

# WEALTH MANAGER W.M.

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SPECIAL PUBLICATION  
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path to recovery?



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**PAUL  
SEDGWICK**

## PROFILE: PAUL SEDGWICK

**JAMES PHILLIPPS**

jphillipps@citywire.co.uk

**T**he *Wolf of Wall Street* has distorted many people's view of life in the City. While there no doubt were plenty of wheeler-dealer types looking to make a fast buck, Frank Investments' Paul Sedgwick, who had a long and distinguished career in the Square Mile, says most brokers operated with an integrity not depicted in the film.

'The City was fun in the 1980s,' he recalls. 'I got asked to do a talk at my daughter's school about life in the City and the first question I was asked was if it was like *The Wolf of Wall Street*. In the film, we are talking about a boiler room and I have no experience of that.'

'When I started out you had no compliance departments and you regulated yourself. Your word is your bond was the standard we worked to.'

'When I started working on the floor of the London Stock Exchange as a jobber you had to get to the brokers as quickly as possible, but you weren't allowed to run. I once accidentally bumped into a senior partner and kept going to complete my job. It was pointed out to me and I

had to find him later and apologise. You were very much judged on the way you behaved.'

'If you damage your reputation it does get around very quickly.'

It is probably no surprise that Sedgwick ended up in the City. His father Peter was a fund manager at Schrodgers before going on to lead the firm, first as chief executive, and then as chairman

before retiring. From an early age Sedgwick remembers his father coming home from work and explaining to him about the stocks he had bought. He believes this gave him a good grounding in the art of investing.

In his first interview, he recalls that the firm's boss 'took a bit of a bit of flyer' hiring him. Although his qualifications were 'reasonable', they were not 'outstanding'. Sedgwick stresses it was much more of a people business back in the day but he repaid Ackroyd & Smithers' faith in him, starting out as a jobber before being made a member of the Stock Exchange in 1985.

Big Bang rang in the changes the following year, but also provided Sedgwick with the opportunity to broaden his skill-set.

'When Big Bang came along a lot of the traders at the time thought research departments were full of people studying stocks and shares but didn't know what drove them,' he says.

'I actually thought they were a great resource and worked closely with them. I went out and met companies with them and it was a whole area that I had not been exposed to earlier in my career.'

'It made a big difference; it made me seem as someone who not only traded stocks but knew and understood the companies. This meant they were comfortable with me running a lot more money.'

In the early 1990s he moved to the first principal

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## PROFILE

PAUL SEDGWICK'S  
INVESTMENT OUTLOOK

Equity markets continue to trade with no real sense of direction. Not that many will shed a tear, but it must be tough times for investment managers and investment banks. The lack of volatility in assets classes is very noticeable.

The FTSE 100 currently stands in the middle of a trading range it has been in for the past year. The S&P 500 at 1,850 is within 1-2% of where it has been since last November, with the exception of the dip at the start of February.

Likewise, the US dollar basket has traded in a tight range for nearly six months; the eurodollar rate is almost exactly where it started the year. Commodity prices have risen modestly, the Reuters commodity basket up just over 5% so far this year, in line with what the gold price has done. Meanwhile, 10-year US Treasury yields at 2.63% are again at the same level they were six months ago.

Maybe we will have a year of marking time, which may not be a bad thing. It will give markets time to consolidate the rise of the past few years.

This lack of volatility in asset prices will give corporates a stable background in which to work. If corporates can deliver a solid year of profit growth, valuations will start to look more attractive and the world will possibly be in a better place to prepare for when global interest rates do start to move higher.

We will soon be approaching 'sell in May and go away, come back on St Leger's Day' for equity markets. It will be a tough call for investors in the short term, as they balance the inconsistent economic data with the possibility of increased monetary stimulation from the likes of Japan, China and Europe.

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trading book of what was then SG Warburg, following a merger. He later had a stint at Schroders, before moving to Citibank where he set up the

company's principal trading desk and latterly managed its special situations team, and then switched over to HSBC.

During his time in the City, Sedgwick worked on a number of

landmark deals, including the float of what was then British Telecom and later BAE's sale of most of its stake in Orange back in 1998.

Although he speaks fondly of his time in investment banking, he actually set up Frank Investments in 2005 while he was still at Citi, with a view to developing the business over time.

'In 2011 I was very passionate about this, and less so about the City and the people in it,' he says.

'The main reason was because I was very keen to pass on the knowledge and experience I had gained. It was a jump, but I am fortunate I have had a great deal of experience and had the support of people like my father who'd been in the business and knew a number of people who wanted something like this.

'I thought it might be a good idea to formulate the infrastructure to facilitate this. After spending so long in investment banking, it was time for a new challenge.'

He established the firm, where he is head of investments, with his father and Paul Barry-Walsh, a serial entrepreneur, who has previously won the CNBC/FT European philanthropist of the year award.

Frank Investments describes itself as an educational consultancy that teaches individuals, families and small businesses about how to manage their money. Clients can either base their portfolios using the guidance they receive or choose to co-invest alongside Frank Investment's family portfolio, which was launched in 2009.

The latter is run on a managed account basis, which means the investment remains in the clients' own name and they can access it.

'They happily understand our philosophy and that equities have good times and bad times and this means they can better ride that out,' Sedgwick says. 'They are also encouraged that my money is invested alongside theirs and that I need to preserve that capital.'

The family portfolio, the Frank

Investments Total Return Balanced Portfolio, is run as a traditional balanced portfolio and benchmarked against the IMA's Mixed Investment 40-85% shares peer group.

At the end of March it had 73% in equities, with the remainder split 13% apiece between cash and bonds. It holds direct positions and invests globally, although the portfolio has a UK bias with 67% of the fund held domestically.

Fees are charged at 1.1% on the first £100,000, 1% on investments of £100,000-£500,000 and 0.9% on assets above this. These are flat fees, which include dealing and custody costs. Sedgwick says that the charges are kept competitive by the fact the company is run as a lean operation with just five members of staff.

He declines to disclose how much assets under management the firm runs, but says: 'It is growing faster than I expected. Performance has been good which has obviously been a big help. The markets have had a fair wind but within that we have done well.'

Indeed, since launch in September 2009 the fund is up 57.2% compared to the peer group's 38% average return, gross of fees, and last year it grew by 15.4% versus the sector's 14.5% rise.

Sedgwick is happy to maintain his current high level of equity exposure, saying that markets are fair value by historical standards.

Although he points to some froth in the market, particularly around a number of IPO float prices, he believes there are sufficient drivers in place to help fuel the next stage of the equity bull run, albeit it is likely to continue at a slower pace.

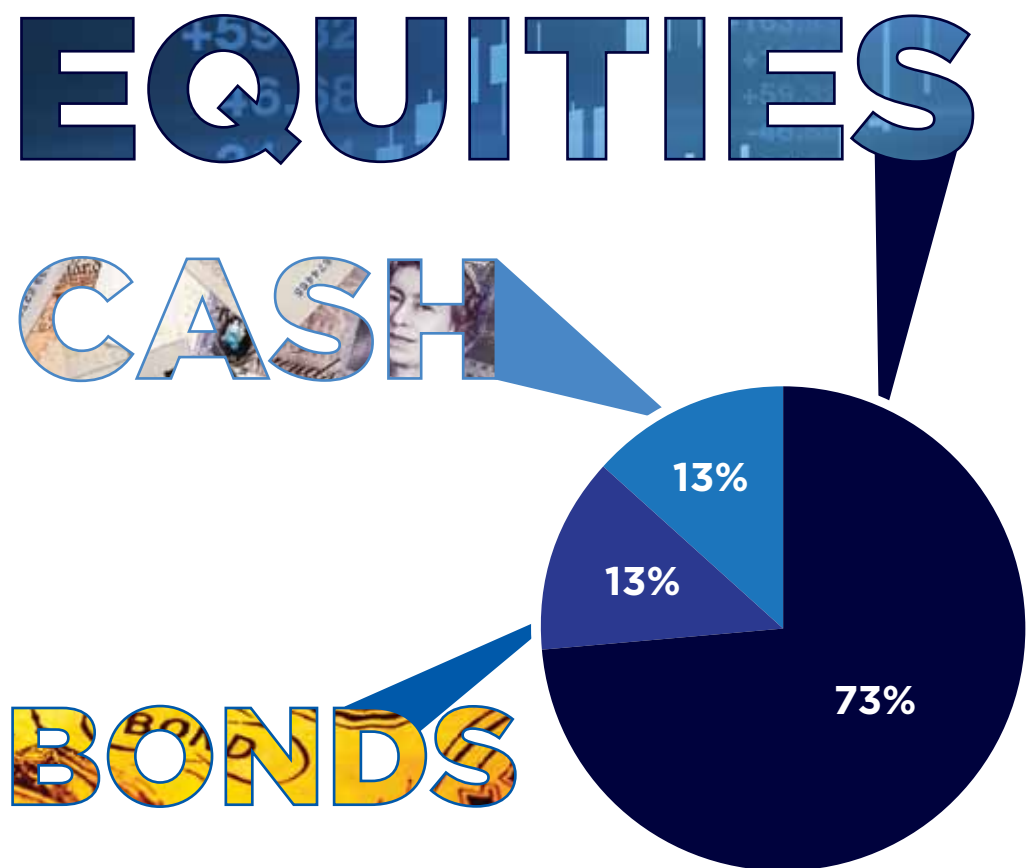
'My personal view is that we are going through this period of low inflation and low interest rates and they will stay lower for longer than people think,' he says.

'We are seeing a modest amount of growth which will be a reasonable backdrop for equities to rise in. People are still underinvested compared to where they have been and we will see more money move from bonds to equities,' he adds.

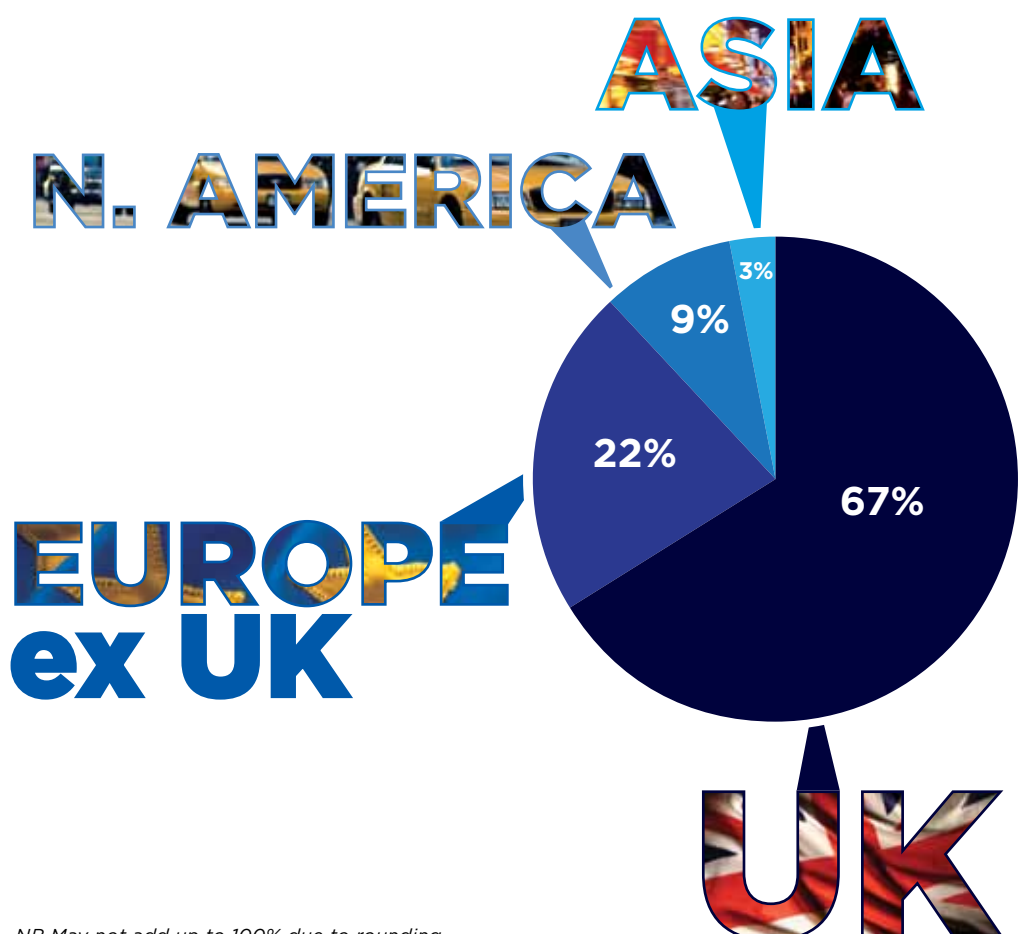
Although the numerous macro risks out there, such as the eurozone, China and Ukraine, will continue to spook investors periodically, he believes the equity risk premium is still relatively high.

What will test this in the short term is whether the much-vaunted earnings growth is evident in the upcoming reporting season, but Sedgwick remains confident that a focus on blue chip equities with solid balance sheets and global reach will ultimately continue to prove rewarding for investors over the long term.

Frank Investments Total Return Balanced Portfolio breakdown



Frank Investments Total Return Balanced Portfolio geographical spread



NB May not add up to 100% due to rounding

FRANK INVESTMENTS TOTAL RETURN BALANCED PORTFOLIO

- Fund performance 2013: **15.4%**
- IMA Mixed Investments 40-85% performance: **14.5%**
- Fund performance, since launch 2009: **57.2%**
- IMA Mixed Investments 40-85% performance since 2009: **38%**

Source: Lipper