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NEXT GENERATION TRADING

People want transparency, and if you can't deliver that you'll have a hard time, say Saxo Bank's Kim Fournais and Lars Seier Christensen



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CONFLICT IN SOUTH SUDAN



THE GREAT PAY DEBATE

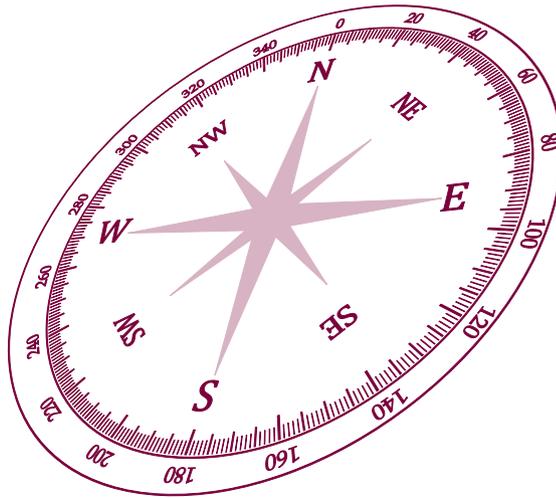
How the furore over bankers' bonuses has dragged CEO salaries into the mire

A FISCAL LEAD BALLOON

What public backlash has meant for the advocates of austerity

THE RISE OF PROTECTIONISM

Government restrictions on trade imports and their negative effects on the market



NAVIGATING THE INVESTMENT MINEFIELD

Endre Dobozy, Managing Director of FTM, explains why his Vanuatu-based fund continues to be a safe bet for investors



BY ENDRÉ DOBOZY, MANAGING DIRECTOR, FTM

■ In an investing world gone mad, it seems the series of crises that have hit the global financial system are escalating to the point where they could bring the whole thing down. Each day brings with it a potential new challenge to be overcome. Could Greece be the straw that breaks the camel's back? We wait to see the actions of a nation that has mismanaged its finances, produces very little, yet, seemingly, holds the fate of the world in its hands. Then this passes (for now) without incident and we move to the next game changer.

Is the Federal Reserve going to implement further quantitative easing in the US? Will China's economy slow to a halt, and will the Europeans be able to agree on a cohesive plan to save Spain? More importantly, is there access to enough money to backstop Spain when it really starts to slide, and can the euro survive? It's almost impossible for professional investors to make sense of this alien investment landscape, where drills and simulations occur on a weekly basis on what a Greek exit

from the euro would mean to the global economy and how the stock markets would react.

Pension funds languish, unable to achieve returns anywhere near those required to fund their obligations, and are forced to take on more and more risk in an attempt to get back on track, but inevitably dig themselves a deeper hole. So, in this type of environment that confounds many seasoned professionals, the average investor stands little chance of success.

COMMON MISCONCEPTIONS

Of course, a buy and hold approach could be adopted; after all, the party line is that stocks always go up if you are patient. But in reality this doesn't seem to work too well either, as 110 years of US market data (adjusted for inflation) can attest. Markets went sideways from 1907-1923, again from around 1937-1950 and from 1967-1983. So, in this case, you have 57 years of sideways movement.

Furthermore, investors have suffered through five stock-market declines of more

than 40 percent since 1900 and, if you take the past 13 years in isolation, you find that Wall Street has lost over 45 percent of the typical investor's money – twice – and, quite frankly, we may be able to add a third instance within the next year or two.

But even if you disregard the information above as being biased, you must admit that investing is far more challenging than most investors are led to believe. Take last year, for example, when out of the 8,036 mutual funds tracked by Lipper's, 7,399 lost money and, if you had turned to hedge funds as a way to profit in these volatile times, you would have fared no better as the average fund finished last year with a loss of 5.3 percent

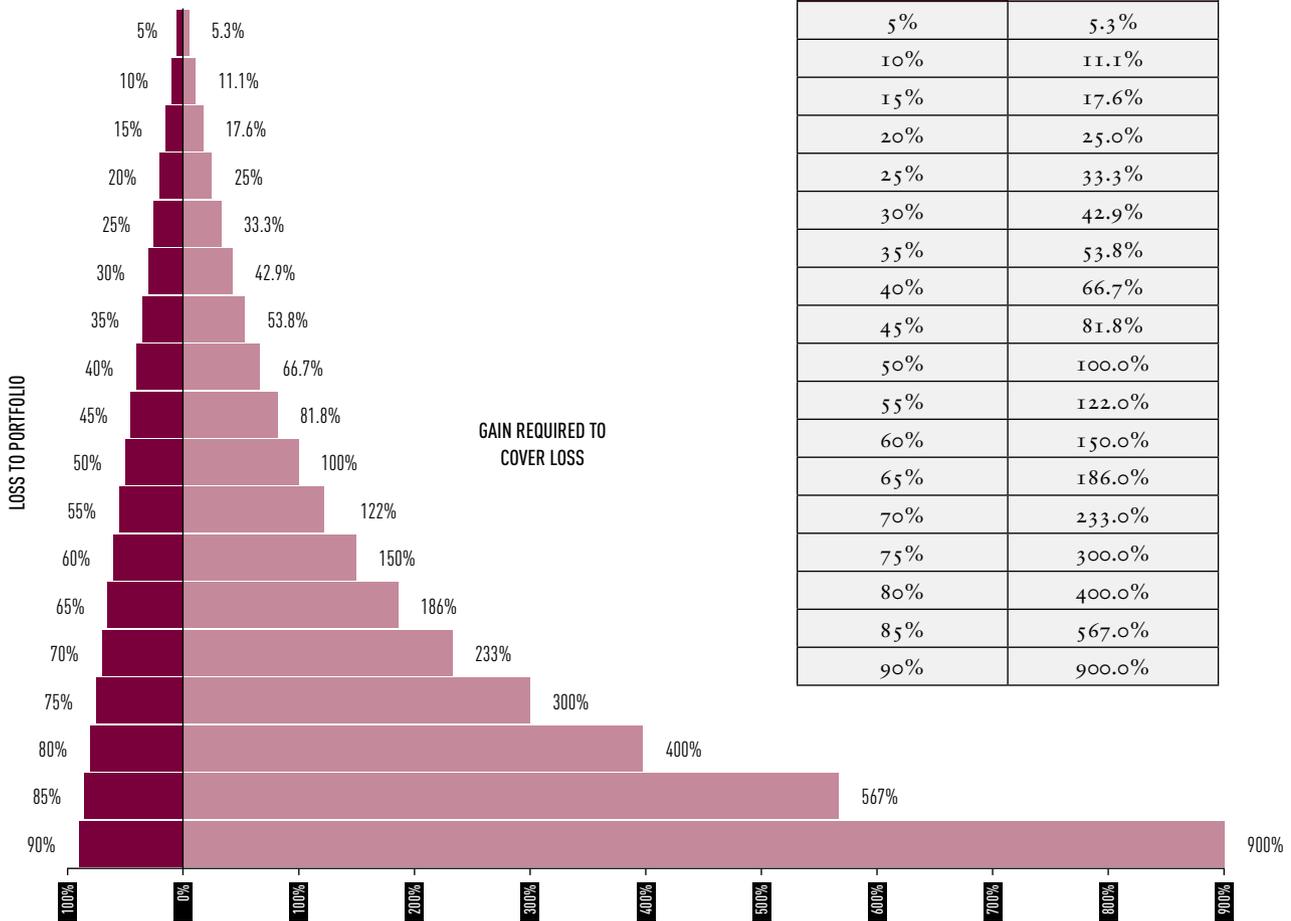
Perhaps the biggest contributor to lackluster performance is the amount of energy expended in trying to claw back the losses and break even. Personally, I believe that the two most misunderstood aspects of investing are:

1. The toll an error or financial loss takes on an investor psychologically;



COVERING LOSS WITH GAIN

PERCENT OF GAIN NEEDED TO COVER LOSS
SOURCE: FTM LIMITED



2. The return on an investment required to bring back a loss.

As you can see from fig 1, the larger the loss the higher the return demanded of the remaining capital to break even, to the point where anything over 55 percent can set you back years or put you in a position from which you may never recover.

To put this in perspective, the average US mutual fund investor only earned 3.81 percent annualised over the past 20 years. The truth is, there has never been a more dangerous time to be an investor and if you rely on a rising market for your financial future then you are in serious trouble. It is these realisations that led to the creation of FTM.

HOW TO MAKE A RETURN

At FTM we looked at all these uncertain market conditions and created an investment that would have been able to profit in all of these situations and, in fact, going back as far as 1997, the investments that underpin FTM

have never had a negative year. In fact, this strategy would have resulted in a gain of over 480 percent during some of the most uncertain economic times in living memory.

MAXIMUM PORTFOLIO EXPOSED TO FOREX:

5%

Launched in March 2010 and based on a measurable investment strategy going back to 1997, FTM enables investors to target a return of 12 percent a year, while keeping 95 percent of the portfolio secured and keeping risk to a maximum of 1.75 percent of the overall portfolio.

If you look at fig 2 on the following page you will see FTM's actual return since March 2010 and, to date, FTM has not registered a losing month, which means it doesn't waste energy clawing back losses and instead can focus on consistent returns, irrespective of market conditions. In fact, FTM finished last year with a return of 9.57 percent during a time when most funds lost money and many of the major indices were either marginally positive or went sideways. Furthermore, as of the end of June 2012, FTM has notched up 29 months of positive returns in a row.

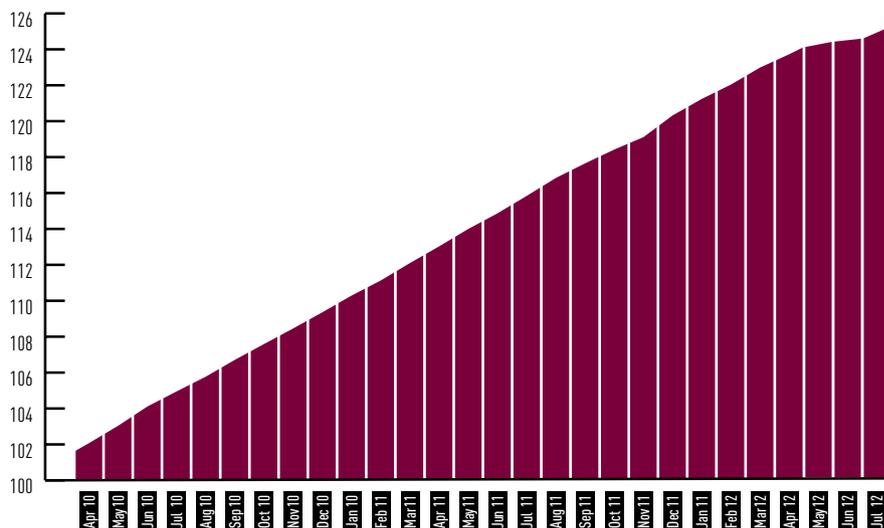
FTM's success is based on the use of medical accounts receivables, which make up 85-90 percent of the portfolio and are secured at a rate of \$3 for every \$1 invested. Basically, the Medical Accounts Receivables Company works like an insurance company. For example, if there is a car accident where someone is hurt and either they or the other party has insurance, then (assuming a strict set of guidelines and due diligence has been met) the

FTM finished last year with a return of 9.57 percent during a time when most funds lost money



FTM'S SHARE PRICE RETURN

NET ASSET VALUE, US\$
SOURCE: FTM LIMITED



receivables company funds the operation and any subsequent expenses. They then take a lien against a portion of the payout from the actual insurance policy and are paid out upon settlement of the claim.

The thing to understand is that these operations would have taken place with or without the intervention of the receivables company. It's just that by providing the funding the operation happens sooner and the injured party can resume a normal life much faster. The hospitals provide the surgery at a discount, because they get paid sooner instead of having to wait for the settlement of the claim.

However, unlike factoring, where a company buys a pool of debt and simply hopes enough will be good to enable a profit to be made, in our case, the Medical Accounts Receivables Company pick and choose the cases they wish to fund and, on average, four out of every five cases reviewed are rejected, as investor safety is paramount.

Furthermore, exposure to each individual insurance company is limited to 10 percent so that, in the event of bankruptcy, investors remain protected, as over half of the insurance companies could fail and still enable FTM to receive their principal back.

INDEPENDENT ACCOUNTING

The risks surrounding insurance companies tend to be misunderstood because, in the event of a massive bear market, it would ravage the balance sheet of the insurance company, as their liabilities would be unchanged but their assets substantially lower. But, in general, insurance companies have liabilities that are years or decades into the future.

The remainder of the FTM portfolio is split with five-to-ten percent held in cash and a maximum of five percent in forex trading,

set with a maximum stop loss of 35 percent. In this way, FTM has created a portfolio that is perfect for retail, institutional investors or pension funds alike, while knowing in advance that the maximum downside is 1.75 percent of the total portfolio and the upside is far better than the long-term average of most markets, with far less volatility.

It's easy to assume that FTM only works because it's in a lax jurisdiction, or cuts corners, but nothing could be further from the truth. FTM uses an administration company to calculate the NAV values each month, then every quarter these figures are given to an independent accounting firm for verification and, of course, FTM is audited annually.

But if that isn't enough, I wanted to let the Deputy Commissioner of the Vanuatu Financial Services Commission say a few words about Vanuatu and the delicately balanced laws and guidelines its financial services industry operates under.

count of the prudential safeguards for investors put in place by its regulatory regime.

Vanuatu is known as a diving Mecca and has twice been named the happiest place on earth in the Happy Planet Index published by the UK-based New Economics Foundation. But not so many people are aware of its attractions as a place to operate an investment business – or invest in one.

Vanuatu is a member of the British Commonwealth and has a legal system based upon British Common law. It is also on the OECD's white list of countries and is a member of the French League of Nations, the United Nations, the Secretariat to the Pacific Community, the World Bank, the Asian Development Bank and the Melanesian Spearhead Group.

VFSC is a relatively young regulatory agency and, as a result, has had the opportunity to learn from the experience and developments of other jurisdictions each in their own particular fields. So, for example, it draws from the FSA in the UK for supervisory expertise, from New Zealand for its new Companies Act and from Isle of Man for regulation of its service providers. But it can take the best practices from each and leave behind the historical constraints that slow progress down.

The passage of Vanuatu's new Companies Act later this year will put the public parts of the Companies Registry online, allowing 24/7 searches from anywhere in the world. In the past, the physical remoteness of Vanuatu from most of the business world has proved something of an impediment to investment, leading to a (false) impression that only people with something to hide will take advantage of its facilities. A new fibre optic internet connection presently being constructed is about to bring it fully into the digital millennium.

The appointment of Vanuatu Registry

ANNUAL RETURNS IN 2011:

9.57%

VANUATU AND INVESTMENT

Vanuatu is proud that one of its initiatives has won the *World Finance* Hedge Fund Award for Best Fixed Income Fund – Offshore, for two years in a row. Last year in this magazine, the Commissioner of the Vanuatu Financial Services Commission (VFSC) gave an eloquent introduction to Vanuatu and an ac-



Aerial view of three islands: Coral Islands, Santo Coas and the Vanuatu Islands, South Pacific

Services Ltd (VRS) in Hong Kong as Deputy Commissioner of VFSC, of Vanuatu International Companies Ltd as its representative for Greater China, and Vanuatu Incorporation Company as its representative in Singapore, highlights our ability to think outside the box in maximising the speed and flexibility of our services and maintaining our competitive edge.

With a presence in Hong Kong, arguably Asia's primary financial centre, with world-leading communications and service capacity including both electronic and physical services, Vanuatu has positioned itself strategically in the world's fastest-growing market. Owners of Vanuatu international companies can get service and support in the time frame they have come to expect and, with VRS in direct priority contact with VFSC itself, investors can get answers to questions that are speedy, authoritative and reliable.

FREE FROM OPRESSIVE REGULATION

Vanuatu imposes no taxes on its international companies. Even for individuals and businesses resident in Vanuatu, the only taxes and duties are import duties, a turnover or value-added tax on larger enterprises and stamp duty on transfers of shares and land. There are no death duties or estate or inheritance taxes, no tax on dividends or royalties and no hidden taxes or other costs that you wouldn't think of enquiring about. A Vanuatu international company is also exempt from VAT on its purchases in Europe and other jurisdictions that impose VAT on their residential purchases of goods and services.

Equally importantly, since Vanuatu is not, like so many developed countries, trying to make up a short fall in tax revenue by imposing ever more draconian taxes, fees and imposts of every description that we read about every day

in the press, the government has no incentive to intrude into your personal affairs, to seek to control your personal budget or to prevent you from remitting your funds overseas. You need have no fear of impending currency controls, conversion restrictions or other unforeseen impediments to your ability to maximise your productivity for the benefit of yourself and the market place in which you operate.

Yes, Vanuatu has best practices to prevent money laundering and terrorism but, as long as you are not engaged in those kinds of illegal activity, Vanuatu is there to help and support you rather than restrain and frustrate you.

One of the companies of which Endre Dobozy is investment director is EDC Capital, a local public company that has just issued a prospectus for the offer of \$15m of preference shares: redeemable, convertible, interest-bearing, voting, participating preference shares. EDC Capital is embracing the paradise of Vanuatu to provide a special opportunity to investors to hold a share in both the physical and the financial opportunities offered by the country. The proceeds of their offer will be used to create three operational divisions: banking and insurance, investment and resort development.

Vantu Bank will be a service provider bank, allowing customers to maintain deposits in multiple currencies, to switch currencies and transfer funds to other customers in real time, as well as to make both fixed-income and profit-participating deposits. Bank transfers are becoming steadily more regulated and more expensive, whereas in this day and age, there is really no need for money to move until one party needs to physically draw it out from the system.

As more and more physical elements of the world get virtualised, all forms of rights can be traded online. Vanuatu is in the process of up



Left to right: British Prime Minister David Cameron, Tanzanian President Jakaya Mrisho Kikwete, Vanuatu Prime Minister Sato Kilman, and Australian Prime Minister Julia Gillard take part in the executive session 1 meeting at the Commonwealth Heads of Government Meeting (CHOGM) in Perth in 2011

grading and modernising its securities laws and regulations and several parties have expressed interest in establishing exchanges of interests in collectibles and other forms of property rights. The focus is on providing a secure, well-regulated environment in which individuals and enterprises can trade with the greatest ease and minimum impediments to efficiency. Vantu Bank will be a pioneer in the field of money management services.

The initial objective of Vantu Insurance is to achieve a substantial saving for the owners of Vanuatu-registered ships and boats, but it is by no means intended that it should restrict itself to that business. Vantu Insur-

ance will be fully qualified to undertake all forms of insurance, including general, commercial and, at the appropriate time, life insurance. But, by virtue of the benefits it will provide to the owners of Vanuatu ships and boats, Vantu will be the first insurance company ever in which the local citizens of Vanuatu will have a significant effective equity interest.

TURTLE BAY RESORT

The Toa Estate, Turtle Bay, comprises 105ha of lush land on a forest-clad peninsula, with a significant stretch of waterfront and beaches and stunning views out to the sea to the east

of Espiritu Santo Island, Vanuatu. There, EDC Capital will develop a tasteful resort community of 300 homes, a resort hotel and a marina.

Unlike most other developers in developing countries, the club that is EDC Capital's mother company grants full membership to the local citizens from whom it leases its land, so as to allow them to share in the profit that the land supports, consistent with its stated objective of making profit by driving growth for emerging economies.

This is just one example of the kind of investment that is being made in Vanuatu. Until recently, Vanuatu had not followed in the footsteps of the majority of other jurisdictions, in creating an investment immigration programme. Now, however, in conjunction with Vanuatu Registry Services, its Deputy Commissioner in Hong Kong, VFSC is preparing such a programme to compete with those other jurisdictions. Investment in Vanuatu, both financial and physical, is welcome, is happening and is getting easier with each year that passes.

This article showcases Vanuatu for what it is: the hidden jewel of the South Pacific, and home to a prominent and proactive international finance centre; a place to do business from as well as a place to do business in and, of course, the home of FTM.

So, now that you know that FTM can generate returns irrespective of market conditions or direction and that it operates always with strict oversight and regulatory supervision, it may well be worth a closer look. If its assets under management growth are anything to go by, the company is going from strength to strength (see fig 3). Given the benefits of investing in Vanuatu and through Vanuatu, there could be plenty on offer. ♦

Fig.3 FTM's ASSETS
ASSETS UNDER MANAGEMENT
SOURCE: FTM LIMITED

