding the managers we recommend. Are the managers focused on performance? Can they generate that performance on behalf of our clients in a way that is repeatable, understandable, and transparent to the research team? Is the team's skill set right for the strategy? Do they follow their stated strategy? Is their infrastructure robust and stable?

How does that differ from other research organizations doing similar work?

Two things differentiate us. One is simply the amount of time we've been in this space. We have people who have been focused on researching one specific asset class for decades. That's hard to replicate. It quite literally takes time. It goes beyond just having a database. It's the human, personal relationships that we have with managers, the historical knowledge that is incredibly valuable.

Second, we focus on making sure that the managers we recommend to our clients are truly Research's best ideas today. Not from ten years ago, or five years ago, or three years ago. Today. We certainly don't advocate flipping managers. You need to have some patience because people go through down performance cycles, but it's crucial to understand why it's occurring. Are the changes simply cyclical, or is it because of style drift, personnel turnover, or a lack of focus?

It's easy for research firms to get comfortable with larger, safer opportunities that performed strongly when they first appeared or are what investors would consider “blue chip” options. But we are constantly looking at managers and assessing whether we would “rebuy” them today.

How does Global Investment Research fit into the broader Cambridge Associates organization? What do you see as the role of the team for both investment teams and clients?

Cambridge was founded as a research organization. It is the heart of the firm. To put it into musical terms, Research is the drummer in the band. We set the tempo but we are not a band in and of ourselves. We are most successful for our clients when we are tightly integrated with the investment teams that serve our clients. We work collectively, and in sync, to cover current managers, unearth new managers, produce relevant research, and help deploy capital appropriately to drive client returns. Research will continue to play a large and growing part in driving Cambridge Associates forward.

In terms of partnering with clients and colleagues, we have always played a role in working directly with clients when asked to discuss managers or the investing environment and in helping colleagues think through issues of manager selection and portfolio construction. Research will continue to deepen and solidify those relationships as we go forward.

How does your team uncover new ideas for consideration? What are the most common sources of new ideas?

New ideas for Investment Manager Research or Capital Markets Research come from our networks, our clients, our colleagues, and our own experiences as individuals and as a research organization. One of our greatest strengths is our clients. If we listen to what they need and are thoughtful about intelligently fulfilling those needs, we will be in great position to help drive their portfolio performance. We are enormously appreciative of our client base, and what we hope is the reciprocal role we play in making each other better.

Also, given the reputation we have in the marketplace, we tend to see virtually all new fund launches. Given our extensive database and the history we have with most firms, Research is capable of quickly evaluating spin-outs from established firms and continues to be one of the first calls emerging and established managers make when looking to raise capital.

What is the balance between researching proven managers versus uncovering new, emerging ideas? How does the team allocate its time to each? What is your philosophy for investing in newer, less-proven managers?

Clients have been asking for "new" and "emerging" managers since the earth cooled. Today, Research spends roughly 30% of its time looking for "new" managers that may be additive to our client base. I am a believer in placing emerging managers in portfolios, having been one myself years ago. But I do believe that clients must know exactly what they seek and what they are willing to forgo if they wish to invest with these managers.

For our part, Research is continually searching for new managers while also ensuring they are of institutional quality. Generally speaking, many clients insist on both a track record and robust infrastructure, even for "emerging" managers. Here, the focus shifts from the pure security selection skill of the manager to how they manage their business. I think many people underestimate how difficult it is to run an investment business, especially with all of the regulations we have today. Clients have, rightfully so, become more concerned about managers' infrastructure, compliance procedures, etc. This tension between finding "emerging" managers that have both a track record and a robust infrastructure system in place is one we have to be cognizant of and address as best we can.

David Jallits
Head of Global Investment Research

Is that why operational due diligence is so important to the manager due diligence process?

Yes. The business risk management unit has an implicit veto over any manager that we would consider allocating capital to on behalf of our clients. If this team believes a manager's business operations are simply not institutional quality, we're not going to recommend that manager. A manager must be strong both in terms of portfolio construction skills and infrastructure for us to have comfort in recommending an investment in that manager's fund.

Note: Given that we make customized recommendations to each client based on that client's individual investment goals, circumstances, and risk tolerance, CA's investment directors may rely on their own research in making recommendations, and may recommend investments that have not undergone the full due diligence process and may not be subject to ongoing monitoring.

"We will test old beliefs and be thought leaders for our clients and colleagues alike."

How do your high-conviction ideas get shared for inclusion in client portfolios? Where is the link between ideas and implementation?

Research shares our high conviction ideas internally for our investment team to use as a resource when they consider how best to build portfolios for our clients. We also often partner with our investment colleagues to discuss their clients' portfolio construction concerns and the broader macro investing environment.

Research also shares ideas with our colleagues through various internal research meetings where we discuss the investment and manager opportunity sets. The conversation between Research and our investment colleagues is ongoing and only getting stronger as time goes by.

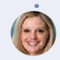
What should clients expect from CA's published research?

Our clients should expect research papers of varying lengths that are topical, timely, and directive. Our publications will continue to "stir the pot" in driving conversations and debates on investment topics to ensure our clients have a full perspective on what we consider to be the major investing issues of the day. We will test old beliefs and be thought leaders for our clients and colleagues alike. One of our goals for 2015 is to broaden the ease with which our clients can acquire CA research regardless of their platform, such as laptops, tablets, or phones.

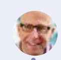
What do you consider the most important measure of your team's success?

In the end, client performance is all that matters to me. We need to make sure we work closely with our investment colleagues to drive client capital to Research's best ideas. Today, not every colleague can meet every manager globally prior to placing the fund in client portfolios. Research knows we have to lead on this front, and we are willing to be judged on our manager selection skills. To state the obvious, the world is becoming more global and large pools of capital are moving faster. That means opportunities and managers are closing more quickly than in the past. We need to make sure Global Investment Research and Global Investment Services are closely coordinated to ensure we drive client performance to the best of our ability. ■

Catching Up with David Jallits



What was the last good book you read?



The Wisdom of Psychopaths: What Saints, Spies, and Serial Killers Can Teach Us About Success by Kevin Dutton. It explains how certain tendencies found in psychopaths are found in many of us, with the differences registered only in degrees.

Most likely place to run into you when you're not at work?

Probably the gym. Ideally, a gym with a bar.

Favorite musician?

Eric Clapton, without a doubt. I have travelled whenever I could to see him perform.

Ideal vacation?

A good mix of quiet time, physical activity, and reading.

Alternate profession?

I honestly cannot imagine wanting to work in another field. I love the markets and the energy they bring to my life.

Leading With Heart

CA Perspectives sat down with the president and the executive director of The Fondation Leducq, Martin Landaluce and David Tancredi, to talk about its mission and the work it supports.

BY KRISTA MATTHEWS

How did you begin working for The Fondation Leducq?

MARTIN: Jean and Sylviane Leducq were lifelong friends of my parents, so I was very close to them since I was born. In the late 1990s when they decided to sell their global linen supply business, they asked me to help them develop this foundation. It's been my only professional job, and I hope the only one that I will ever have.

DAVID: I am from Rochester, Minnesota, where the Mayo Clinic is located. In the early 1970s, Jean Leducq came to the Mayo Clinic, after suffering a mild heart attack in France, to get a bypass operation. My father was his cardiologist, and my family formed a lasting friendship with Jean and Sylviane. Jean Leducq asked me to become involved in the foundation just as I was completing both my training in emergency medicine and my PhD work in medical anthropology.

How did The Fondation Leducq originate?

MARTIN: Originally, Jean and Sylviane wanted to build a hospital in Paris inspired by the Mayo Clinic. But, unfortunately, there were some unexpected external pressures that prevented them from implementing their idea. David and two other doctors who were close to Jean, Dr. Robert Wallace and Dr. Robert Frye, came up with the idea of funding research in cardiovascular disease.

DAVID: We thought it would be something unique and in keeping with the spirit of what Jean and Sylviane wanted to do with their money. The advisory board then developed the idea of creating The Transatlantic Networks of Excellence. That program was actually developed and implemented by the foundation under Sylviane's leadership after Jean passed away.

Tell me more about the Scientific Advisory Committee and the Transatlantic Networks of Excellence.

DAVID: The Scientific Advisory Committee consists of seven experts from North America and seven from Europe. Dr. Robert Wallace, the surgeon who performed the bypass operation on Jean Leducq in the 1970s, served as the first president of the Committee. This group decided that the best way to maximize the impact of foundation dollars was to fund collaborative research at the international level. Each network is run by a team of two coordinators: one from North America and one from Europe. Taking advantage of what each side offers, the researchers in the network can ideally do more together than they can do individually. For example, Denmark has tremendous data records on patients that have sought care. The United States has outstanding infrastructure and equipment. You can see how both would be incredibly helpful when conducting sophisticated research. So far, we have provided grants to 43 networks, representing 400+ researchers in 20 countries.

MARTIN: The spirit of the foundation, the transatlantic cooperation, really reflects the life of the Leducqs. They spent a lot of time between the United States and Europe developing their company. And they wanted their foundation to reflect that global life that they lived.

What are some examples of the research you've seen that you are excited about?

DAVID: The foundation supported some of the earliest work in stem cell research. We have also supported some interesting work around genetic links in heart arrhythmia. Another interesting project looks at the ways that a simple intervention like inflating a blood pressure cuff on the arm of patients having a heart attack or stroke can protect them from greater damage. Of course, these are just a few of the many incredible projects that our researchers are developing. There's a lot of really high-quality research out there to support.

MARTIN: I'm especially excited about the work we are doing around electrophysiology and arrhythmia. It's something that has affected my family, so I'm personally very interested in it.

What does The Fondation Leducq's staff look like?

MARTIN: We are quite a streamlined organization, but we are very pleased with our size. We feel that it's our duty to focus the money on funding more research instead of growing a bigger organization. In many ways, we can do that because of Cambridge Associates and what they do to help us manage our endowment.

DAVID: Putting together the right people for the Scientific Advisory Committee has made a huge difference for us as well. The expertise and commitment from our committee members, who volunteer their time to the foundation, have allowed us to continue to fulfill our mission with very few employees.

Tell us about your portfolio. How has it evolved?

DAVID: In the foundation's early days, the Leducqs managed the endowment through balanced mandates that they gave to major banks. At the end of 1999 and early 2000, when the bubble collapsed, it was quite catastrophic for the endowment. Around that time, we heard about Cambridge Associates through some good friends of the Leducqs who were also involved in philanthropy.

MARTIN: Jean was very clear that he did not want to lose the money in light of the bad experiences that they had in the past. So the portfolio was very conservative, with a high percentage of fixed income, a little bit of equity, and a significant amount in absolute return hedge funds.

When Jean passed away in 2002, Cambridge began to educate us. We started to learn about the importance of focusing on the long term. We added other asset classes little by little and reshaped a big portion of the asset allocation toward a more growth-oriented portfolio. Sylviane began to understand that to have growth, you have to accept some losses in certain periods of time. Now we feel we are more in line with other foundations, with meaningful allocations to equities and private investments.

You also began a venture philanthropy program, Broadview Ventures, to complement the foundation. Tell us more about that.

DAVID: People began asking the foundation to invest in early-stage technology that grew out of completed research projects. We were already asking ourselves how we would get the foundation's research to the next stage. We created Broadview Ventures in 2006–07 to invest in early-stage technology in cardiovascular disease and neurovascular disease. Any profits we make on these investments go directly back into further investments or into the endowment for grant-making. Clearly the development of pharmaceutical products has an extremely long time frame. But we have invested in some really fascinating products, and we hope that in time many of them will be success stories for the foundation.

MARTIN: This was another important development for the foundation that happened under Sylviane's leadership. She was really passionate about it. To her, it was a very attractive venture because Broadview's work is a bit easier for non-scientific people to understand than the basic research that the foundation is participating in.

What are you most proud of at The Fondation Leducq?

DAVID: The collaboration that the foundation fosters, both with the projects themselves and with the committee that helps select the grant recipients, has worked well. We are really starting to see the impact from The Fondation Leducq's research. Translating research into technology that benefits patients requires a long and slow process, but I think we're on the right track. And Broadview has been instrumental to that and will continue to be. I think the foundation can be proud of all of that.

MARTIN: Our foundation is not well known by the general public, but it is very well known at the scientific level. With the level of excellence we are achieving, with thanks to the work done by the Scientific Advisory Committee, getting a grant from our foundation is really a recognition of the highest achievement for this kind of research. It is a real honor to preside over a foundation that is receiving such a high level of acknowledgment from the scientific world. ■

Remembering a Matriarch

MADAME SYLVIANE LEDUCQ passed away in December 2013. Her friends and colleagues reflect on her remarkable legacy.

Martin Landaluce, President of The Fondation Leducq: *Sylviane was a real gem. She and Jean made a perfect match. Jean was larger than life, never resting, always thinking about the next project. Sylviane brought a calm and balance to the Leducqs' very hectic life. That was very important and really one of the main reasons the foundation is here today. Sylviane had a way of touching everyone. She wanted those who worked for her to know that she understood and appreciated their efforts, from the workers in the fields at her vineyard to the researchers who were given grants for research. She was so well respected by everyone who knew her.*

David Tancredi, Executive Director of The Fondation Leducq: *Sylviane was charming, elegant, and disarmingly witty. She had a way of making everyone feel at ease the moment you met her. When Jean passed away in 2002, Sylviane became head of the foundation. She really had no training or management experience, but she did have an uncommon amount of common sense. She became the unsung hero of the foundation; it was really on her watch that the foundation took the shape that it currently has. She was the kind of person that I was proud to work for, an outstanding leader who had her leadership thrust upon her.*

Jim Bailey, Co-Founder of Cambridge Associates: *Sylviane was a truly exceptional person; elegant, self-effacing, charming, smart. She was able to help Jean make good decisions on important issues when no one else could. With little background in economics or business, she became a savvy investor who was analytical; inquisitive; careful; and supportive of the long-term, value oriented way of investing. Her legacy with the foundation will live forever.*

Understanding Currency Risk: A European Family Perspective

BY PAUL LOMBINO

CURRENCY RISK is a fact of life for European families. Today even the simplest diversified portfolios include foreign currency exposures. Many investors find it tempting to ignore currency risk, believing that it will all "even out in the end." But this is not an option for most families who need to draw down funds from the portfolio to meet distributions to beneficiaries. Even for families with no current spending needs, it is still prudent to manage the portfolio's currency exposures in line with its likely long-term liabilities. "Significant currency risk needs to be managed actively. Families should set policy targets for currency exposures in the same way they set targets for asset class exposures," says Chris Ivey, European Head of Private Wealth at CA.

Defining what "currency risk" means to each family is important. The family's home currency will be a determining factor. A Switzerland-based family thinking and spending predominantly in Swiss francs will likely think very differently about currency risk than a UK-based family. And a family with members who constantly travel to or live on different continents is likely to have a completely different perspective.


Naomi Friend
Managing Director

Families should start by understanding their unique dynamics and mapping out their liabilities by currency. "Currency risk is the exposure in a family's portfolio that does not match its current spending needs and longer-term liabilities," explains Naomi Friend, a Managing Director in CA's London-based private wealth practice.

Once a family has mapped out its current spending and/or longer-term liabilities, it should adopt a formal currency policy, Ivey says. For a family with a home-currency bias to the euro, an appropriate policy might be 50% euros, 30% US dollars, and 20% other currencies. In contrast, a family who thinks and spends globally might adopt a more diversified basket of currencies as a target.

Next it is useful to understand the currency risk embedded in the family's portfolio, Friend explains. This requires identifying the currency exposure of the underlying assets, which can be quite a task. "The more you dig into it, the more you realize it is an inexact science," says Friend. "Sometimes broad brush assumptions need to be made."

Understanding Currency Risk and Return

When looking at the risk and return profiles of different currencies, Friend and Ivey suggest keeping two key points in mind. One, currencies exhibit a risk premium. This is characterized by the "carry trade." To benefit, an investor will borrow a low interest rate currency and deposit in a higher-yielding currency to profit from the difference. Two, some currencies are correlated to risky assets.

"Higher-yielding currencies, such as the South African rand, tend to behave like other risky assets," says Ivey. "We call these currencies 'pro-cyclical.' The opposite tends to be true for low-yielding currencies. Safe-haven currencies like the US dollar or Swiss franc tend to appreciate when market volatility rises."

If a family's home currency is a low-return/low-risk currency and its portfolio is naturally exposed to high-return/high-risk currencies, the family should consider if it is worth the cost of carry, or the differential between the interest rates, to hedge back these currencies, suggests Ivey. If a family's home currency is a high-return/high-risk currency and its portfolio is naturally exposed to low-return/low-risk currencies, the family might consider hedging back more of this exposure than otherwise.

Managing the Risk

Friend says in the past families tended to manage currency risk by investing in assets with the same currency profile as the families' spending or long-term liabilities. "Traditionally many European investors would invest predominantly in home-country equities and bonds to minimize any mismatch. Any overseas investments would be seen as 'diversification,' and the foreign currency exposure would form part of this diversification. As the world has become more global, European investors have tended to invest more globally. For a portfolio with global bonds, global equities, hedge funds, and private investments, US dollar exposure has increased markedly."

While some European family investors see this additional US dollar exposure as a risk, says Friend, others might like the US dollar exposure, seeing it as a "safe-haven" currency that will diversify overall portfolio risk when markets are very volatile. "We experienced this in 2008. When markets headed south and sterling nosedived, having unhedged US dollar assets provided a useful counterweight in the portfolio," says Friend.

Hedging Currency Exposure

For families who want to preserve the underlying exposures of the portfolio but have a significant mismatch between exposures and liabilities, considering currency hedging makes sense, suggests Ivey. There are a number of ways to change the currency exposure of your family's portfolio. Two of the most popular include using hedged share classes and currency forwards.


Chris Ivey
European Head of Private Wealth Practice

The easiest way to hedge your unwanted foreign currency exposure is to invest in vehicles with hedged share classes, says Ivey. These are commonly available for most major currencies, particularly for global bond funds. "The main advantage of this approach is the operational simplicity for the family. The disadvantage of this approach is that it can be more costly," says Ivey.

If the appropriate hedged share classes are not available, or the family has significant assets to hedge and/or complex requirements, the family should consider hedging the assets directly, explains Friend. This is often achieved through currency forwards. Families who choose this strategy must understand the liquidity requirements if currencies move against them. Modeling can help with this, Ivey suggests. "Scenario testing is a useful way of seeing how much liquidity might be required before it happens," he explains.

Whatever path a family chooses for managing currency risk, it is safe to say that the factors to consider are complex. "Every family is different and currency movements are difficult to predict," says Friend. "Thinking about currency is complicated. Families need to consider all the factors. If a family office lacks the expertise to think through these matters internally, it is important to seek specialist advice."

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Florence, Italy will provide the backdrop for CA's 12th Global Investment Workshop, held April 12–15, 2015. Attendees will explore the current state of capital market development in Europe and review the opportunity set developing in frontier markets within the broader region. Capacity is limited and seats are reserved on a first-come, first-served basis. A link to register for the event, and additional information, is available once you log on to the CA website, www.cambridgeassociates.com. Please contact Kristen Luongo, kluongo@cambridgeassociates.com, with any questions.

See Us at SuperInvestor Asia 2015

Two CA private investment specialists will participate in the 3rd annual SuperInvestor Asia conference organized by the International Centre for Business Information. Audrey The is featured as a keynote speaker and moderator. Vish Ramaswami will serve as a panelist. SuperInvestor Asia will take place February 2–4 at the Grand Hyatt Hotel in Singapore. For more information on how to register for the event, visit http://www.superinvestorasia.com.

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