ADVERTISING FEATURE

Investment and financial management

Gideon Hyams, top, and Luke Ferguson, co-founders of Ferguson Hyams.

Opportunities that don't fit the mould

Australia's army of 17,000 financial planners largely is confined to recommending offerings on an approved product list (APL) that has been thoroughly researched and vetted internally, or by an external research house.

To paraphrase former US defence secretary Donald Rumsfeld, they don't know – and that's about the thousands of products not on the tightly curated APLs.

Most advisory firms avail of investment platforms, which usually have a mandate to ensure that any available products are liquid and easily traded. APLs conform to this requirement and usually exclude investments below a certain size, without an adequate track record or devoid of a rating.

At face value, a rigorous approach to curating APLs is a sensible prudent measure. The trouble is, if they're overly prescriptive and conservative, investors could miss out on worthy alternative investments. While liquidity is a worthy attribute, easily-traded assets are more vulnerable to sharp sell-offs in volatile markets. In difficult markets, even the most highly rated approved investments can – and do – fail.

Luke Ferguson, the head of boutique advisory and funds manager Ferguson Hyams, says investors are missing out on accessing offshore opportunities that have a track record of performing in adverse conditions.

"Advisers get inundated with opportunities, but if it's not on their APL, they have to choose where they put their time in terms of researching the proposal," he says. "That's an exhaustive and overwhelming process and most will throw their hands in the air and stick to the APL that's glued to their Australian financial services licence."

In the case of fixed interest, he says, the bigger exchange-traded products will typically experience wider spreads – the difference between the buy and sell quotes – in times of volatility. "Generally, approved products on platforms that trade via an exchange-traded fund will have liquidity terms to meet the requirement of an adviser mandate. But as an investor, if you try to get out when the market is getting hammered, you will typically be heavily penalised due to the wide spread."

With a background at large institutions, Ferguson and co-founder Gideon Hyams saw an opportunity to facilitate wholesale access to worthy offshore opportunities that don't always fit the APL mould.

In 2016 they formed Ferguson Hyams, focused on sourcing and structuring alternative fixed income assets for non-retail high-net-worth individuals and family offices, as well as wholesale advisers.

"We founded the firm to create investment products, run by managers with a proven history and make them accessible in Australian dollar denomination to Australian wholesale investors," says Hyams, the firm's chief investment officer. "We overlay that with a platform of risk control and governance."

Hyams describes the firm as a "kind of fund of funds", in that it avails of a global network of specialist fund managers. "We have freedom to choose international products in different currencies and will provide hedge mechanisms to convert to Australian dollars," he says. "We have several strategies in our Australian dollar-denominated structure that allow us to allocate into strategies that generally wouldn't get on a platform here, but make for robust verified strategies in their own right."

> "We are trying to give an access point for genuine international alternatives that are doing what they are supposed to do in different market dynamics."
> Gideon Hyams

Ferguson says the firm's selection criteria allow it to review and select alternative fixed income strategies that have proved resilient in subdued, volatile, bearish and bullish markets.

Managers of low-risk, asset-backed investments have done especially well in difficult markets, such as the Singapore-based TradeFlow Capital Management. One of Ferguson Hyams' selected managers, TradeFlow finances SME participants in bulk commodity importing and exporting. TradeFlow addresses the funding gap faced by these participants, while also ensuring superior risk-adjusted returns and capital preservation for investors.

"TradeFlow doesn't lend money, owns the insured asset and gets a non-recourse deposit from the buyer," Ferguson says. "They own the commodity at a discount and if the buyer walks, the destination port has a secondary market to offload the asset."

With a preference for 'soft' agricultural commodities, TradeFlow's underlying business was largely unaffected by the pandemic and ongoing conflict in the Ukraine.

"We continue to work on the opportunities strategy in Australian dollars, which has litigation finance, European residential and commercial real estate senior loans, TradeFlow capital and other trade logistics asset-backed strategies," Ferguson says. "There are also a couple of others on the bench we constantly undertake due diligence on."

Hyams stresses that the firm is not suited to retail investors. He also expects investors to allocate only a small part of their portfolio to the opportunities strategy – the component apportioned to alternative investments in fixed income. "We are trying to give an access point for genuine international alternatives that are doing what they are supposed to do in different market dynamics," he says.

Meanwhile, Ferguson urges a rethink of the rules around APLs, with a view to removing restrictions on alternative fixed income investments that account for only a small part of a portfolio. "Otherwise, the choices become very restrictive for advisers."