

Something borrowed

Securities lending can generate extra returns, but how transparent is this activity?



The delta one landscape

A look at the differences between delta one products

Building liquidity

A discussion on the role of market makers in the ETF arena

Same brand, different model

Axel Lomholt talks about the new iShares multi-counterparty platform

Tailored to fit

Anthony Christodoulou, founder of Worldtrack, talks to **Charlotte Moore** about using ETFs as part of a tailored approach to managing individual clients' portfolios

Tell us why you set up Worldtrack?

During my time managing money for ultra-high net worth individuals, I had an opportunity to observe the costs, conflicts and the complexity involved in many of the products packaged for private clients. Back in 2005, I started to spend some time simulating how ETF products would perform.

It was impossible at first to put together a complete ETF portfolio because there wasn't the sufficient range of products or the necessary liquidity. Clients also needed to be educated about how ETFs work and how to use them intelligently to overcome some of the frictions in the industry. The depth and liquidity of the ETF market has now expanded and clients are much more familiar with these products. By 2008 I had decided that I needed to launch an independent asset management business. It had to be an independent business because the philosophy of a passive-only approach doesn't sit neatly within an existing asset management firm.

So what makes Worldtrack different from other wealth managers?

Worldtrack takes a tailored and segregated approach to managing our clients' portfolios. The portfolios are designed on an individual basis. We question our clients carefully about their particular risk and return appetite and design our portfolios to accurately meet these targets. As we're focused on matching a particular risk and return profile, this allows us to break away from the tyranny of matching benchmark returns, and enables us to make our portfolios much more efficient with a much greater likelihood of meeting our clients' targets.

How does Worldtrack use ETFs?

We take a multi-asset approach to designing our clients' portfolios because we believe that maximum diversity with a low turnover delivers the best results. We use a broad range of assets including equities, bonds, currencies, commodities, private equity, hedge funds and property. We use our own proprietary tools and leading investment management software to design the portfolios. We look



at industry aggregate models and then use actual data to simulate performance and use software to optimise those allocations. Then we adjust that to each individual client's risk and return profile. A deep understanding of the asset classes and the underlying indices enables you to deliver exactly what the client wants without having to frequently change the portfolio. Once the asset allocation has been determined we use ETFs to get access to every type of asset class.

By using only ETFs, we are able to improve performance by up to 5% a year, compared to equivalent active fund management approaches. These amounts, when compounded in a low growth economy, are extremely significant to clients' overall long-term net returns.

What type of ETFs do you use?

We only trade ETFs that are based on the London Stock Exchange (LSE) and only those in sterling share classes. We use the ETFs on the LSE as there are good trading volumes and there is sufficient coverage of the different asset classes. ETFs have been traded on the LSE for ten years, so it is an established market. We also use a blend of physical and swap-based ETFs. We do not use inverse or leveraged ETFs as they do not match our investment philosophy. Inverse ETFs are best left to the hedge fund world and we don't use leveraged ETFs as markets are volatile enough.

How do you choose the ETFs?

Choosing each ETF for every client

portfolio is not something that we undertake lightly. We spend a considerable amount of time ensuring that not only do we understand what would suit each individual client from a tax perspective, but also understand the aggregate cost, currency and swap exposure of the ETFs that are put into each portfolio.

As we are building portfolios using ETFs, we keep a close eye on tracking error. We also look at the experience of the provider and the amount of market makers they have in that particular product, as this has an impact on the spread. If the fund is synthetically replicated, for example, then we look at the quality of the collateral basket, the swap counterparties, the underlying index and how all of these differ across similar products. This helps to design the portfolio much more effectively.

What developments in the ETF market would you welcome?

I would embrace greater transparency in new products so there was immediate access to information and clarity on underlying constituents. I'd like to see more currency-hedged share classes. For example, the newly launched hedged S&P 500 ETF gives the performance of the index untainted by currency fluctuation.

Rather than more complex ETFs, I'd welcome products that give greater access to all the different asset classes around the globe. In almost every asset class, there is room for improvement. Take commodity ETFs. I'd like to see ones that were more intelligently designed to minimise roll-yield, which is generated when the future contract converges on the spot price. I'd also welcome more credit related ETFs, such as a global high-yield ETF or more convertible bond ETFs - ones that start to carve up the corporate bond space both in Europe and globally. It would also be great to have more ETFs that gave better access and greater bias to the emerging markets as well as more global sector equity ETFs.

Biography

Anthony Christodoulou founded Worldtrack in April 2009, under exclusive licence with Raymond James Investment Services. Prior to this he spent three years at EFG International. He has a decade's worth of experience in managing the wealth of high-net worth individuals at firms including Merrill Lynch and UBS.

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