



Board Asks Advisor to Resign, Follows Portfolio Manager
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In an unusual turn, the board of the **Pope Funds** has asked the fund advisor, **Pope Asset Management**, to resign so it can hire a new one.

The board's request for resignation came after a senior portfolio manager and interested director at the relatively small \$32 million fund left Pope Asset Management to start his own firm, **Parr Financial Group**. The board appears to have felt that the manager, Stephen Parr, who also created the fund, is the best manager for the job.

"It's one of those very rare examples where the board has chosen a new advisor," says Christopher Davis, a fund analyst at **Morningstar**.

The board approved the change in advisors at a special meeting on July 30. The move must also be ratified by shareholders.

"The board asked us to resign and we were agreeable," says William Wells, founder and portfolio manager at Pope. "From our perspective Steve [Parr] is an employee, but he was really running the fund and he wanted to break out and start his own company and we were agreeable."

The board's move is similar to several over the past few years that show more independence on the part of boards in approval of advisory contracts.

In 2005, the board of **The Asia Tigers Fund** and **The India Fund** severed contracts with the funds' advisor in order to follow the funds' portfolio manager to another firm. In that case, strong performance was likely a major factor in the board's decision.

The Pope board's move also brings up memories of the **Clipper Fund** board. In 2005 the Clipper board announced that it had begun a search for a new advisor. Three portfolio managers had decided to quit and the advisor would have been unable to run the \$6.6 billion fund. The advisor reorganized with an affiliated company, and most assumed the board would stick with the advisor. But the board, surprising many, hired **Davis Advisors** after an exhaustive search.

The Clipper board was applauded for its diligence; however, in the Pope board's case, the independent directors did not conduct an independent search. But the details and circumstances differ significantly from the Clipper case, notes Niels Holch, founder of the Mutual Fund Investors Forum, beginning with the respective sizes of the funds.

As was the case with the Asia and India funds, the Pope fund is very highly specialized. Its strategy involves investing most of its assets in Chinese companies.

Parr, who created the fund so he could have a place to put his family's money, has been studying China since July 1971, when he read a *Life* magazine cover story on President Richard Nixon's warming relations with the country. He later became a vice president and international specialist at **Goldman Sachs**, where he worked for just under two decades. He says he began buying Chinese stocks in 1984.

"It seems like Parr is much more integral to the operation of a \$32 million fund than a team," says Holch. "This is more like Fidelity changing a manager than what happened at Clipper."

All the same, the board's move raises the question of whether independent directors have an obligation to look elsewhere if the manager of a fund leaves. Most observers seem to believe every board will handle the departure of a fund manager differently, depending on the scenario. However, the prospect of a fund manager's leaving has become more of a possibility as the popularity of hedge funds has grown.

What makes the Pope Funds case even more unusual are the circumstances surrounding Parr's decision to start his own firm. Parr says he left, taking two assistants with him, because he didn't want to run a hedge fund. Pope's business centers around advising high-net-worth investors and running a hedge fund, which Parr says the managers wanted to focus on more. These days, it seems most portfolio managers who leave advisory firms are jumping ship to start a hedge fund.

But while Parr says he counts many hedge fund managers as friends — several of them boldface names from his days at Goldman Sachs — he doesn't like leveraged trading, doesn't agree with the fee structure and doesn't think the returns are high enough to warrant it. Typically, hedge funds charge 2% of the assets managed and 20% of the returns.

"I don't see a need to be a hedge fund," says Parr. "Let them do it. There's no animosity, it's just a difference of opinion."

Make no mistake, says Parr, he doesn't begrudge hedge fund managers their fees, but he's much more interested in studying Chinese companies. He's also at work on a money market fund, he says.

The Pope Funds' year-to-date return is 19.6%, according to **Yahoo**.
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