JANUARY2016

FAMILY OFFICE INSIGHTS
facilitated by The Bavelas Group

VOL 4 | ISSUE 3

Peer Insights REPORT

Q&A with Kwang Peng Sim

Managing Partner of KPS Advisors LLC

Principle Series:

Family Office Insights sits down with Kwang Peng (KP) Sim, Managing Partner of KPS Advisors LLC, to discuss the launch of his new firm and how he approaches investing for his family office clients.

Family Office Insights is a voluntary, "opt-in" collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

Learn more at:
FamilyOfficeInsights.com

Q: What is your professional background and how did you get into the industry?

A: I have a Bachelors in Chemical Engineering and practiced as a process engineer for 5 ½ years in New Jersey and Singapore before deciding to make the switch to finance. I decided to invest my own savings for a year to raise money for my graduate school education. I had success in my investments and used the money to sponsor myself at Columbia University. In a way, this experience made me realize that financial goals can be achieved through smart investing and the whole point of investing is to grow your own wealth.

While attending school, I did two internships concurrently at the Greenwich Roundtable and Indian Harbor, a placement agent for hedge funds. I worked over the summer and fall of 2006, after which Mr. Steve McMenamin referred me to a job at a fund of funds, marking my entrance into the investment world in 2007.

When I look back over my nine years in the hedge fund industry, I joined at a unique time filled with different market environments within this time span. It helped me shape my investment philosophy, which is to play defense first. Now I focus more on the manager's investment process and his ability to manage risk.

Q: What was the impetus for deciding to launch your own firm?

A: At my previous firm, due to the nature of the fund of funds business, we could only invest in hedge funds and we worked under tight constraints in volatility and redemption liquidity. We couldn't invest in certain managers that I would have thought were interesting choices.

While working at the fund of funds, I quickly realized the importance of networking and will always make efforts to talk to fellow investors. Over time, I got to know many investors and not just people in the fund of funds industry. I particularly find those in the family office investor space very fascinating because they typically have an open investment man date and a long term investment horizon.

After I left my firm, I continued to spend time networking with family offices while managing a friend's startup business when a family office decided to hire me. That was the impetus for starting my own advisory firm where there are less constraints on investment type, volatility, lock-up, etc. to what we can do and it makes investing so much more interesting.

Q: What is your goal for the firm over the long term?

A: It is to understand the needs of each family office client, create customized solutions for their portfolios and help them achieve their goals. I have a genuine interest in helping our clients and will always provide honest opinions. Customization is very important to the family office client. We need to know what the client wants and give them what they feel is important to them. For example, some may focus on return, volatility, Sharpe ratio and tax efficiency. Alignment of interest and trust is also critical in this process. I have achieved much success with my current clients and have helped them put processes in place and turn their portfolio around. I spent time analyzing their portfolios, redeeming from underperforming managers and allocating to new managers.

Q: Can you provide some insights into how family offices can streamline their investment processes?

A: Develop a simple yet effective process and follow through. Be sure the process is not overly complicated so that it is sustainable. Create a checklist for idea sourcing, due diligence and after-investment monitoring to make sure no steps are forgotten. Be organized and document your work. Always do preparation work before manager meetings so that you ask insightful questions and your time will be well spent. Talk to trusted peers and exchange ideas; it saves a lot of time whether you are looking for new ideas or validating current ones. Collaboration is key. As an example, I belong to a close knit global network to help in idea generation and manager due diligence. When I travel to Asia for work, I usually have a short list for pre-filtered list of managers to meet so it saves a lot of time.

Q: How do you approach manager due diligence?

A: We have two parts to our due diligence process: qualitative and quantitative. When you invest in a hedge fund, you are investing in the manager and his/her team, so naturally we spend a lot of time with them. We want to understand in depth how the manager made money and how they will make money going forward. We need to understand how they will think and react to certain circumstances. What separates money makers from merely good managers is the intangible quality of good judgment. The manager should also demonstrate a sustainable competitive advantage that can be preserved within the fund's stated AUM growth.

We also perform rigorous quantitative analysis on each manager. We have the ability to analyze, organize, interpret data and emerge with real insights. We present our findings in a clear and conclusive manner and make smart decisions based on it. My engineering background helps immensely here. As an example, we always perform holdings analysis for each manager over time to understand what drives their performance. We always try to answer the questions: was it skill or luck? Is it sustainable going forward? We can learn a lot from this like stocks invested, portfolio concentration, position sizing, holding period, turnover etc.

We also think on an overall portfolio level and determine how adding a new manager changes the characteristics of the current portfolio. My goal is to create an overall diversified portfolio. A portfolio generally contains three levels: asset class, strategy and individual managers selected. All three should be diversified. We achieve that diversification by selecting uncorrelated investments and sizing them appropriately. We also remove additional portfolio risks by doing a roll up of all holdings for the entire portfolio and understand our exposure to different stocks and themes.

Recently I created a portfolio for a prospective client consisting of managers and strategies that are lowly correlated to the market and each other. The results of the portfolio show high annualized returns with low volatility and a high Sharpe ratio. The portfolio also exhibited moderate correlation to the S & P500 with small draw downs and a negative down-capture. It's hard to achieve these kinds of results, but it can be done if we follow through a robust due diligence process and make our selections carefully.

Q: What is your personal investment philosophy?

A: Understand your own investment objectives, risk tolerance, investment horizon and liquidity needs. Know what you own and do not follow other investor friends blindly because they may have different investment needs as you. Diversify, but don't over diversify. Be willing to overweight good trades and opportunities that have a clear asymmetric return profile. Maintain enough liquidity to stay the course, which will also give you the ability to deploy capital to opportunities when they arise. Avoid strategies that rely heavily on leverage for return. It pays to be contrarian and avoid crowded trades. For example, we avoided investing in a manager recently because they had a huge position in Valeant Pharmaceuticals and it saved my client from losses.

Q: Are you seeing any interesting investment trends coming out of Asia right now that US-based families might find interesting?

A: Many first generation wealthy Asian families made their money from operating businesses or real estate and they continue to invest the bulk of their money in these areas. A couple years ago, Asian family offices mostly invest in private deals in Asia, and not so much in hedge funds. I think there are a couple of reasons: there are not as many good hedge funds in Asia compared to the US or Europe. Family offices may not have the bandwidth to evaluate them. It is also just too far for them to travel all the way to the US to conduct manager due diligence. However, this trend is definitely changing in recent years as we see more and more sophisticated Asian family offices starting to invest in hedge funds globally. Also, some family offices are starting to appreciate the benefits of diversification and are allocating some capital to alternatives while still keeping the majority of their assets in sectors and businesses they are familiar with.

There are also a growing number of excellent hedge funds in Asia. As I visit Asia more often, I meet with them to understand their strategies, with the intention to recommend them to my US-based clients.

I'm currently talking to some family offices in Asia because they like that I have on-the-ground knowledge in the US and I have a good network to help source for manager ideas. I've always spent time in Asia every year to meet with managers and local allocators. I speak Mandarin fluently and it helps in the due diligence process. I find that Chinese hedge fund managers open up more and are always happy to chat with me in Mandarin.

Q: What investment opportunities are family offices looking for today?

A: Family offices are always looking for yield and non-correlated investments. They invest in alternatives for diversification purposes. They care about capital preservation, low volatility and low correlation to the markets.

Some family offices I know invest in hedge funds and are frustrated with paying 2%/20% fees and getting less than stellar returns. The reality is that not every family office has the capability of picking hedge funds. They can get hurt. They might not have access to the flow of ideas or the expertise to evaluate them. There are a ton of hedge fund managers out there and it can be overwhelming. So for these family offices, it makes sense to hire professionals to conduct hedge fund manager searches for them to help build out and manage their portfolio.

Kwang Peng Sim

KPS Advisors LLC was founded in Q1 2014 to advise a NYC-based single family office on their existing hedge fund and long only manager portfolios to streamline their investment process and turn their portfolios around to produce strong risk adjusted returns. Kwang Peng (KP) had spent a major portion of his investment career working with family office and high net worth clients. He understood that different families have different investment requirements and will always listen before recommending solutions. For more information, please email KP at kp@kpsadvisors.com.


"Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices."
Arthur Andrew Bavelas