

# Kerr-Dineen's gamble pays off for Cheviot

First-year inflows of £2.5bn make it the UK's fastest-growing wealth manager, writes Mike Foster

**Mike Foster**

Cheviot Asset Management has evolved into the fastest-growing wealth manager in the UK after winning assets worth £2.5bn (€3.6bn) in its first year.

Michael Kerr-Dineen, chief executive, believes his senior advisers have retained 80% of the business they ran at Swiss bank UBS before he led their defection.

He said his sale of French bank *Crédit Lyonnais*' stockbroker Laing & Cruickshank to UBS in 2004 was a mistake, albeit a profitable one. His 50 client-facing colleagues are thoroughly enjoying their reincarnation. Kerr-Dineen said: "We have gone back to the future by setting up a partnership. I won't put this business at risk by selling to a bank."

His determination to succeed is masked by an impish sense of humour. He is a straight-talking man who commands loyalty from his troops. He started his career at the Bank of England, moving in the 1980s to finance house Guinness Peat, where he deputised to the late Sir Alastair Morton, the financial hard nut who strong-armed a series of banks into financing Eurotunnel, operator of the Channel Tunnel.

Kerr-Dineen left Guinness Peat following its ill-fated takeover by Equiticorp of New Zealand, which collapsed soon after. He became chief executive of Laing & Cruickshank in 1989. Laing's bank analysts, John Tyce and Martin Hughes, had good reputations. One of the biggest accounts was Royal Bank of Scotland, which was then led by Sir George Mathewson.

Kerr-Dineen worked hard to build his research team while recruiting a stable of high net worth advisers through hires from banks such as HSBC and Singer & Friedlander. He was quick to realise wealth advisory work would offer his group a great future and fat margins.

*Crédit Lyonnais* brought little to the table apart from initial capital, but Kerr-Dineen respected chairman Jean Peyrelevede, who gave his team room to breathe and a one-third equity stake.



**Kerr-Dineen: people will not rely on wealth advisers for bids and deals**

The takeover of *Crédit Lyonnais* by another French bank, *Crédit Agricole*, in 2003 and the departure of Peyrelevede persuaded Kerr-Dineen to lobby for Laing's sale. He clinched an offer from UBS.

Kerr-Dineen is emphatic that UBS is good at what it does, but its methodical approach grated with the free-wheeling style of Laing's UK advisers. They were reluctant to push in-house products and their stock-picking colleagues were equally irritated at being encouraged to follow the UBS line. Laing's advisers viewed the Swiss as bureaucratic while UBS regarded their British colleagues as awkward.

Kerr-Dineen's promotion prospects at UBS became non-existent. An analyst close to the bank said: "His elbows were a bit sharp for the UBS hierarchy. He was frozen out."

Kerr-Dineen marched a team of 50 out of UBS in May 2006, soon after their contracts

expired; others were quick to follow. He was joined by James Scott-Gatty, operations chief, and 23 of Cheviot's 26 senior partners, who were former Laing employees. One of them said: "Kerr-Dineen took a tough stance. You can see why Morton employed him at Guinness Peat."

Cheviot, then a small advisory firm, was owned by Martin Hughes, Kerr-Dineen's former Laing colleague and now a hedge fund manager. It was later transferred to his family office, Old Oak Holdings, chaired by Mathewson.

Through the Cheviot deal, which bears resemblance to incentives offered by Swiss banking group EFG International, partners can keep 100% of their gross remuneration. If they want to bring others on to their team or splash out on expensive yachts, that money would come from their gross revenue.

Start-up expenses are paid by Hughes, who has a 40% stake in Cheviot in return. These payments include sponsorships and charitable giving, which often lead to business opportunities. Kerr-Dineen said: "If a good idea comes up, I can authorise it on the spot. It's not easy to do that at a large company."

Shares held by Cheviot partners and Old Oak will be in escrow until next year. From then, start-up expenses for new partners will be funded by Cheviot where appropriate.

Kerr-Dineen is determined to restrict Cheviot's business to the UK. He said: "Some of our people have specialities, including links with divorce lawyers, sports people and musicians, but I want to appoint good people, not fill niches."

Kerr-Dineen said Cheviot is equally determined to stick to advising clients on asset management, with an eye to long-only and alternative investment opportunities. He said: "With alternatives, we have a team of six that can put forward a range of private equity or hedge fund vehicles.

"We also have hands-on, long-only

capabilities. Our willingness to outsource investment skills sets us apart from traditional partnerships."

Kerr-Dineen does not have much time for investment banks that push their products and try to provide clients with investment banking services. He said: "With every opportunity like this, there's a conflict. I can't see the private investment banking idea catching on because not many people will want to rely on wealth advisers for bids and deals."

Cheviot is more than happy to refer individuals to third-party providers, including UBS. Kerr-Dineen said: "It is often the case that people will want to use a private bank as well as us."

Alan McIntosh, head of investment strategy, said: "For all the talk about hedge funds and private equity, we find equities are the asset class of choice."

Cheviot's preferred weightings would be 60% to 75% in equities and 20% to 25% in bonds, with the balance in alternatives. McIntosh's expectation that the US Federal Reserve would cut interest rates by 50 basis points last week proved to be correct.

He said: "It's fair enough to debate the possibility this will be inflationary, but it's not a view we share.

An awful lot of investment in Asia is being dedicated to production efficiencies, which should lead to the continued export of deflation." McIntosh said a visit to Asia by Hughes helped to provide Cheviot with this insight.

Despite the closure to new business of Hughes' hedge fund operation, Cheviot clients can get exposure to his insights through the back door.

They include Weir Group, a UK engineer involved with pumps and valves; Anglo-Dutch conglomerate Unilever, which is keen to develop its food business; and mining group BHP Billiton, which supplies commodities to China.