

# Sustaining Advantage

In hedge funds, as in other investment products and services, the central value of a firm is the trust it enjoys with its investors. Few know this better than Park Place Capital, a London based long/short equities manager. Superior analysis of information and the ability to act upon it could account for part of its competitive advantage. But on a broader front, the company derives its strength through factors largely invisible to outsiders.

Steven Solmonson, Park Place's President explains: "Simply put, our strengths are our people, processes and performance. We are all dedicated industry veterans, who love what we do and enjoy working together. We are all on the same page and we have a common language. We are focused on using our resources effectively. Our investment process is rigorous and effective, and yet, adaptable to variable market conditions."

"Since we were established in 1992," he further adds, "our investment strategy has remained unchanged. We are a long/short European equities manager—seeking Alpha. Essentially we are true blue bottom-up stock pickers; yet we use a variety of top-down screening tools, which not only serve to identify interesting new ideas to be put on our action list, but just as importantly, they help us to remain alert and marshal our resources effectively. We are well aware that bottom-up stock pickers can easily fall in love with their favourite picks or fall prey to their own bias. The screens are not a black box, but rather, when run on a reiterative basis, they prompt you to look at stocks that are breaking out of the pack. You can choose to ignore the screens, but if the name pops up the next week, and again the week thereafter, you are forced to take notice, put aside your bias and take a closer look. It is somewhat true that mid-caps are our sweet spot, and surely, since we strive to generate alpha, mid-caps are great. However, our investment process is designed to cover the full universe of approximately 3000 Western European Equities. Large caps and small caps are definitely included and have a place in our portfolios. All said, having a well-tuned investment process is key, but there is never a substitute for doing your homework, staying on your toes and putting in the hours."

Although most of the quantitative data is available from the market and from accounting oriented statements, it is the qualitative factors that enable Park Place to develop its unique insight and define a stock's true investment potential. Such factors include the investee company's decision-making and strategy implementation processes; its management's strengths and weaknesses; and strategies being pursued by its suppliers and competitors. To this end, Park Place's partners and analysts conduct an average of 250 company visits a year, mostly on a one-on-one basis.

"These meetings," says Solmonson, "not only give us valuable insights into a company's business strategy and plans, but also provide critical feedback on the management's views on prevailing economic trends and developments."

Park Place is run under its four partners, who all have a distinct role within the organisation. Jean-Marc Fraysse is the com-

pany's CIO/Portfolio Manager and has the final say on what goes in or out of the portfolios. Peter Schell is the Director of Research and the one who drives the research process, generating the flow of promising investment opportunities. As President of the firm, Steven Solmonson manages the business-side, focusing on risk management, client relations and operations. Although no longer involved in the day to day management of the portfolios or business operations, the firm's founder, Giuseppe Ciardi, serves as Chairman, attending monthly partner meetings and actively lending support whenever needed.

The company's two funds: Park Place Europe and Polaris Prime Europe draw upon the same rigorous investment process to generate returns. Both funds also strive to achieve Alpha on Long and Short portfolio holdings, focused on European Equities. They are structured as master-feeders and are open to non-US & US non-taxable investors as well as US taxable investors. They both use the same administrator, clearing broker and auditor. Despite their common lineage, their portfolio construction and composition differs. Park Place Europe generally gives greater weighting to large caps as well as greater emphasis to diversification. In comparison to Polaris, Park Place Europe not only employs lower concentrations and exposure limits, but may also employ more restrictive drawdown guidelines. It may use index futures for hedging, while Polaris does not.

Park Place Europe targets an annual rate of return (ROR) of between 10 to 20%, while Polaris targets a ROR at 15% to 30%. PPE may short index futures to moderate exposure, while Polaris does not. There is generally a considerable overlap of the names held in both portfolios, yet the weightings are likely to differ considerably at times, and small/mid caps are part of both portfolios, but generally are given greater prominence in Polaris. Accordingly, depending upon their own investment objectives, investors are able to allocate to either fund, or prorate a customer-specific allocation to both funds. With the exclusion of private investors, investors in both funds range from large fund-of-funds to boutique fund-of-funds, professional investment consultants, pension managers and family offices.

Although all successful investment strategies are research-intensive, they cannot withstand the market forces without an adequate risk-management system. To this end, Park Place continuously assesses the different layers that could be a potential source of risk.

Solmonson explains, "There is market risk, there is portfolio-composition risk and there is stock-specific risk. We are vigilant about monitoring exposures. Portfolio exposures take account of four key factors: For one, market volatility and two, market momentum, both of which are extrinsic, as well as portfolio diversification and portfolio beta, which are intrinsic. In addition, every holding is subject to a size limit. We do not use fixed stop-loss limits, instead we have pre-determined alarms that trigger a mandatory review if hit. We are not punters and we are not looking for a single quick home run. We want to see returns being generated across the board and, as you see in our material, we closely mon-

**"Our due diligence process is a great foundation for developing a long-term relationship with our investors."**

**—Steven Solmonson**



**From left: Peter Schell, the Director of Research who drives the research process and generates the flow of promising investment opportunities; Jean-Marc Fraysse, the CIO/Portfolio Manager who has the final say on what goes in or out of the portfolios; and Steven Solmonson, Park Place's President, responsible for risk management, client relations and operations.**

itor and report our exposures and attributions by industry, country and market cap. Our infrastructure is quite robust and we supplement our in-house systems with our prime broker's risk analysis system. We measure our long and short alpha on a live-mark-to-market basis, and similarly know which holdings can have the greatest impact on the portfolios' Beta and VaR."

Another key element of Park Place's success can be traced to its investor-relations philosophy, based around transparency and open communications. The firm not only ensures that all relevant information is readily available to investors, but, just as importantly, uses it for its own monitoring and review.

"Our investors are our partners," says Solmonson. "We've completely revamped our monthly reports and presentation materials—providing fairly in-depth details regarding exposures and attributions. We use this information on a day-to-day basis to manage our business and self-evaluate our results, so it only makes sense to share this information with investors. We enjoy meeting investors and want them to understand our investment process, not only before they invest but throughout the investment period."

"Some of our investors," he further adds, "have been with us since 1994; some left in 2002 and have returned, which is great, and it has been wonderful to tell our story and add new investors who have never invested with us in the past. We especially like working with investors who are setting up an investment program or fund."

In terms of performance, Park Place can today be measured with the best.

"Looking back," says Solmonson, "our greatest achievement has probably been our ability to successfully reinvigorate the firm in late 2002. While the market indices were down by about 30% that year, our flagship fund posted its first and, hopefully its last, negative annual return—down 10%. Yes, market conditions were horrific; but given our job to achieve absolute returns, we missed an opportunity and should have posted a positive return of 10% instead. It was a wake-up call. One might say we had lost our lustre. We put together a business plan, which included some diffi-

cult steps. We needed to get smaller and focus our energies on our two main funds: Park Place Europe and its slightly more aggressive cousin fund, Polaris Prime Europe. Both draw upon the same investment process, but differ with respect to portfolio weighting, diversification and exposures.

Most importantly, we needed to address the team itself and make some changes. I called Peter Schell, who had been a member of the firm from 1998 to 2000, but had left to start his own fund. I asked if he might consider coming back. To my delight, he was interested—but informed me that he was already discussing an opportunity to link-up with Jean-Marc Fraysse, who at that time was planning to leave Cazenove. Aware of Jean-Marc's exceptional record as one of London's top fund managers, I could hardly believe what I had heard; knowing immediately that Peter & Jean-Marc—who have been life-long friends—would make the perfect duo.

We mapped out an orderly transition, advised investors and, as of January 2003, the new, improved and rejuvenated Park Place was born. In the ensuing three years we have come back to the top of the league tables. Oddly, some might say that our performance is a great accomplishment but, from my point of view, the real achievement is really the means by which we got there."

Park Place's future objectives are clear: although the company is moving to broaden its investor base, it intends to remain small, since the partners firmly believe that continued performance, especially on the short-side, suffers with size. As such, although Park Place Europe and Polaris are both open to qualified investors, the company expects to soft-close the current offering to new investors at or about \$250m for Park Place Europe and at or about \$125m for Polaris. This will allow the funds to grow to approx. \$400m and \$200 respectively, at which time Park Place intends to hard-close both funds.

The opportunity for Park Place therefore is to take advantage of its strengths in research-intensive investment strategies and to maintain within that framework, the speed, the informality, and the investor contact of an open and transparent long/short European equities manager. □