

INSTITUUT VIR EIETDSE GESKIEDENIS

Die Universiteit van die Oranje-Vrystaat

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Target market is large corporate and other funds

High level service by managing few large accounts

Capital Alliance Asset Management is an up-and-running, fully fledged institutional player that is growing steadily, says CEO Arnold Shapiro.

With R1,5bn in assets under management, the company has just about reached its critical mass, but Shapiro is confident that, if the performance track record continues, it won't be long before that level is reached.

The company has been going for two years and, during that time, assets grew to R200m by December 1995, R500m by July last year and R1,2bn by May this year. Its client list includes Prefsure, Malbak, McCarthy, Transnet, Nestlé, Toyota, Pep, Tiger Oats, Murray & Roberts, PIC and Forbes Group.

A UBS Securities report on the group forecasts that assets under management will reach R4bn by March. Shapiro believes this target is ambitious but achievable.

According to the annual report, the investment and asset management activities contributed R1,84m (or nearly 2%) to the group's R95,4m total income before tax during the financial year to March. Its relatively small contribution is a result of the approach it has taken to build its business from scratch and concentrate on developing infrastructural capacity before current needs.

Shapiro notes that the company is very focused on large corporate and other funds and aims to manage a relatively small

number of large funds to ensure that clients are given a high level of service.

He believes this approach has meant that the quality of service provided by Capital Alliance Asset

Management is high and the advantages of being small and flexible will be there for several years.

He argues: "We are very focused asset managers. We grow funds under management in a controlled fashion and prefer to build the business. I think this is the hard way, because we have no captive clients, but it is also the best way in our eyes. It keeps us sharp and in the long term makes you stronger."

Asset management is primarily a relationship business, adds Shapiro, in which the marketing cycle is long and performance is judged over five years. "When you get clients you tend to keep them if you deliver the right level of service and performance," he notes.

Capital Alliance Asset Management has swiftly climbed up the ranks of the better performing teams.

The Ginsburg Malan & Carsons performance survey ranked Captall first out of 25 retirement fund managers in the 12 months

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to March and the Alexander Forbes survey for the same period ranked the asset manager second.

Shapiro believes the success is based on the asset management team's basic investment principles. "We try to keep the business simple. We don't make complicated macro-economic forecasts and we focus on stock selection."

In the group's first annual report Shapiro argues that there is an overwhelming body of evidence that suggests that using complicated models is futile and that highly paid forecasters tend to become "formulaic and conformist" if they make use of them.

The team selects individual assets that are likely to perform better than average and Shapiro believes the record of key team members has been built up by superior stock selection.

A core element of the company's strategy has been the appointment of highly regarded staff. It now has a total of 18 employees, who all have shares in the company, and there are plans to employ six more people in research and administration.

Capital Alliance Asset Management's first coup was to recruit some of Norwich Life asset management's key people, notably Charles Graham, who had built up an impressive performance track record — Norwich's general equity fund was ranked number one by Micropal over all periods while managed by Graham.

In a move that was given high media profile at the time, Shapiro was brought from Old Mutual, where he launched and managed a broad range of funds, including unit trusts and pension funds. He became CEO of the asset management subsidiary in November. The Old Mutual Growth Fund overseen by Shapiro was also a top performer.

In addition, Shapiro has managed funds for companies including Absa, Edgars, Group Five, LTA, Murray & Roberts, Nedcor, OK Bazaars, SABC, Sasria

and Wooltru.

Deputy CE Sello Moloko joined soon after the company started. He has wide actuarial experience built up while working at Southern Life, Old Mutual

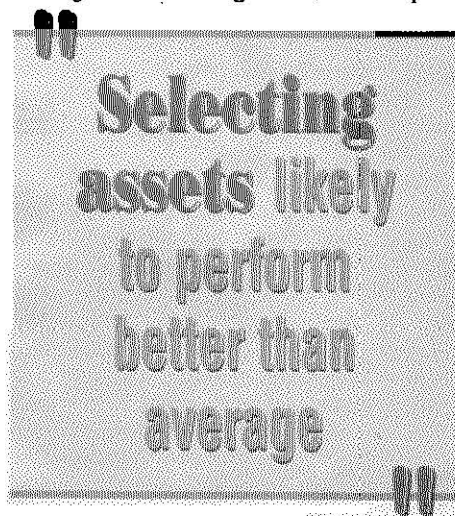
and Alexander Forbes. Deon Gouws, head of research at Capital Alliance Asset Management, joined the company in February after working as industrial analyst and fund manager at Old Mutual Asset Managers.

Other important appointments have been Richard Pitt, as an investment analyst, and Casper Troskie, in finance and administration with 10 years' experience at Deloitte & Touche.

Edwin Schultz, the chief strategist and bond fund manager, is a founder member of the asset management company and was also a top performer at Norwich Life.

Shapiro notes that the company has a "very diverse cultural make-up" and feels that this is conducive to investment performance because of ideas likely to be stimulated by team members' interactions.

Fees charged by Capital Alliance Asset Management are negotiable, and depend



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on the size of the fund and the client's service requirements, but Shapiro remarks: "We compete on performance and not on price."

The company has intentionally built up infrastructure to handle business way beyond its current needs to avoid having to gear up later when the funds do flow in. Shapiro does not intend Capital Alliance Asset Managers to be a niche player and believes that it will be one of the top five asset management companies by the end of the century.

On the international front, it has an association with JP Morgan which manages US\$210bn of assets globally. Shapiro says: "In the medium term, we intend to build on the good relationship already established to encompass further areas where international expertise can add value to our local operations."

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