Emerging Manager monthly

A Publication of Financial Investment News

April 2013 www.emergingmanagermonthly.com Vol. VIII, Issue 4

PreserverPartners Uses Diversification For Returns, Risk Aversion

As a former consultant and director of manager research, Floyd Tyler of PreserverPartners understands the issues institutional investors face attempting to identify and capitalize on less correlated opportunities in the marketplace in order to generate sufficient returns while placing a renewed effort on risk aversion.

"I felt like typical fund-of-hedge funds weren't the solution to generating equity-like returns and low risk due to high fees and correlated investments," said Tyler, president of the firm, which he founded in 2009 after leaving consultant Gerber/Taylor Associates, adding that a 60% equity, 40% fixed-income approach also wasn't the answer given its volatility and dependence on equities. "Neither one of those could return the consistent equity-like return streams we were after."

In launching Memphis-based PreserverPartners, Tyler looked to bring a differentiated, multi-asset product to the market that would focus on thoughtful diversification, attractive absolute returns, 6% to 8% income generation and liquidity.

"We have to have strategies that have different betas to be truly diversified," he said. "To generate a more stable, yet attractive return profile, you have to have assets in these different buckets, focus on niches and market dislocations and make income a more important part of the portfolio."

The firm's hybrid fund, which reached its three-year track record at the start of April, allocates 75% of investors' capital in external funds and uses the remaining 25% to make opportunistic direct investments.

Floyd said that Preserver takes an active role in generating its returns.

"We start from the standpoint of where can we find attractive loss adjusted yields," he said. "We are going to go where the yields are." The fund's current yield is 7.8%.

The four buckets the firm focuses on are equities, which includes long-only, long/short and preferred; opportunistic fixed-income, which includes bank loans, high-yield, distressed municipals, closed-end funds and RMBS; real estate, which includes REITs, CMBS and small balance commercial loans; and alternative income, which includes structured credit, loan participations and other niche strategies that don't neatly fit into the other buckets.

The process involves identifying attractive asset classes and investment strategies, selecting a thesis-appropriate investment vehicle and choosing a single manager to execute the strategy.

He said the manager research process begins by gathering information from the manager on the investment processes and their team before holding a series of conference calls that look to ask different sets of questions of different people of the firm to construct a due diligence mosaic.

If PreserverPartners is comfortable with the firm, people and investment strategy, it will then conduct an on-site visit that will focus on operational due diligence. From there, the team will do a write-up on the firm and strategy that will be reviewed prior to deciding whether to make an allocation.

The portfolio is very focused, with 10 to 15 different managers held in the portfolio. "We don't think you can consistently outperform and have high conviction if you over diversify," he said. "We are striving to have at least 5% manager allocations in our portfolio and no manager more than 10% of the portfolio." The portfolio offers quarterly liquidity to its investors.

In managing the portfolio risk, the firm manages strategy betas and runs correlation and volatility analyses on the underlying strategies and the portfolio each month to determine how the various strategies are working alongside each other. Since its April 2010 inception, Preserver has annualized at 7.5% vs. 1.8% for the HFR Fund of Funds Index.

The portion of the fund that is invested directly allows the firm to opportunistically capitalize on market inefficiencies and dislocations, Tyler said. "Almost every month, there is some dislocation that we see and have the advantage to act fast and grab," he explained.

The firm started out with primarily high-net-worth assets but has added five institutional investors over the past year, including the Memphis Light, Gas and Water Division, Memphis Area Transit Authority, Hope Christian Community Foundation and Methodist Healthcare.

Christina Bennett, managing director of marketing at the firm, said the initial target market will be funds in the Midwest and the South.

"We are starting to reach out to consultants. We are going to talk to them, those that have smaller clients and those that are willing to look at different ideas," she said.

Tyler said he has seen the strategy appeal to smaller institutions that are looking for alternative-like exposure but don't want to be bogged down with making a lot of investment decisions. "We are a little hard to classify for some, but we think that is the attractiveness of what we do," he said.

The firm is also launching a long-bias equity fund, Preserver Value Opportunities Fund, in response to client demand. The fund will invest in the best multi-cap equity ideas from the multi-asset fund portfolio, Tyler said.