

## Co-founder who refuses to stand still in his desire to be ahead of the game

Punter Southall's Jonathan Punter tells Pauline Skypala that the firm's unusual combination of businesses is far from accidental

**J**onathan Punter does not like the business he co-founded in 1988 to stand still. In the past 10 years he has added an independent financial planning business, an investment consulting and solutions arm, a private client discretionary management service and an independent trustee service to the original actuarial business.

Last week saw the creation of another venture - PSigma Asset Management, set up to house the talents of Bill Mott, the veteran equity income manager from Credit Suisse, his colleague Ian Chimes, and Graham Fuller, former institutional fund manager at Newton. It will be owned 50/50 by the Punter Southall Group and the founding partners.

It is an unusual, but not an accidental, combination of businesses, says Mr Punter. It enables the group to meet its aim of providing "complete solutions" to clients.

The clients are mostly UK occupational pension schemes, with a particular focus on those run by medium-sized companies. The businesses were developed in response to their changing needs and Mr Punter's views on where the market was heading.

The first move was to establish an independent financial advisory firm in 1998, Punter Southall Financial Management, on a view that the defined contribution pension market would overtake the defined benefit one.

"We were looking at the US 401k business, which started



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small and took 10 years to overtake DB business. We took a view that what happened in the US would happen here and took over an IFA firm to help implement DC strategies for clients," says Mr Punter.

The next step, in 1999, was to incorporate the business, due to a change in the taxation of partnerships and a desire to put in incentive schemes for staff.

Then came the development of the investment consultancy business that was a small part of Punter Southall at the time, facilitated by a merger with Sanlam, the South African financial services group.

"We found we were coming up with interesting solutions for clients then handing over to investment managers who were being paid quite large

sums for implementing only a small part of those solutions," says Mr Punter.

PSolve now has £17bn (\$33.5bn, €25.9bn) of assets under advice and over £1.8bn under management, where trustees give PSolve discretion to hire and fire managers. It also runs a fund of hedge funds business, set up because "the funds we saw

didn't have the risk characteristics we wanted".

PSolve has been growing at 40 per cent a year and is expected to continue expanding. PSFM is also growing fast, at 25-30 per cent, and Mr Punter sees good prospects for the actuarial business too. It is one of the middle-ranking companies, behind the big four, with about 5 per cent of the UK pension fund market. Mr Punter says it can increase its share to 15-20 per cent. "I would like to get to 15 per cent in five to seven years."

Growth will be at the expense of the big firms, Mr Punter says. "Their strategy is very different to ours. They want to consult to the top companies in the world, so clients slip out of the big net into the medium area."

But the mid-sized consultants will also come under pressure. "As people perceive the DB market to be in decline, some of the lower-quality firms will disappear. We will end up with three mid-sized firms," he says.

He expects group turnover to rise from £56m in 2006 to £70m this year, a big increase on the £14m it was in 2001.

When it comes to pensions issues, Mr Punter's specialist subject is mergers and acquisitions. It is no surprise, therefore, that his biggest concern is that defined benefit pension

deficits are getting in the way of corporate restructuring, and the only available solution is a political one.

There is a whole set of UK companies where pension fund issues are a barrier to restructuring, he says. "That is not good for wealth creation in the UK, and some solution has to be found."

The Pension Protection Fund in effect reduces the promised benefits from DB schemes when a company becomes insolvent, Mr Punter says. "Is there any mechanism to allow that before it becomes insolvent? There are human rights issues, but it is a more sensible approach."

He advocates allowing discretion over pension increases in return for a certain level of contribution, with controls to ensure sponsors could not just take a contribution holiday if returns improved.

If pension increases were discretionary, as they have been in the past, "UK plc would be broadly in balance on an FRS 17 basis", says Mr Punter.

He is a supporter of new directions in pension fund investment such as liability-driven investment, claiming pioneering status in that area.

"Our strategy is to aim for outperformance against liabilities, so we tend to have

gilt-plus benchmarks and try to tie that into the actuarial funding plan."

A typical approach is to put a proportion of a pension fund's assets into swaps to take out interest rate risk. Some pension funds with deficits are wary of this approach because if interest rates rise, their liabilities will fall and they do not want to forgo this help, even though they will be in a worse position if rates fall.

"We believe structuring is a good place to start because we don't think anyone can consistently call the direction of interest rates," says Mr Punter. Failing to use swaps to remove interest rate risk leaves schemes with a big risk that is not rewarded. "It is better to remove that and take risk you will be rewarded for."

He also advocates gearing the swaps exposure to free up assets to invest with the aim of outperforming cash. "That gives you a range of asset classes you can use, so you have a more diversified investment strategy that reduces the volatility of returns."

Mr Punter is just as clear on investment strategy as on business strategy, and intends to be ahead of the game on both.

## CURRICULUM VITAE

**Jonathan Punter**

**Born:** 1957

**Education:** Bristol University, BSc mathematics, 1978; Fellow of the Institute of Actuaries, 1985, scheme actuary

**1978:** Duncan C Fraser & Co, partner from 1985 (became William M. Mercer, 1986)

**1988:** Punter Southall Group Ltd, involved in development of the firm, with creation of businesses including Punter Southall Financial Management Ltd and PSigma Asset Management

## PUNTER SOUTHALL

**1988:** Established as partnership

**1998:** Punter Southall Financial Management founded

**1999:** Becomes a limited company

**2000:** PS Independent Trustees acquired and South African group Sanlam becomes a substantial shareholder

**2001:** PSolve Asset Solutions created

**2002:** PSigma Investment Management launched

**2006:** Sanlam becomes a minority shareholder

**2007:** PSigma Asset Management created

**Funds under management:** Over £3bn (\$5.9bn, €4.6bn)

**Employees:** 600