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BUSINESS

Mathewson swims with the minnows

What is the former chairman of Royal Bank of Scotland doing managing a little-known private client investment business? **Iain Dey** talks to him to find out

Sir George Mathewson, the recently retired chairman of Royal Bank of Scotland, flew to Washington on Friday afternoon to preside over the International Monetary Conference – the exclusive annual get-together of the world's most powerful bank executives.

When he returns this week, he will plunge himself into a project that sits at the opposite end of the financial spectrum: Cheviot Asset Management, a private client investment management business, which has just been taken over in a deal worth about £1m.

As the man who oversaw the transformation of a provincial Scottish institution into the world's fifth-biggest bank over a 14-year period, Mathewson had no shortage of job offers on retirement. But of all the things he could have chosen to do, it is Cheviot that has grabbed his attention.

Now he is about to oversee a period of rapid expansion of the business, alongside Michael Kerr-Dineen, Cheviot's new chief executive. They have already poached 80 staff

“I don't want to do anything else significant in the public company arena – no more chairmanships or anything like that. I've done all that already. I'd rather do something like this, which has a degree of novelty and is likely to prove very rewarding.”

Cheviot has been bought by Old Oak, a new business set up by Martin Hughes, the hedge fund manager behind Toscafund.

Hughes, who is said to be worth about £750m, has transferred ownership of Toscafund to Old Oak. The new holding company is to be used to allow Hughes to diversify his wealth into other spheres of financial services, with Cheviot the first of many potential deals.

Mathewson, who has been drafted in as chairman of the whole project, insists there is absolutely no agenda to use client money from the new wealth management business to fertilise Toscafund. But he is cagey on the details of what exactly Old Oak will go on to do.

“Let's take one step at a time,” he says. “I never like to look too far in the future.

‘I have no desire to overwhelm myself now and fly overseas every day’

from UBS, Kerr-Dineen's former employer, to get the venture off to a flying start.

“I've never had so many phone calls as I have had in the past four weeks,” says Mathewson, in reference to the job offers. “But I have no desire to overwhelm myself now, and find myself flying overseas every other day. I've gone on the board of Stagecoach, I'm on the board of an investment trust, and I've got this.

There's nothing else in place yet. There is no masterplan – I don't believe in masterplans. Cheviot leaves us with plenty to be getting on with for now.”

With Cheviot, the plan is to attack what Mathewson, Hughes and Kerr-Dineen claim is an increasingly under-served part of the market – rich people.

They claim that Cheviot will use the sophisticated technology, asset allocation and in-



Mathewson on Cheviot "There is no masterplan. I don't believe in masterplans"

vestment techniques that one would find in a major financial institution. But the process will be tailored by discreet individuals who espouse the values of old-fashioned one-to-one advice. Anyone with assets of between £500,000 and £25m fits Cheviot's prime target market.

“What we are not after is the retail, mass affluent client

base,” says Kerr-Dineen. “Some of the businesses servicing that market are actually just technology businesses. We feel there is a very underpopulated gap for the £500,000 to £25m client who does not want to be another unit in a big fund.

“If you've a friend who has just sold his business and has £20m in his pocket and he

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wants a comprehensive management of those assets and personal service, where do you send him? Under the old broker model, the asset allocation is basically done in the client's head.

"You know the broker is going to put you mostly in long-only equity. Then there might be some hedge fund you've heard of that sounds a bit of fun and then some property opportunities. But quite often there's no one taking overall control of the asset allocation for the client – and that's not right."

A number of private client brokers and private banks would no doubt contest Kerr-Dineen's claims, and suggest they already offer something similar. Nonetheless, both Mathewson and Kerr-Dineen are confident that the structure of Cheviot is sufficiently different for it to work.

The business, which is headquartered in Covent Garden, is being set up as a partner-

ship – Old Oak will retain a 40 per cent stake, but all the investment professionals being lured from across the City will be made partners, with an equity stake in the business. The size of that stake will depend on how many clients the new partners bring with them from their former place of work.

"We've stepped back a bit," says Mathewson. "We're combining the way investment has developed through technology with the partnership ethos of the past, and the attention to the individual customer."

"That's more difficult to achieve in a contemporary situation in a large institution, where there is pressure to favour in-house funds and it can be difficult to make investment decisions that go against the views of the house analysts."

"It all figures with what I've said before time and again at RBS: investment management is something that doesn't fit

in a large corporate. Speaking as an individual, I've always thought that dealing with a client's investment requirements is very different from dealing with his banking. It could create problems to have the two elements provided from the same place – you could lose banking business for poor investment performance and vice versa."

Hughes and Kerr-Dineen have been working on plans for Cheviot for several months. Mathewson has been in on the idea since the start, but began to work on the project actively only after leaving RBS.

The three men have known each other for years. Hughes was formerly a banking analyst at Crédit Lyonnais, which was house broker to RBS for several years under Mathewson's tenure as chief executive. Kerr-Dineen was Hughes's boss at the time, and also headed Laing & Cruickshank, the private client business of Crédit Lyonnais.

The French bank sold Laing & Cruickshank to UBS for £160m in April 2004. Two years later, the lock-in periods binding the staff who transferred as part of that deal have expired. Kerr-Dineen, who left within days of his lock-in expiring, is now poaching many of the senior staff to the new venture.

Kerr-Dineen insists there is no fight with UBS, which he describes as a "very fine bank". But he is expecting the people he is recruiting from the firm to take most of their clients with them.

"There's an incredibly laudable trust between private client investment managers and their clients," says Kerr-Dineen. "They are not financial prostitutes, they will die for their clients. That breeds loyalty. The people we are bringing will take the risk of coming in the expectation that clients will follow."