

# EUROMONEY

## NuVerse Advisors

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### Bridging the gap between investment and advice.

IN 1998, ELIAS Saal, president of Republic Bank, then the 13th-largest bank in the US, was invited to the office of a well-known hedge fund manager. The enormously successful fund needed capital. Yet not one of the great financial minds running it could explain the strategy or the risk in a simple manner. "I left that meeting knowing that the firm would receive no credit from Republic," says Saal. Three months later the same fund lost \$4.6 billion. It was the way of Republic Bank – consistently heralded as the most creditworthy and best-capitalized bank in the US. Credit analysis was the bank's core competency and it had a conservative stance towards credit loans.

This approach served Republic Bank well, and in 1999 it was sold to HSBC for more than \$10 billion by founder Edmond Safra, whose health had deteriorated. Two years later the former team of senior management at Republic, including Saal, the bank's vice-chairman Stephen Saali and chief executive Dov Schlein, parted with HSBC to go out on their own. Much smaller than Republic, and without a banking licence, the new entity, NuVerse Advisors, maintains Republic's reputation for discretion and credit expertise. During the credit crisis, one large international commercial bank called on NuVerse to help it discreetly unwind its mortgage book. This attention to risk and relationships hints at the future model of fund management and private banking. And it is one that clients can look forward to.

If you are a high-net-worth individual, NuVerse will run a portfolio for you and your family, co-invest in your ideas, advise you on whether your investment banker is offering you a good deal, meet your hedge fund managers to get you out of unexpected lock-ups, aggregate all your reports, help you receive the top specialist medical advice, facilitate introductions to Ivy League schools for your children, aid you with a visa requirement, and take you to a basketball game. There are no hidden fees or commissions, and liquidity and investment performance can be accessed at any time. In a world where bankers have proved to be driven by greed rather than client needs, and where transparency has been sorely lacking within the hedge fund industry, NuVerse's philosophy gives hope to clients.

"A boutique was the right route for us to take," says Saal. "We had always focused on clients and been conservative. But banks had become so large that clients were no longer being considered. Bureaucracy had kicked in, making it impossible to manage risk on a timely basis. Risk management had been separated from dealing rooms, and the chains of command in between had become too long. There were conflicts of interest. Products were being sold that were inappropriate to counter the diminishing spreads being made on deposit accounts. Funds were sold without due diligence being carried out."



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Elias Saal, NuVerse

In investment management, NuVerse has five proprietary funds that Saal and his partners oversee: an emerging markets fund, a money market fund, a global macro fund, a fund investing in Term Asset-Backed Loan Facility-backed paper, and a real estate fund. Managed accounts are provided, or large families can issue their own share classes within a fund to family members. Above all, the investment products are designed to be easy for the client to understand.

"These are not complex investments," says Saal. "We look at capital structure arbitrage, but there is no financial engineering or structured products. There is no magic formula when it comes to successful investing. We buy low and sell high. If a client wants to come in and sit with us for a full explanation of how we select those investments and place trades, they can, and sometimes do." The key to not losing money is credit analysis. "We are bankers, and credit is what we are good at," says Saal. "We are risk averse. We don't apply leverage. There is no model risk. Everyone loses money at some point through market risk, and we have. But we have never lost a penny from credit risk."

Before the crisis, NuVerse's conservative approach seemed less attractive – clients questioned why their investments were not returning 20% to 30%. "That is OK. We will listen to complaints but we will not risk our clients' money," says Saal. "We don't believe in



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crazy numbers. Often clients are unaware of what they are getting into. Even at Republic we did not invest in government bonds with maturities of longer than seven years because we did not believe our clients really understood that risk. Investing can be challenging for high-net-worth investors. By the time they hear about a good investment, or by the time they decide to buy into the stock markets, it is too late."

### **Innovations**

Although NuVerse is not targeting inflated returns, it does look to create funds that present its clients with interesting and innovative opportunities, such as the Talf fund, which gives clients access to the asset-backed market through the US government's loan facility.

The firm will also look at higher-yielding opportunities to co-invest with clients. One client, for example, was keen to invest in forestry, so NuVerse went with him to fly over the eucalyptus forests of Uruguay to decide on which land to purchase. In the US, NuVerse has helped clients wishing to invest in commercial real estate by identifying locations and buildings and co-investing.

When it comes to clients' other investments, NuVerse will take an advisory role if asked. "We do not use external managers, but for clients that do, we can look through the terms and can advise them whether it looks to be a sensible choice." Schlein says that during the credit crisis some clients that had invested in third-party hedge funds asked NuVerse to read through their contracts and advise them on redemption provisions. In some cases, NuVerse agreed to carry out due diligence on hedge fund managers in order to understand whether the client was at risk, and to step in and fight for their clients to redeem their investments in cash, and not in assets, as some funds were forcing clients to accept.

Schlein believes that these challenges for hedge fund clients have resulted in a better awareness of the risks, and that investors will become more demanding. "They have learnt about gates, and redemptions 'in kind' as opposed to cash," he says. "The small print will have to go. Clients will be demanding full transparency, and we will see little business conducted with funds that are not registered, or without independent administrators, auditors and custodians." NuVerse employs Bank of New York Mellon as administrator for its funds, KPMG as its auditor and Credit Suisse and Goldman Sachs as custodians.

Whereas most clients at hedge funds have trouble reaching their portfolio manager, at NuVerse clients can speak to Schlein, Saal or Saali, and have access to their portfolio values on a daily basis. "We have the back office in house," says Schlein. "A family client can come in and see the exact value of his or her portfolio, the holdings and data on a real-time basis – not just in a monthly statement."

In tune with Republic's private banking roots, NuVerse offers its clients advice and support across personal and financial matters. Since its founders have a banking background, NuVerse can advise its clients on buying or selling businesses, particularly sales and acquisitions in the financial sector. It also has a trust licence, so can advise and manage wealth transition. The majority of NuVerse's clients are international, and the firm can advise on appropriate international tax structure vehicles.

On a personal level, NuVerse will provide a client with research on summer schools or universities in the US for clients' children, assist them with their entry, advise on immigration issues, bank accounts and credit cards, locate the ideal property, negotiate on a purchase or rental, take care of tax returns where needed, and book hotels, restaurants, and events for visiting family members.

For clients with serious health concerns, NuVerse's employees will locate the best specialist physician in the world, take care of the visa and the transport and accommodation. "Within five days, a client can be sitting with the best specialist in the world and ready for treatment," says Schlein. "When a client has a serious illness and has tried everything else with no resolution, it is an important service for us to be able to offer."

Customer service such as this, combined with complete transparency and solid oversight, is sadly hard to conceive of in today's financial environment.

But NuVerse is proof that it is possible to provide such a high level of service and have a profitable business model. Like a hedge fund, NuVerse charges clients both a management fee and a performance fee. "We do not hide costs and they are clear-cut," says Schlein. "Clients receive a statement with every service provided by us, the exact value of their portfolio should they redeem it immediately, and the fee we have charged." Where the private banking model struggles is identifying a price to charge. "Private banks charge based on deposits, but that is not necessarily reflective of the services that have been provided," says Schlein. And at hedge funds there is little incentive to provide customer service as profits are garnered from improving performance, not improving relationships.

### **Model for the future**

NuVerse stands to become the model of the future bridging the gap between investments and advice – a model that funds of hedge funds toyed with but failed to get off the ground, and that even multi-family offices struggle to achieve without resorting to product-pushing.

"Reputation and ethics are so important," says Saal. "It is essential to be aligned with your client. We make money if the customer makes money, and we keep infrastructure costs low." NuVerse employs about 24 staff.

Saal expects solid growth for NuVerse, and discusses the possibility of broadening the client base to pension funds and endowments, or purchasing a small bank to obtain a banking licence. To this end, NuVerse has just hired Ariel Salama as a partner. Salama, also a Republic Bank veteran, brings many years of wholesale banking experience into the mix. But, from past experience, NuVerse management knows that the boutique size is core to running a successful customer-oriented business. The firm has 100 clients at present. "We can provide a level of service that our large competitors just can't economically emulate," says Saali. Saal adds: "There are so many holes in the large financial corporations. If you become too big, it is time to sell off as risk controls end up being compromised and clients do not get the correct treatment. We are in a good position right now. For a start, we are still here! But mainly as people need companies like us now more than ever."

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