INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

INVESTMENT EUROPE

December 2018/January 2019 ISSUE 97 Annual subscription €450 www.investmenteurope.net

ALTERNATIVE ALTERNATIVES

Ulla Frimor Agesen of Nykredit on the continued demand for alternatives

Value focus

The value-oriented approach of Holger Bachmann of BMW Bank

Sustainable investing

The Comgest way

Dipping in

Looking for equities in Switzerland

The factor effect

Invesco's study into the drivers of factor investing

Active vs passive

Breaking down the boundaries

US to Europe

Smead Capital's business development plans

@SharingAlpha

Mission reviewed

Travel diary

Stockholm & Rome visited

EVENT REPORTS

- COPENHAGEN ROUNDTABLE
- MADRID FORUM
- ZURICH PFF

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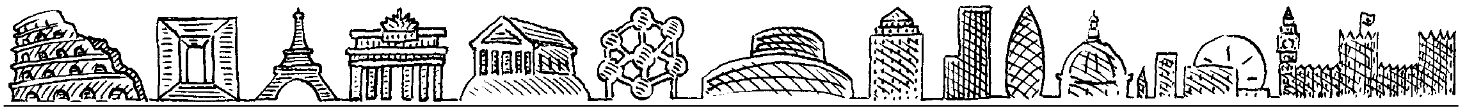
Upcoming events: London, Milan, Stockholm, Paris, Berlin, Barcelona, Oslo, Rome, Zurich, Helsinki, Reykjavik

To register your interest visit www.investmenteurope.net/events

CONTENTS



COVER STORY

COUNTRY FOCUS

EVENTS

10 *Ulla Frimor Agesen*

INSIDE THIS ISSUE
Considering the best performers and the outstanding personalities in the industry at the InvestmentEurope Fund Manager of the Year Awards 2018/19

REGULARS

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INVESTMENT EUROPE
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Alternative egos

Jonathan Boyd, editorial director of *InvestmentEurope*

With such a headline, it would be tempting to think that investors are on the hunt for the most outrageous ideas from the world of alternatives.

Reality is somewhat different of course: markets have been giving out signals of a definite shift to risk off, which suggests that downside protection may be the main game in town.

However, while the trend may be obvious, the way to play it is not. Both demand for alternatives and supply of collective investment vehicles that supply that demand continue to increase. In fact, so numerous may alternative investment funds be, that it seems incongruous to call them 'alternative'. Also in this vein, the sums being discussed around Europe's infrastructure investment needs suggest that 'alternative' is definitely the wrong word; this is core and required to avoid weaker economic growth in future, with an ongoing funding gap caused by stressed public sector income and expenditure across the region.

Instead, *InvestmentEurope* has sought to find out which areas of alternatives may be most useful/attractive to investors over the coming year, on the basis of historical experience. Factors such as volatility and liquidity figure highly in the thoughts of those fund selectors who have provided comment.

AWARDS SUPPLEMENT

The Fund Manager of the Year Awards 2018/19 get a special mention in this issue through a special supplement, which outlines all the category winners. Also included are the Personality of the Year winners, representing fund selector peers who have been recognised for their quantified and qualified abilities.

NEW WEBSITE

InvestmentEurope recently relaunched its web presence. This has resulted in a new website, designed to improve access to content by asset class but also to leverage the event support that comes with being part of the larger Incisive Media group. Keep an eye out for further additions to the website in coming weeks and months. ■

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UPCOMING EVENTS

In light of the new website we would encourage all our readers to visit www.investmenteurope.net/events to experience the new design and layout of our events section – information is even more accessible.

InvestmentEurope will host the Pan-European Sub-Advisory Summit in London on 27-28 February, to highlight opportunities in the sub-advised market.

March sees a return to Italy for the Milan Forum 2019 (8 March), before the Nordic Summit Stockholm 2019 (12-13 March) in the Swedish capital. Also taking place in March is the Frabelux Forum 2019 (20 March) in Paris.

The following month sees the inaugural Funds to Watch Berlin, taking place on 10-12 April, with an emphasis on new ideas from both larger and smaller fund houses, and the ability to access and share ideas through a mix of rapid fire, boardroom and plenary sessions, as well as plenty of networking breaks.

Remember, details of all events are available at www.investmenteurope.net/events.

Fund selectors in the news

Investors give their views on 'new' alternatives, gold and other issues

www.abanteasesores.com

Name: César Ozaeta
Title: head of fund selection and fixed income specialist
Company: Abante Asesores
Base: Madrid

What are your views on alternatives?

We normally favour long short strategies over CTAs, even more when they are sectorials. Investors' appetite for this sort of strategies remain high despite reports of widespread underperformance. I think this is because their goal is very attractive since they are supposed to generate alpha in all market conditions, with a low correlation to the rest of the portfolio that can provide the diversification that investors seek in periods of market stress.

Although this sounds very attractive, it is very difficult to be achieved and even more difficult to explain to clients when it is not achieved.

www.caja-ingenieros.es

Name: Celia Benedé
Title: Fund Manager
Company: Caja Ingenieros Gestión
Base: Barcelona

Gold – yes or no for 2019?

Commodities, particularly gold, is one of the assets that we always have in mind when analysing our portfolios.

Historically, we have had exposure to gold as an uncorrelated investment that could serve as a safe haven asset.

Taking into account that the scenario in sight for 2019 can be troubled, protection through investments in gold makes a lot of sense.

www.nykredit.dk

Name: Ulla Frimor Agesen
Title: head of Alternative Investments & Manager Selection
Company: Nykredit
Base: Copenhagen

Are alternatives in general likely to attract more investors through the coming year? If so, why?

We strongly believe illiquid alternatives will play an even bigger role going forward. Most agree that the outlook for traditional asset classes is more muted for the coming years – the falling efficient frontier – and therefore there is a need to look for alternative return drivers.

Some of the alternatives can provide a strong contribution to the portfolio both in terms of generating return and as a good diversifier in a portfolio context; although you must be mindful of valuations and also be able to handle the illiquidity.

www.bpiasset management.com

Name: Andre Santos
Title: portfolio manager
Company: BPI Asset Management
Base: Lisbon

How do you think that active and passive management could be combined?

One possible way to combine ETFs alongside with active funds is to trim bias that we don't want to have in our third party funds model portfolios.

One example of this type of adjustment might happen if we notice that our funds have a big bias to certain style factors, by underweighting others.

Since our goal is not to time style factors, we might use ETFs to reduce this type of bias.

www.fonditel.es

Name: Fernando Aguado
Title: CIO
Company: Fonditel
Base: Madrid

When and how to use active or passive management?

Generally speaking the use of one or the other depends on the market efficiency in which we are Investing.

The more efficient a market is, the harder it will be to obtain Alpha in a consistent manner, therefore more incentive we will have to buy passive products. However, it might be worthy to acquire active products in those markets less efficient (EM, High Yield, etc), even though they present higher fees.

www.bankia.com

Name: César Gil
Title: head of Fund of Funds
Company: Bankia Asset Management
Base: Madrid

Do you believe that most of the alternative managers have not added alpha to this sort of strategies?

That fund managers have not offered alpha with absolute return strategies during this year is a fact. However, some of these strategies like long short funds were already underperforming in previous years.

What we should be asking ourselves is whether there is alpha in the selected managers or if the problem relies on the fact that AR managers follow the same parameters and these are wrong.

However, we truly believe that alpha can be added to funds through the right managers' selection, as long as they have been consistent and loyal to their management style. One year's performances is not enough to assess alternative management.

www.caixagestaoactivos.pt

Name: Guilherme Onofre Piedade
Title: head of Fund Selection
Company: Caixa Gestão de Activos
Base: Lisbon

What are your views on the coexistence of active and passive investments?

Over the last decade, passive investments have been rapidly increasing its importance on investors' portfolios across asset classes to become indispensable in the day-to-day management.

Passive investment offering has expanded from pure index replicas to more value added type of strategies, such as algorithms that restrict the benchmark universe to include only securities with specific characteristics (low volatility, value criteria's, etc.). Passive investments' merits have allowed this strategies to grow and gain market share from active investments.

Active managers are starting to adjust and adapt to this reality. Some have lowered their all in fees or reduced management fees, and introduced the concept of performance fees while others have listed their funds, permitting intraday trading of the shares.

People moves around the industry

MARK CULLEN & DIRK GOERGEN

DWS announces changes to executive board

DWS Group, the €692bn asset manager, has announced that chief operating officer Jon Eilbeck and co-head Global Coverage Group Thorsten Michalik are leaving the business, with Mark Cullen becoming chief operating officer and Dirk Goergen becoming head of EMEA Coverage, and both joining the Group's executive board.

The changes have received regulatory approval and will be implemented by the end of November.

Cullen has worked at Deutsche Bank Group for 26 years, most recently as global head of Group Audit.

Goergen has most recently been head of Sales for Private Clients Germany in the Private and Commercial Bank of Deutsche Bank, responsible for all retail sales activities in the German market.

ANNACARLA DELLEPIANE

LGIM appoints head of ETF Capital Markets

Legal & General Investment Management has appointed Annacarla Dellepiane to a newly created role as head of ETF Capital Markets.

Dellepiane will be responsible for implementation and execution of trades across LGIM's ETF range. She will work with LGIM's ETF portfolio management and distribution teams as LGIM seeks to grow its ETF business following its purchase of Canvas, the ETF platform previously owned by ETF Securities.

Dellepiane joins from State Street Global Advisors, where she was a lead relationship manager in the SPDR Capital Markets team. Before that she worked at iShares EMEA in its capital markets division.

Based in London, at LGIM she will report to Simon Hynes, head of Retail Distribution EMEA.

HEINZ HUBER

Raiffeisen Switzerland names new CEO

Raiffeisen Switzerland has appointed Heinz Huber as the new CEO, effective 7 January 2019.

Currently chairman of the Executive Board of Thurgauer Kantonalbank, Huber succeeds Patrik Gisel, who left the company on 9 November 2018.

Michael Auer, who until then will be responsible for the operational management of Raiffeisen Switzerland, will take over the training of the new CEO and then retire from the organisation as announced.

Since 2007, Huber has been a member of the management board of Thurgauer Kantonalbank. In 2014, he took over the position of chairman of the Executive Board. Previously, he was employed in various management positions in the financial industry.

Huber has extensive experience in the lending business and well-founded know-how in the mortgage and corporate client business.

As a member of the executive board of a globally operating IT company as well as co-founder and managing director of an SME in the area of information management, he has a strong entrepreneurial background and IT-affinity.

NACHU CHOCKALINGAM

Hermes names senior EMD portfolio manager

Hermes Investment Management has appointed Nachu Chockalingam (pictured right) as senior Emerging Market Debt Portfolio Manager in a move aimed at providing clients with access to all areas of global credit markets.

Based in London, Chockalingam will be reporting to co-head of Credit Fraser Lundie and will be responsible for managing the performance and risk of existing emerging market allocations across all liquid credit strategies including the Hermes Unconstrained Credit Fund, which was launched last May and has since raised $386m.

The fund invests across the global liquid credit spectrum, which includes emerging market debt, along with investment grade, high yield, convertibles, asset-backed securities and loans.

Chockalingam joins Hermes from Jupiter, where she worked on the firm's emerging markets strategy. She previously worked at JP Morgan for 13 years in London, as a sellside credit analyst covering emerging market and European corporates.

MARC BASSELIER

UBP converts head of Convertible Bonds

Union Bancaire Privée has announced that Jean-Edouard Reymond is to leave his role as head of Convertible Bonds, being replaced by Marc Basselier.

Basselier has previously worked as head of AXA IM's global and European convertible bond strategies team, and as a convertible arbitrage strategy fund manager at BFT. At UBP he is tasked with growing the offering in the convertible bonds space, working with nine investment professionals based in Paris.

Also announced is the appointment of Alice de la Morinière as senior portfolio manager. She too has worked at AXA IM, most recently as a European equity analyst and investment specialist for European equities and convertible bonds. She has also worked at Societe General.

FABIAN BRÜGMANN

Creditshelf strengthens management with new CFO

Creditshelf AG has expanded its management team with the appointment of Fabian Brügmann as chief financial officer (CFO) of the company, effective 15 January 2019.

Brügmann will be responsible for Finance and Investor Relations in the newly created position and will be directly responsible to the chairman of the Executive Board, Tim Thabe. He does not become part of the board himself.

Brügmann previously served as director of Investor Relations at Commerzbank AG.

Invesco

How to invest sustainably

Manuela von Ditfurth is Senior Portfolio Manager at Invesco

Requirements regarding the sustainability of investment solutions have been increasing for several years now. Catchwords like ecological footprint, fair working conditions and corporate governance are representative of this trend. Beyond purely economic considerations, investors now want more influence over what happens to their money because the way investment money is used also determines how our society will look in the future. Money means power, which many investors want to use for their own objectives and purposes.

This is not exactly new, as divestment campaigns such as the 'Go Fossil Free' initiative have shown in the past. Here, public institutions, organisations and pension funds were urged to consider climate change and stop investing money in companies with fossil energy exposures.

The original idea of sustainable investing is increasingly the focus of attention these days. According to this idea, companies can potentially achieve above-average returns and boost shareholder value in the long term if they capture the potential for ecological and social value creation while preparing for new challenges at an early stage. Sustainable business practices strengthen the trust of consumers and business partners, who are no longer indifferent to the conditions under which products and services are developed.

ESG – ONE OBJECTIVE. FIVE STRATEGIES

Various ESG strategies – ESG stands for environmental, social and governance – have established themselves in the sustainable investment sector in recent years. Essentially, sustainable investors concentrate on five approaches. In the case of negative screening, certain industries or categories, such as armaments, are completely excluded. With the ESG integration approach, ESG factors such as the environment, human rights and corruption are systematically included in the financial analysis and investment process, and the quality of a company is measured by this standard.

With active ownership, on the other hand, investors try to influence companies involved in critical activities by initiating direct dialogue with the management and by exercising their voting rights in a targeted way. In the case of norm-based screening, criteria based on international standards and guidelines are employed. Finally, positive screening identifies companies that achieve above-average scores in fulfilling certain environmental, social and governance criteria within their industry.

POSITIVE. NEGATIVE. ABSOLUTE. RELATIVE

Anyone who wishes to invest according to ESG criteria must decide between two approaches. With positive criteria, companies that distinguish themselves through sustainable management and sustainable products or processes are identified specifically. They fulfil ecological and social requirements in a special way – ranging from climate efficiency and low water consumption through to occupational safety and employee satisfaction. In the case of negative criteria, any companies, industries or countries that do not fulfil certain ESG criteria or have violated international norms and standards are excluded from the investment universe.

In the next step, investors can pursue an absolute or relative approach. In the case of positive screening, an absolute approach means the ESG rating is determined based on absolute criteria. The sole focus here is on the extent to which the company fulfils the ESG requirements, no matter how it performs relative to other companies. Similarly, negative screening involves the exclusion of companies that pursue ineligible activities. This can mean that very few companies from one sector are excluded while a large number in another sector are ruled out. Individual sectors can even be disqualified entirely. An absolute approach therefore offers the advantage of setting certain minimum standards across industries, but it can also lead to weaker portfolio diversification due to the exclusion of particular companies or industries.

With the relative approach, the companies are initially sorted into groups according to sectors or industries, for example, and the best companies are then selected from each individual group, in accordance with the best-in-class principle.

GUIDANCE THROUGH SUSTAINABILITY INDICES

Sustainability indices based on the best-in-class principle have been developed to give investors some guidance. Since this concept involves selecting the companies that lead their industries in environmental, social and corporate governance issues, such an index is not restricted to classic sustainability sectors, such as renewable energies and environmental technology. Automotive, oil and chemical companies also qualify if they perform especially well in the ESG ratings.

One of the biggest criticisms of this approach is that these companies don't have to be particularly sustainable, but only must be especially good within their peer group. Therefore, there is the risk of investing in equities that are not very sustainable in absolute terms, but nevertheless score relatively well in their industry. On the other hand, equities could be excluded if they aren't among the best in their peer group but are still better than most companies from another industry. Given this diversity, it is still the task of the investor to select the sustainability approach that best suits his or her investment objectives.

Fund watch and product launches

Degroof Petercam offers Spanish investors new mixed equity fund

The Spanish regulator National Securities Market Commission (CNMV) has given green light to Degroof Petercam's new global mixed equity fund one month after it was launched.

DP Mixto RV will mainly invest in assets negotiated in the EU member states, as well as in the rest of the European countries, the US and Japan. Although the Fund does not rule out investing in emerging markets, its exposure to those countries is limited to 25%.

The fund will invest at least 30% and up to 75% in equity, being this exposure of 55% in regular market conditions. The remaining percentage of the portfolio will be exposed to public and private fixed income in euro denominated or any other currency. The fixed income portfolio's duration will be adjusted according to the market outlook, so it will range from 0 to 6 years.

According to the CNMV's metrics, the fund is aimed at medium term investors that do not plan to withdraw their money in the next four years.

www.degroofpetercam.com

Jupiter launches absolute return fund of funds for German clients

Jupiter Asset Management is expanding its product range in Germany with the launch of Jupiter Merlin Real Return Portfolio Sicav.

The portfolio is part of the existing Jupiter Merlin umbrella fund series and is now approved for German distribution. As an actively managed multi-manager portfolio, the fund invests in target funds of various asset classes. The investment objective is to achieve real returns over a rolling period of three years.

Jupiter Merlin Real Return Portfolio was launched in January 2013 in Luxembourg and is managed by independent funds team under the leadership of John Chatfeild-Roberts. In addition, Algy Smith-Maxwell, Amanda Sillars, David Lewis and Alastair Irvine join the team, which has more than 18 years of multi-manager portfolio management experience.

The new fund focuses on absolute return strategies with a strong focus on long-short equity funds. In addition, the team invests in selected equity funds and physical gold, while also being able to invest flexibly in bonds, commodities and real estate. Currently, the portfolio holds around 67% absolute return funds, 25% equity funds, 5% physical gold and 3% cash.

Since inception, Jupiter Merlin Real Return portfolio has returned 37.1% (5.6% pa) against a benchmark return of -0.5% (Euribor EBF 3 months) with a beta of 0.4 (vs. MSCI World Index), a volatility of 5.5 and a Sharpe ratio of 0.9 (as at 31/10/2018).

www.jupiteram.com

Fidelity launches water and waste strategy

Fidelity has unveiled a strategy focusing on sustainable investment opportunities within the water and waste management sectors.

The Fidelity Sustainable Water and Waste fund seeks to deliver strong risk adjusted returns across the cycle by investing globally in companies involved in the design, manufacture, or sale of products and services in connection with the water and waste management sectors. It has the ability to invest across the water and waste value chains, including in companies developing new technologies to meet ever growing demand.

With over 70% of the world's population expected to live in cities by 2050, there is no doubt rapid urbanisation is underway in developing markets, while developed markets are dealing with increasing pressure on old infrastructure, leading any city to be quickly paralysed if they fail to prioritise water and waste management.

Portfolio manager, Bertrand Lecourt, will leverage Fidelity's robust research and investment capabilities, to find the most compelling investment opportunities in this under-researched sector. He joins Fidelity International from Polar Capital, bringing with him over 18 years' experience researching water and waste utilities.

www.fidelity.com

NN Investment Partners launches European Sustainable Infrastructure Debt fund

NN Investment Partners (NNIP) has launched European Sustainable Infrastructure Debt fund to meet the increasing demand for investments in real assets.

The fund aims to build a diversified portfolio of investment grade quality infrastructure debt across Europe in five core sectors, including social infrastructure, transportation, energy, utilities and digital infrastructure. Traditionally, the low correlation of infrastructure assets to economic cycles has attracted long-term investors seeking to diversify their portfolios, match their liabilities and earn attractive returns.

NNIP has further refined its strategy to focus on infrastructure assets that offer measurable social and environmental impact without giving up financial returns.

The company adheres to the Equator Principles and will select investments for the fund by applying its proprietary ESG model, ensuring a strict sustainability framework and benefitting from the advice of NNIP's Responsible Investing team. It will help to solve current infrastructure challenges, adding value for investors and societies across Europe.

www.nnip.com

€37bn Q3 2018 net inflows to AIFs

Alternative alternatives

As investors continue to seek out diversifiers and improved returns while controlling for risk, the attraction of alternative investments continues to grow. Jonathan Boyd, Ridhima Sharma and Eugenia Jimenéz report

Alternative investments have attracting increasing attention in recent years as investors have struggled with the impact of low to no yields on traditional fixed income, and as 'free' money from central banks has found its way into stock markets, raising prices but also raising questions about whether prices are being supported by fundamental improvements at the micro level or more by generic multiple expansion.

For example, in June this year, HFR launched a family of risk premia indices, in response to what it said is demand from investors to access alternative beta, thus leaving more time to focus on finding managers generating alpha.

More recently, the European Fund and Asset Management Association (Efama) reported that alternative investment funds (AIFs) recorded net inflows of €37bn in the third quarter of 2018, which was up significantly on the €15bn recorded for the second quarter. Net sales over the first three quarters of the year hit €104bn.

TAKE UP

The top markets for net sales in the most recent quarter were Germany (€20.9bn), Ireland (€14.7bn), Luxembourg (€8.2bn), Netherlands (€4.8bn) and UK (€2.4bn). Meanwhile, assets of AIFs reached over €6trn in the quarter, managed across 28,581 funds.

The *Loan Fund Survey*, published by KPMG and the Association of the Luxembourg Fund Industry, suggests that this segment of the alternatives industry is getting a boost from the EU's Capital Markets Union, which is encouraging non-bank originated funding. Luxembourg based loan funds saw their collective AUM up 23.5% in the year to mid-2018.

Other alternatives have also performed in a way that suggest they should be attractive to investors.

In the UK, the Coniferous Standing Sales Price index has made gains over the past 15 years. In the year to September 2018, prices gained 43.4% in real terms, according to data published by the Forestry Commission on 15 November. The Softwood Sawlog Price index was up 31.6% in real terms in the six months to the end of September relative to the same period in 2017.

Of course, some alternatives in the UK are not doing as well. Residential property prices are feeling the heat from Brexit, with prices in the three months to November rising at their slowest rate since December 2012, according to lender Halifax, which runs a closely watched index.

Elsewhere, there is continued demand for infrastructure investments. Invest Europe, representing private sector investors in infrastructure, has previously noted that spending of some 3.6% of EU GDP would be required just to maintain economic growth. Added to which, it noted estimates that close to a quarter of the EU's population will be aged 65 or older by 2020, and that commitments to climate change-related investments would drive additional infrastructure needs.

Looking elsewhere, one of the most

$1.36trn Value of central bank gold as part of FX holdings

historical asset classes, gold, has drawn conflicting views on not only its role, but also the outlook for its price. By some measures, it could be the place to be in 2019 (see boxout).

Art may not be seen as a core area for those seeking alternative investment strategies, but consider that, for example, $100 invested in a work by Peter Doig would be worth some $2,300 according to the index calculated by Artprice, which tracks auctions globally. Meanwhile the art world awaits the first $1bn piece of art following the $450m paid for Leonardo da Vinci's Salvator Mundi in 2017.

Ulla Frimor Agesen, head of Alternative Investments & Manager Selection at Nykredit, says simply "No" to gold in 2019.

A similar view is expressed by Stefan Ferstl, who adds that gold miners, rather than gold, may be interesting.

Thomas Metzger says that against the assumption that the period of low volatility is coming to an end, then gold could provide hedging and diversification benefits in coming months.

Celia Benedé says that "historically, we have had exposure to Gold as an uncorrelated investment that could serve as a safe haven asset. Taking into account that the scenario in sight for 2019 may be troubled, protection through investments in gold makes a lot of sense."

Barry Fowler, managing director, Alternative Income at Aviva Investors, notes that a significant share of the manager's Real Assets platform is made up of alternative income assets - £21bn out of £41bn – and that demand for related investment expertise is growing.

"The main driver for our alternatives business is the demand side, our investors. Our main sources of investor capital are pension funds and insurance companies. The insurance companies tend to have liability matching requirements; Solvency II shapes what they can do and how they deploy their capital. Pension funds are de-risking their books and focusing on meeting their needs with cashflow driven strategies.

"These structural drivers also overlap as pension funds looking towards buyout match insurer appetite for bulk purchase annuities. Alternative assets which provide a combination of yield enhancement, diversification and an enhanced risk profile are an obvious choice to meet their needs."

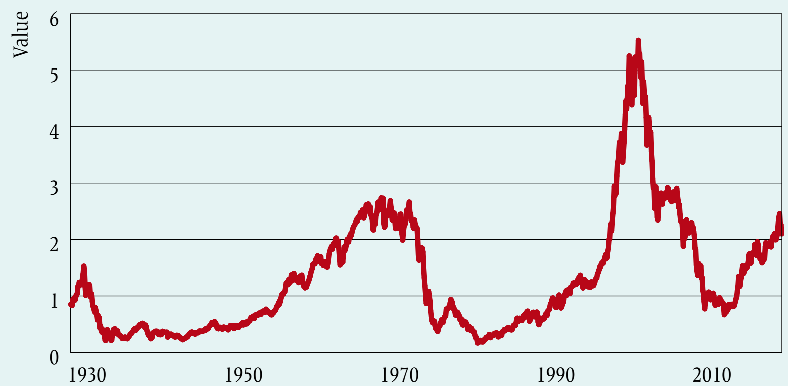
GOLD

According to the views expressed to InvestmentEurope by fund selectors it is safe to say that, anecdotally, acceptance of gold as an asset class is more prevalent in Switzerland than in, say, Denmark.

But should investors be considering gold in the current risk off climate?

One measure of its possible performance is to look at the ratio of the gold price to the S&P 500 index. From the depths of the global financial crisis, the amount of gold it sakes to buy the S&P 500 has risen, reflecting the strong bull run in US equities. But it also shows that from September through November 2018, there was a strong tick down in the amount of gold required to buy the index.

S&P 500 TO GOLD RATIO



Source www.macrotrends.net

DIVERSITY

Amid the range of alternatives considered in the area of infrastructure for these yield and diversification benefits, Fowler suggests 2019 may see a shift towards transport, particularly rail and rolling stock.

"These include projects such as the Silvertown Tunnel, a new crossing for the river Thames, and the Elizabeth line, part of Crossrail," he says.

Other opportunities are seen in fibre broadband, energy from waste, trade receivables and fund financing.

"Fund financing - providing the debt for a fund to leverage returns from its underlying portfolio - is a growing opportunity for providers such as ourselves to harness private capital as the market changes from a bank led model."

Magnus Spence, head of Investments, Alternatives at Jupiter Asset Management, notes that the alternatives business at the manager has been growing "substantially" in the past couple of years, including the launch last year of the Jupiter Global Levered Absolute Return and Jupiter US Equity Long Short funds, with a commitment to growing capabilities in liquid alternatives. The latter is an area in which he sees market neutral equity long/short strategies having the potential to do well in 2019, along with event driven and macro strategies.

"Rising volatility in equity and bond markets will likely increase the allocation to liquid alternatives as investors seek to protect capital after a long period of bull market conditions for both asset classes," he adds.

Taimur Hyat, chief strategy officer, PGIM, points to some $175bn in alternative assets already at the group.

28,581 AIF funds

> "IN THIS ENVIRONMENT, WE BELIEVE IT MAKES SENSE NOT TO DIVERSIFY ACROSS ASSET CLASSES INTO MULTIASSET SOLUTIONS, BUT TO WORK WITH A SECOND MULTISTRATEGY LEVEL TO ADD STABILITY TO THE PORTFOLIO"
> *Thomas Metzger, Bankhaus Bauer*

"This includes real estate and private credit, where we are among the largest managers in the world, as well as macro and relative value hedge funds. We shy away from strategies that are alternative in name only, and in fact largely deliver market betas, as we believe investors can access these exposures more efficiently, and at more reasonable fees, elsewhere.

"Looking ahead, we see strong demand for these truly diversifying alternative strategies. We are committed to maintaining our leadership position in a wide range of alternative platforms, such as value-added and opportunistic real estate, mezzanine investing, real estate debt, agriculture, infrastructure and relative value hedge funds, and are investing behind these capabilities to meet our clients' evolving needs."

"At the same time, we partner closely with clients to identify new ways to deliver solutions through our alternatives expertise – either by building or selectively bringing in-house the skills needed. A recent example of the former is our expansion of direct lending capabilities within our private credit business, PCG. The most recent example of the latter would be PGIM's acquisition of Wadhwani Asset Management, a London-based quantitative, absolute return macro-focused investment management firm, which further extends our capabilities in the alternatives area."

Looking ahead, Hyat sees an overcorrection by central banks unwinding quantitative easing, which could make market neutral and managed futures strategies more attractive to those seeking some protection from recession. Similarly, he says property and private equity firms are "building up dry powder in anticipation" of a downturn.

Pierre Cherki, head of Alternatives at DWS, says the manager has some €73bn of AUM in its alternatives business globally, which it intends to grow.

"At the time of our IPO in March 2018 we committed to investing in and growing our alternatives platform, and we have since partnered with and taken a minor stake in Skyline AI, a provider of artificial intelligence to the real estate sector, and entered into a strategic alliance with Tikehau Capital to expand our presence in the alternatives asset class."

In terms of areas that are likely to grow particularly through 2019, Cherki says institutions are likely to increase allocations to private infrastructure for liability matching and diversification reasons.

"The monopolistic market positioning of infrastructure generates cash flows that tend to be predictable in the long term, a characteristic that is very important for the cashflow matching objectives of long-term investors, and there is the opportunity to generate some capital appreciation through active asset management."

Rising interest rates in 2019 could benefit infrastructure, as returns are often linked to interest rates, with often explicit inflation indexation or flexibility to increase prices.

SELECTOR VIEWS

Nykredit's Ulla Frimor Agesen suggests the question of liquidity/illiquidity will feature heavily over the coming year in terms of selection of alternatives strategies.

"We strongly believe illiquid alternatives will play an even bigger role going forward," she says.

"Most agree that the outlook for 'traditional' asset classes is more muted for the coming years – the falling efficient frontier – and therefore there is a need to look for alternative return drivers. Some of the alternative asset classes can provide a strong contribution to the portfolio both in terms of generating return and as a good diversifier in a portfolio context; although you must be mindful of valuations and also be able to handle the illiquidity."

On the question whether she considers any asset classes or approaches as being 'new' alternatives – such as, risk premia funds, debt funds, infrastructure, real assets or others – she says: "The asset classes are not new, but we believe the socially responsible angle or the UN Sustainable Goals will play a role in new variations of alternatives going forward."

"We already have quite significant commitments to infrastructure equities (illiquid) and expect this to grow further in the coming years. Infrastructure provides an essential service to society and therefore tends to have a different performance pattern to the more traditional asset classes – although not necessarily immune to the general market environment. We also plan to do more work in the private equity space in 2019, even though part of this market appears quite hot.

"We still haven't converted to alternative risk premia strategies. For us to be interested, there will need to be a high degree of transparency as to which factors are part of the strategy and the rationale for these.

"Investing in real assets should be with a long term horizon. As most of these assets require time to optimise and turn around, you will need to take a long term view."

1/3 Ratio of large municipalities in Europe with below need infrastructure investment (EIB)

Thomas Metzger, head of Asset Management, Bankhaus Bauer, sees more challenges to traditional asset classes such as equities and bonds in the coming year. Yet this also has to be balanced against, for example, rising corporate profits in the US. Levels of volatility may become the clincher in arguments for alternatives.

"In this environment, we believe it makes sense not to diversify across asset classes into multiasset solutions, but to work with a second multi-strategy level to add stability to the portfolio. Especially the field of alternative investments should be interesting for many investors in the coming months.

"On top of that, we have always had phases in which many asset classes have developed in the same direction. This can happen again and again in the current environment where politics has a lot of influence on the markets. Those who only spread over traditional asset categories may only have a limited diversification effect.

"We have not traditionally considered our multi-asset solutions to be so rigid in categorisation by asset class for years, but rather in risk/return profiles of the strategies we use. The Alternative investments segment in particular, which we had filled with topics such as cat bonds, micro finance, convertible bonds and various annuity absolute return components, acted as a supplement to the equity block in the portfolio. We recently added a stock absolute return strategy."

Ricardo Líbano, fund selector at IM Gestão de Ativos, sees no evidence that growth in demand for alternative investments is about to stop.

"The present market context, after multiyear bull markets in both equities and fixed income, leads investors to search for different sources of returns and the alternatives space should be a fertile ground to find, not only different, but also, uncorrelated sources of returns."

As to whether there are any alternatives that can be thought of as 'new', he rather points to certain asset classes or approaches that were not as accessible to investors in the past. Risk premia, debt and infrastructure funds are available in formats that allow "any kind" of investor to gain exposure.

"The fad here, in my opinion, is the easier accessibility to these asset classes and strategies.

"We are invested in daily liquidity alternative Ucits funds and, as different asset classes are available in this framework, we monitor them and consider investing in them."

Celia Benedé, fund manager, Caja Ingenieros Gestión, notes that investments have been made by the house in alternatives since 2004.

"In our range we have two alternative funds and the presence of the asset in our portfolios has always been important," she says.

"There are several reasons why we have believed in the need to use alternative management in our portfolios. In general, the search for decorrelation with traditional assets, the importance of pursuing capital preservation and the theories regarding portfolio optimization have led us to recognise that alternative management strategies were good allies of any portfolio. In recent years has been added the fact that a low interest environment… alternative management has gained attractiveness regarding investments in fixed income."

Still, there are risks, such as intervention by central banks, increases in correlation between different financial assets, and lack of clear trends, which have over the past year hit absolute return strategies.

"Ucits alternative strategies have attracted investors and will continue to attract them during 2019, both for their philosophy of capital preservation and decorrelation with the markets, thus trying to provide positive returns in as many market environments as possible, as for the lack of investment alternatives within the supply of conservative traditional assets. But the interest may be affected by the bad results of the last year; a reason why investors will be more restrictive and demanding."

Deeper analysis will be required of risk premia, factors and sectors in 2019, Benedé suggests.

"It is not enough to choose an asset and a geographical area but it is equally important to choose a sector and what factor we want to be exposed to and what are the factors that offer compensation for risk. Low volatility and value are two factors that are often present in our portfolios. An investment idea that we also see makes sense in this environment of market difficulty, is to carry out barbell strategies that focus on assigning risk to the investment ideas on which there is a high conviction and on the other hand maintaining high liquidity positions."

Stefan Ferstl, CEO and fund manager at Ariqon Asset Management, says his firm has been building up alternatives capabilities since 2015. There are currently two people dedicated to alternatives assets and doing research in the selection team.

"We are convinced that liquid alternatives are a perfect complement for each portfolio. Within the product range we prefer long/short equities, especially after the difficult year of 2018, which was very challenging for every fundamentally oriented manager. In our opinion each area of alternatives has its advantages and disadvantages. Therefore, it depends how the markets will develop next year, and which impact the political situation will have on the markets.

"Ongoing low interest rates and volatile equity markets could force investors more and more to think about alternatives." ■

2.8% YoY rise inGermany's manufacturing employees in October 2018

HOLGER BACHMANN

Holger Bachmann has been working in the investment industry since 1997. He is head of Securities Business at BMW Bank. With his colleague Markus Baumgartner, he advises the funds of funds MultiManager Fonds 3, ComfortInvest Substanz and ComfortInvest Perspektive.

He started with Union Investment in Frankfurt and then moved to BMW Bank in 2001, where he launched the fund business of the carmaker's financial services unit in Germany.

Bachmann holds a PhD from Cambridge University and has published extensively on media and cultural history.

24,200 Abortions performed in Germany in Q3 2018 – Destatis

BMW Bank makes use of all liquid asset classes, such as equities, government bonds, corporate bonds, high yields and also to a limited extent volatility and other market independent approaches. Ridhima Sharma reports

The value strategists

BMW Bank GmbH, part of BMW Group Financial Services, creates a complex and flexible portfolio of financial services that would meet the growing and evolving needs of the customer market at all times. Headquartered in Munich, BMW Bank manages three funds of funds which altogether have assets under management of about €80m, all of which are onshore funds.

For some years now, clients have been investing predominantly in balanced and more defensive strategies. The bank does not offer any absolute return products, but uses them in its funds.

The largest fund is the balanced structure. BMW Bank makes use of all liquid asset classes, such as equities, government bonds, corporate bonds, high yields and also to a limited extent volatility and other market independent approaches. In order to implement its strategy, it uses index trackers to a certain measure if it wants to capture market movements quickly, for instance to build up some exposure after sharp downturns.

"Currently, we have about 15% in trackers; the majority of our holdings are in actively managed funds, which corresponds to our value-oriented, anticyclical approach which we follow to generate performance," says Holger Bachmann.

THE PERSONAL TOUCH

New funds for potential new investments come mainly from their network of personal relationships to fund managers which they have built up over the years.

"Usually these come from companies with whom we have worked for quite a long time; especially in the freestyle and spread-oriented bond arena, where a close personal contact in our view is paramount, we have a pretty good overview over the German fund manager landscape," continues Bachmann.

"We also keep an eye on promising managers within companies that either do not fit our philosophy (too big, just marketing driven, etc.) or that are not open for external investors – if someone we know well launches a new fund, changes companies or even strikes out on their own, we definitely take a closer look. We do have a kind of informal shortlist of fund managers we know and appreciate – if something promising comes up, we might add it to the list," he says.

QUALITATIVE EMPHASIS

Currently, the bank is looking to round off its portfolio with some freestylers in the bond markets, some more absolute return strategies and also some volatility plays.

"Our selection process is mainly qualitative – we always speak to the managers directly and try to see if the process is transparent, understandable and not just a marketing wrapper. If we not understand an approach, we will not invest in it, even though we might miss some opportunities. We look for managers who have the freedom to implement their strategy and to make clear decisions based on their market view.

> "WE ALWAYS SPEAK TO THE MANAGERS AND TRY TO SEE IF THE PROCESS IS TRANSPARENT, UNDERSTANDABLE AND NOT JUST A MARKETING WRAPPER"

"We try to steer clear from big investment teams and committees – if nobody is responsible, usually the results are accordingly watered down. As a result, we have a tendency towards value strategies and to smaller German boutiques where there is a decision-making culture and managers often have stakes in the company themselves or even own it," he adds.

On the other hand, the bank gets very cautious when performance cannot be explained, when there are sudden asset inflows or outflows and when the fund attracts more volume than can reasonably be invested in the respective strategy. A definite red flag is changes in strategy or even fund management.

In their experience, performance is made by managers and not by investment process, so if managers change, so does the performance. From a regulatory standpoint, BMW Bank always choose regulated products.

Bachmann concludes: "We use very little to no hedge funds as the track record is not convincing in most products. In the few cases we have, we always go for regulated, transparent products. As far as risk management is concerned, in our view market experience and *ex ante* analysis is key. If someone relies only on sophisticated analyses of black swans, value at risk or other statistical data, we are sceptical." ■

>3% France's projected budget deficit next year

Sustainable long term investing

Paris-headquartered asset manager Comgest outlines its ESG approach to investing focusing on the research of quality companies as one of its identity patterns since inception three decades ago. Eugenia Jiménez reports

Attention to environmental and social issues, even in the global asset management industry, has been in consistent growth but has particularly risen over the past two years. However, there are some who have been looking at this concept – known now as ESG and some years ago as "ethical" investing – for rather longer.

Founded in 1985, French equity manager Comgest has been developing an investment strategy focused on long-term sustainable growth for some three decades, favouring companies with sound business and financial practices capable of generating sustainable earnings growth.

The firm believes that Environmental, Social and Governance (ESG) factors can be incorporated into its investment and decision-making processes in line with its fiduciary duties. In 2010 it signed up to the United Nations Principles for Responsible Investment reinforcing its beliefs; one year later, the manager launched a programme aimed at integrating ESG criteria systematically and simultaneously within its investment process.

THREE PILLAR APPROACH

Comgest has adopted a "quality-based" ESG integration approach and bases its responsible investment strategy on three pillars: integrate (ESG integrations, exclusions); engage (voting, company dialogue); and promote (responsible investment initiatives, client reporting).

The systematic and simultaneous integration of ESG criteria has been applied first to Comgest's global emerging markets equity strategy and then to the firm's global equity fund and European equity strategy (roughly 95% of assets under management).

Comgest's investment philosophy is based on the selection of quality growth stocks that are strengthened by ESG research, which helps the firm to identify companies potentially capable of creating sustainable value and generating positive impacts for their stakeholders.

Arnaud Cosserat, Comgest CEO, underlines: "We put a lot of emphasis on the products and the quality of the research because we feel it is what it differentiates us.

"We are looking to so many factors that could impact. We are ESG native and look for long-term investments."

According to the French manager, its approach to ESG integration is clearly differentiated from that taken by other asset managers, as it is tailored to the specific characteristics of each company including how it is structured, its business sector, its geographic location, the regulations applicable to its activities, etc.

One of the firm's strategies is the Comgest's Global Equity Strategy, whose assets under management surpassed €500m in 2017. It invests in companies operating in developed countries that are not generally at direct risk as a result of their own activity. Nevertheless, the upstream activities on which their operations depend, may be exposed to extreme climatic events including droughts, storms and tsunamis, extreme rainfalls, rising sea levels, and heat stresses.

RISKS OF HARD SCREENING

Sebastien Thevoux-Chabuel, head of ESG at Comgest, highlights the importance – above all – of screening when venturing into the developing world, while warning that having a long track record in the emerging world does not guarantee companies will meet ESG criteria.

"We have been doing this for 30 years and it has really helped us to find opportunities, but we still have encounters where companies lie to your face or are blatantly fraudulent. Part of the way we have countered this is having a long list of areas we do not invest in, which means we can concentrate on locating the quality companies from a narrower field.

"Does this create the problem of having more assets to allocate to a smaller number of stocks, therefore increasing concentration risk? To an extent, yes," says Thevoux- Chabuel.

"That is a risk, so we have to be conscious of the assets we have to allocate. You need to look at the opportunity set relative to the assets and ensure you do not compromise a quality bias, if that is your emphasis, for allocation purposes." ■

-0.2% Q3 2018 decrease in Switzerland's GDP

Swiss equities have been benefiting from weaker Swiss franc and other factors, according to followers of the asset class. Ridhima Sharma reports

Swiss equities in focus

Swiss equities continue to offer attractive growth dynamics not only in a European context but also globally.

That is according to Eleanor Taylor Jolidon, co-head Swiss & Global Equity Portfolio Management at Union Bancaire Privée (UBP), who has been working on financial markets since 1993, and focused on analysing and managing Swiss & Global Equities since 2004.

In 2018, Switzerland showed about 17% growth in country earnings.

The local equity market meanwhile has traded on a recent price/earnings ratio of 16.5%, slightly above its long term average of 15.6%. However, looking at the relative multiples, Switzerland actually trades slightly below its long-run average.

However, the market also delivered higher returns with lower volatility, lower drawdowns with a speedy recovery, low beta and relatively low correlations, high upside with lower downside capture.

Taylor Jolidon further notes that diversification means that investor can tap into a mix of quality defensive growth companies and niche, innovative cyclical players; and cash flow return on investment (CFROI) rates that are class-leading measured globally, leading to sustainable long-term returns.

Switzerland has topped the World Economic Forum's *Global Competitiveness Report* ranking since 2009, being able to boast solid state finances, a structural current account surplus, sustainable migration of qualified persons, and high levels of investment into innovation and infrastructure.

GDP has benefitted fully in periods of global growth and corrected less during crisis. Companies' global revenue streams and presence should mean growth mirrors that of the world economy.

Approximately 40% of investment in Switzerland is from foreign investors.

Another factor in its favour is a well-established equity investing culture, the result of the introduction of defined contribution pension plans, Taylor Jolidon points out.

CURRENCY STRENGTH

Any appreciation of Switzerland as an investment destination has to deal with currency risk.

The country has been dealing with an appreciating currency for the past 40 years. Swiss companies have learnt to adapt to this, in part through increased outsourcing, reducing transaction risk and the impact of the strong currency on margins.

The persistent strength of the Swiss franc has forced Swiss companies to focus on competitive advantages and innovation and has served to instil a mindset of continuous rejuvenation, Taylor Jolidon suggests. Meanwhile, the ending of the effective peg against the euro has allowed the Swiss National Bank to act more independently.

Given the advantages outlined at the micro level, it is perhaps no surprise to suggest that investment demand remains strong in the technology sector.

Other growing sectors include industrials and specialised building materials, where Taylor Jolidon points to disruptive innovation amongst suppliers.

Luxury goods are showing a return to growth, banks face reducing headwinds, while continued movement towards normalisation of global interest rates benefit banking and insurance. Undemanding valuations of insurers represent relatively good investment opportunities.

Here again, CFROI is an important market of the opportunities. "In the Swiss & Global equity team at UBP, we seek undervalued stocks along the company CFROI life cycle. We build conviction by in-depth analysis of companies and their environments ," says Taylor Jolidon.

During a typical company's life, its business generates varying levels of CFROI, reflecting its stages of development: growth, maturity or decline. While superior CFROIs tend to fade down to the cost of capital (COC) as value creation attracts competition, inferior returns may "fade up" to the COC as a result of restructuring or competitors exiting the market. ■

0.481% Yield on Italy's two-year government debt on 13 Dec 2018

Narrowing the gap

As recent data finds that global gender parity is over two centuries away and that no country in the world has achieved gender equality, initiatives like MWE become increasingly important. Eugenia Jiménez reports

Since gender equality is fundamental to whether and how economies and societies thrive, ensuring the full development and appropriate deployment of half of the world's total talent pool has a vast bearing on the growth, competitiveness and future-readiness of economies and businesses worldwide, according to the World Economic Forum.

The international organisation for public-private cooperation published in its latest Global Gender Gap Report that global gender parity was over 200 years away and that no country in the world had achieved gender equality.

The report, surveying 144 countries on their progress towards gender parity across four thematic dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment), found that Iceland, Finland, Norway and Sweden were the countries making the greatest progress in reducing their gender gap by more than 80%.

Conversely, Italy, Cyprus and Malta are at the tail of the list ranking Italy 82th out of 144 countries for equal opportunities for women. Inequalities at work – in terms of participation, career opportunities, and wages – make a major contribution to the very poor result.

In terms of equal pay, Italy ranked 126th out of the 144 countries, and the share of unpaid daily work – 61.5% for Italian women versus 22.9% for men – was among the factors leading Italy to the less virtuous countries.

When looking specifically at the financial sector, gender parity's figures are even more astonishing. Only one in four board members and 6% of financial services firms' chief executives are women.

"WE WANT TO RE-DESIGN THE ROLE OF CAPITAL IN SOCIETY BY BUILDING A FUTURE IN WHICH FINANCE IS INSTRUMENTAL TO SOCIAL AND ENVIRONMENTAL PROGRESS"

Paule Ansoleaga (left) with fellow MWE founder Simonetta Cristofari

In some of the UK's top financial institutions, women are paid half as much as men. Culture seems to be a key factor behind this gap (old boys club, "motherhood penalty" or opaque bonus criteria among others) while unconscious biases are probably at play too.

MWE LAUNCH

Paule Ansoleaga Abascal, from Bilbao at the Basque Country in Northern Spain, joined the financial industry in Italy some five years ago after having spent over six years in London, almost three in Switzerland, one year in Paris and half in Copenhagen.

She admits that the reality she found in the Italian financial industry with regards to gender parity encouraged her and her partner, Simonetta Cristofari, to launch an initiative aimed at tackling some of these issues.

MWE, "an initiative launched by women, for everyone" was officially founded in July 2015 by Paule Ansoleaga and Simonetta Cristofari. At its early stages, it simply consisted of a group of women holding regular roundtable meetings to discuss gender parity issues as well as the need of re-shaping the role of capital in society for building a future in which finance is instrumental to social and environmental progress.

After this first meeting took place more than three years ago, MWE has hosted 11 events gathering Italian financial professionals, including both men and women, seeking to raise awareness on important topics such as unconscious gender biases or the power of gender intelligence to

2% Italy's budget deficit target for 2019 as of 12 Dec 2018

foster inclusive mindsets. Ansoleaga underlines how these meetings address gender parity issues from a humorous point of view, instead of as a complain on the status quo.

She explains: "The MWE mission is to build a clear moral and economic case for gender parity and for an inclusive ecosystem in the financial industry.

"We want to re-design the role of capital in society by building a future in which finance is instrumental to social and environmental progress," says Ansoleaga.

She continues outlining how in her views, gender is just the starting point for addressing diversity since all those supporting the MWE initiative stand for an industry that welcomes everyone, regardless their gender, background, sexual orientation, age, race, ethnicity or religion.

MWE's main goals are therefore inclusion, networking, awareness and empowerment. The initiative aims at creating an ecosystem that encourages diversity and inclusion in the financial sector; forming a strong network of financial professionals to encourage idea-sharing and grow together; raising awareness of unconscious biases and promoting an inclusive mindset; and empowering women and all minorities to help them advance professionally and personally.

Focusing on the goal of raising awareness, Ansoleaga exemplifies: "In July, my boss and myself organised an event for institutional investors in Rome. From 60 participants, I was the only woman.

"But what I found surprising was the fact that nobody there found it odd. This is what I mean when referring to the need of creating awareness. Sometimes privilege is agnostic to those who own it and that's why we want to start by raising awareness."

ECONOMIC IMPACTS OF GENDER EQUALITY

At macro level, advancing women's equality can add $12trn to global growth, and at micro level, gender equality in decision-making positions improves the company's bottom line.

Other benefits include access to a wider talent pool, more innovation, an enhanced connection to customers, and a greater integration of social and environmental factors into strategic decisions.

It could be said that gender equality is a moral and economic imperative for success.

The importance of gender equality led the United Nations to include it in the 17 Sustainable Development Goals: "Achieve gender equality and empower all women and girls." This empowerment is one of the most effective ways to accelerate economic development, reduce poverty and build sustainable societies around the world.

"We need $7trn to achieve the Sustainable Development Goals and we will not achieve them if we leave half our population behind. This is why the World Bank is committed to advancing gender equality and the empowerment of women. It's not just the right thing to do – it's the smart thing to do to ensure a better future for all," Kristalina Georgieva, World Bank Chief Executive Officer said.

MWE EVENTS

MWE events are open discussions on diversity, inclusion, and unconscious biases, from varying experiences and professional points of view.

Some 300 financial professionals of over 40 companies have been involved in the 11 events MWE has held so far.

"Our efforts have proven to create a positive ripple effect: for instance, an Italian Bank launched a Women Leader initiative after a senior member attended one of our events," highlights Ansoleaga.

She concludes: " I truly believe that capitalism has made many mistakes by its own greed but it is possible to re-shape it.

"There is an emerging and growing movement of women, millennials, and others that are trying to build a more sustainable and equal world starting by finance." ■

WOMEN IN INVESTMENT AWARDS 2019 ITALY

After the successful launch of the Women in Investment Awards by our sister title, *Investment Week*, *InvestmentEurope* is launching the Women in Investment Awards Italy on 2 October 2019 in Milan.

Diversity is increasingly the 'must have' rather than a 'nice to have' for an industry seeking to remain fit to meet the demands of the 21st Century.

From aspects of ESG commitments – in which a gender pay gap counts as a negative score – to the need to attract new and younger talent with flexible working arrangements, there is still a broad consensus that more needs to be done to recognise the work of women in the industry. A virtuous cycle is to be encouraged for more women to participate at all levels including senior positions that in turn can give them a platform to encourage others into the industry.

In recognition of the changes ongoing, *InvestmentEurope* has moved to institute an Awards programme not only honouring the inspiring achievements of women across all parts of the investment industry, but also to help shape the discussion around how to improve diversity and highlight some of the most forward-thinking initiatives from both buy and sell sides.

InvestmentEurope believes that these Awards have a valuable part to play in drawing attention to the issue of diversity and demonstrating that real change is starting to happen.

Our Awards programme will be officially launched on International Women's Day 2019, and we hope you will take this opportunity to either nominate yourself or a valued colleague for these Awards.

We look forward to revealing our finalists and winners later in the year.If you have any questions, please do not hesitate to contact Rebecca Hancock: rebecca.hancock@odmpublishing.com.

4.7 % Fall in overseas share of the London rental market in the past two years

Are alternatives the right alternative?

Investors' appetite for absolute return strategies remains high despite latest losses agree Iberian fund selectors. Eugenia Jiménez reports

Global economic outlooks from the biggest asset managers seem to agree that a background of increased volatility will be an important feature of both equity and fixed income markets in 2019 and that seeking investments aimed at diversifying away from traditional asset classes might be key to investor success.

But for many alternative managers, providing portfolio diversification has been challenging over the past year. Why? And where should they seek diversification?

GROWING DEMAND

Ricardo Líbano, fund selector at Lisbon-based IM Gestão de Ativos believes that alternatives are likely to attract more investors in 2019.

"Our analysis shows that the appetite for alternative strategies has been growing and there is no evidence to suggest this trend will stop. The current market environment, after years of bull markets in both the fixed income and equity space, has led investors to seek different sources for return, and the alternative space should be a fertile ground to find not just different but also, uncorrelated sources of return."

Celia Benedé, who leads the fund selection team at Barcelona-based Caja Ingenieros, explains how her team has been investing in alternative strategies since 2004.

"In general, the search for decorrelation with traditional assets, the importance of capital preservation and some theories related to portfolio optimisation, led us to admit that alternative management strategies were good allies of any portfolio. Also, the low interest rates of recent years, with an asymmetric risk to the upside, has made alternative management attractive compared to fixed income within the most conservative investments.

"THE MARKET SITUATION HAS PROVED DIFFICULT FOR ABSOLUTE RETURN STRATEGIES"
Celia Benedé, Caja Ingenieros

"However, the market situation, particularly in the past year, has proved difficult for absolute return strategies to achieve their targets. Nevertheless, we will continue including these strategies in our portfolios although we believe investors will be much more demanding and selective when picking funds as well as when considering their optimal weight."

César Gil, head of Fund of Funds at Bankia Asset Management, says that from the wide range of absolute return – including event-driven, global macro, CTAs, merger arbitrage, or long-short strategies among others – each of them performs better in different times of the market cycle, even they can be combined for diversification.

"At Bankia AM, we use these strategies to obtain some extra alpha, with less beta, seeking to improve the binomial risk-return in our portfolios."

César Ozaeta, head of fund selection and fixed income specialist at Abante Asesores, says his team normally favours long short strategies over CTAs, even more when they are sectorials.

"Investors' appetite for this sort of strategies remain high despite reports of widespread underperformance. I think this is because their goal is very attractive since they are supposed to generate alpha in all market conditions, with a low correlation to the rest of the portfolio that can provide the diversification that investors seek in periods of market stress."

ASSESSING LONG-TERM PERFORMANCE

Andrea Profeti, senior investment fund adviser at Indosuez Wealth Management, considers the bad performances of absolute return are in line with the underperformances experienced by most asset classes recently with data suggesting that 90% of asset classes have underperformed in 2018.

"A flexible investment style becomes essential to navigate choppy waters. In the past years there have been just a few AR strategies providing alpha, which I believe it is because many fund managers have started to run this type of strategies not having the ability to navigate in market stresses. This is why I consider essential to look at long-term performances when selecting AR managers/ strategies," explains Profeti.

Gil adds: "That fund managers have not offered alpha with absolute return strategies during this year is a fact. However, some of these strategies like long short funds were already underperforming in previous years.

"What we should be asking ourselves is whether there is alpha in the selected managers or if the problem relies on the fact that AR managers follow the same parameters and these are wrong.

"However, we truly believe that alpha can be added to funds through the right managers' selection, as long as they have been consistent and loyal to their management style. One year's performances is not enough to assess alternative management." ■

2.2% October 2018 annualised consumer price inflation

The use of factor investing is likely to grow in coming years, a survey of institutional and wholesale investors by Invesco suggests. Jonathan Boyd finds out more

The factor effect

The trend towards greater use of factor-based investing is set to accelerate, according to the latest annual *Invesco Global Factor Investing Study*.

More than 300 wholesale and institutional investors across 21 countries, representing more than $19trn (€16.8trn) of assets under management, were asked for their views on the use of factors.

What the Study suggests is that, generally speaking, internal capabilities relating to adopting more factor-based investing have fallen, while belief in use of factors has increased.

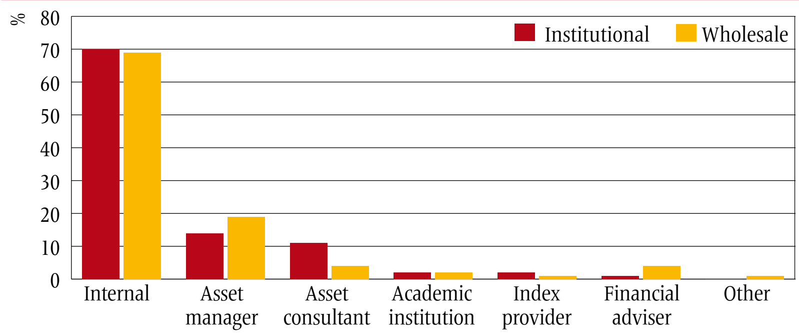
Georg Elsaesser, senior portfolio manager, Quantitative Strategies at Invesco, said the findings came on top of a what has been decade of increasing acceptance of factors as drivers of return.

"You could argue that factor investing has always been there, going back to the 1920s in terms of 'value'. But explicitly accepting factors as essential drivers of return and risk in equity markets has become ever more prominent over the past 10 years," he says.

"One of the important milestones was the Norwegian sovereign wealth fund, when they in 2009 hired in analysis of their portfolio. They discovered and made public that it was not manager selection or alpha generation in the traditional sense that drove the portfolio, but, basically, exposure to factors. And if an institutional investor of that size goes this way, it's a big push."

The global financial crisis caused many investors to realise that high alpha strategies can also have negative sides, such as extremely high volatility of returns on a relative basis. Hence, the search for more predictability in terms of performance,

STAKEHOLDER DRIVING THE FACTOR ADOPTION DECISION



Source Invesco Global Factor Investing Study 2018

Elsaesser says that what Invesco has seen in this space in the past couple of years is investors returning to active from passive because of the low yield environment, but seeking broadly diversified and low active risk. This leads them to consider diversified multi-factor strategies, replacing high alpha strategies, but with a bit more risk management.

The study found that timing does not rank highly in terms of reasons why they would be used.

"What is very consistent over the past three reports is that risk and return are the primary reasons for factor usage," Elsaesser says.

"It means the level of sophistication has risen quite dramatically, because it suggests they are aware that factors can be used not just for return, but also to manage risks."

Cost reduction is another reason cited, but there is a gap to return and risk management reasons, which is put down to Study respondents also answering that the factor strategies they have employed have performed in line or in excess of expectations; lack of disappointment means investors may be prepared to pay.

However, the study also for the first time asked respondents to rank themselves by their own estimated degree of sophistication. The answers suggest that the more sophisticated they are the more differentiated they are in the way they use factors.

ESG

Less than half of respondents said they believed that factor-based investing can address ESG needs.

"The challenge with ESG is that it means different things to different people, which makes it complicated," Elsaesser acknowledges.

But there is an advantage in that factor-based strategies can work against the caveats of ESG. For example, ESG means reducing the opportunity set in some way, such as by excluding stocks. But if the factor characteristics, such as momentum or small cap, are what interest the investor, then swapping out a stock with a negative ESG score for one with a positive score, means the factor characteristic can be maintained.

"Things like UN PRI are going to become standard, which means investors will be excluding by definition. If that is the case, then factor investing works. The only challenge is if exclusion is so great that the universe is cut back to the point where factor strategies cannot be implemented." ■

87% Proportion of European fund market accounted for by active funds

Active vs passive: the boundaries break down

The active/passive debate is nowadays one of complements rather than substitution, fund selectors suggest. Jonathan Boyd and Eugenia Jimenéz report

There is a lot of noise about the role of passive investments, for example, in the form of ETFs, but the emergence of the passive sector in Europe needs context.

Detlef Glow, head of Lipper EMEA Research, speaking at the Lipper European Alpha Expert Forum 2018 in November noted that active funds still have some 87% of the European fund market.

Flows have continued to ETFs through 2018, albeit exhibiting trends that some have suggested investors are in "crisis mode", but Glow says further context is required here too: for example, large ETF flows to US equity makes sense because it is very difficult for active managers to beat the S&P 500 index.

Still, those at the coal face of ETF developments suggest that there will be little letup in the shift of assets their way.

Hector McNeil, co-founder and CEO of HANetf, taking part in a panel at the Forum suggested that: "In 10-15 years, all funds will be ETFs; it is a wrapper in which active strategies can be held, it is technologically powerful, and relies on standardised brokerage systems hence is easy to roll out and easily transportable."

That comment also suggests that the traditional boundaries between active and passive are being broken down.

It also reflects similar comments heard during presentations by First Trust Global Portfolios at certain events hosted by *InvestmentEurope* over the past year, in which the manager has also argued the 'wrapper' case, ie, that it facilitates access to active strategies.

Guilherme Onofre Piedade, head of Fund Selection at Caixa Gestão de Activos, says that passive funds in the form of ETFs or index funds have rapidly increased in importance among investors' portfolios in the past decade, becoming "indispensable" in day-to-day management.

"Passive investment offering has expanded from pure index replicas to more value added types of strategies, such as algorithms that restrict the benchmark universe to include only securities with specific characteristics – low volatility, value criteria, etc.

"The merits of passive investments have allowed these strategies to grow and gain market share from active investments."

In turn, active managers are adjusting and adapting to this realidy, he suggests, with fees being lowered and the concept of performance fees being introduced. Others have listed their funds, allowing intraday trading of shares.

"These changes will probably allow active managers to regain some market share back from passive investments but will only succeed if, on top having lower fees and better liquidity conditions, the managers are still capable of generating alpha," continues Onofre Piedade.

"In the next couple of years, the boundaries between active and passive investment strategies, even though pure players for each strategy will always exist, will not be as clear as before."

Andre Santos, portfolio manager

at BPI Asset Management, Lisbon says that in his view the discussion should be about how to combine the two types of management.

"We are big advocates of active management and we have been using third party funds on our multi-asset portfolios since ever. We believe that active management is an important source of alpha on our portfolios, but we also know that ETFs are needed in order to manage multi-asset portfolios in an efficient way.

"One possible way to combine ETFs alongside with active funds is to trim bias that we don't want to have in our third party funds model portfolios. One example of this type of adjustment might happen if we notice that our funds have a big bias to certain style factors, by underweighting others. Since our goal is not to time style factors, we might use ETFs to reduce this type of bias."

Fernando Aguado Carranza, CIO at Fonditel, Madrid says: "I do not really like this terminology since any investment decision is an active decision.

"The management of a multi-asset product can be very actively managed through passive products and can also be passively managed by using active investment products. Both methodologies are valid and make sense with diversified portfolios. This is the reason why we prefer to talk about passive and active products."

GROWTH REASONS

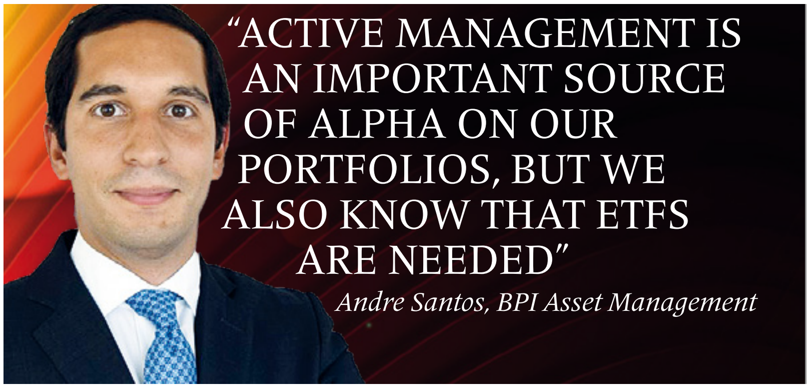
Aguado sees key reasons why passive funds have been growing their global market share.

Technology is one. It has facilitated fast, safe and reliable products. And it has facilitated automation, which has allowed lower prices. In marketing, it has facilitated distribution, particularly into retail networks.

Risk management is another reason he sees.

"When buying active products, an inherent risk is also acquired against the reference index, against the investment goal. This is an uncontrollable risk for fund buyers.

"Nowadays, we prepare and control very detailed risk budgets, and with the aim of maximising profitability linked to the risk we take, we have been decreasing that extra risk little by little while increasing the risk budget in the asset allocation."



Regarding when to use active or passive management, Aguado says it generally speaking will depend on the efficiency of the market in which an investment is being made. The more efficient the market, the harder it is to obtain alpha consistently, and the more incentive there is to buy passive products. Active products may be more attractive in less efficient markets, even though fees may be higher.

Meanwhile, providers of passive products continue to adapt and innovate, which also explains the ongoing expansion, for example through thematic, factor based, and SRI ETFs.

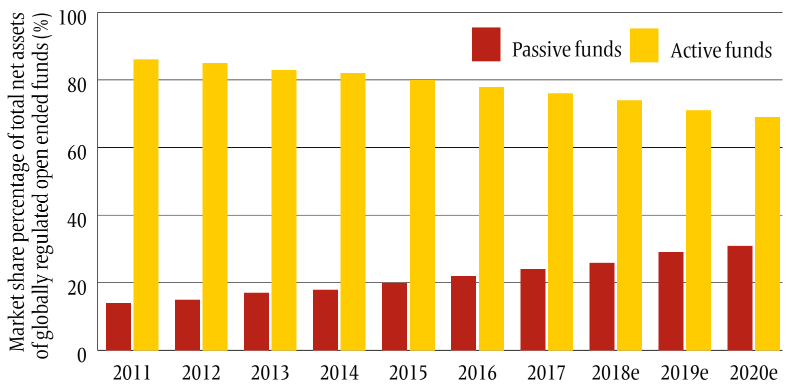
"In this evolution, technology remains as a key element since it is making simpler the distinction of biases or factors of an index or fund, which might end bringing a competitive advantage to the world of systematic passive investment."

One red flag is raised by Aguado: AUM growth itself may bring other challenges in future. For example, indices replicated by ETFs could start behaving worse than other types of indices in periods of market stress because of the level of withdrawals.

"I am particularly worried about the false sensation of liquidity that may be offered by products with high assets under management.

"To conclude, I would not focus on the debate between active and passive products. Both have advantages and disadvantages, so the focus should be in the use we make of them, the way they are combined in portfolios and in the way they are managed." ■

ETF GROWTH



Source EY

24.6% Danish tax on personal income as % of GDP



Positioning on key trends

The latest Roundtable hosted by *InvestmentEurope* in the Danish capital saw fund selectors treated to ideas on fixed income and equities that can deal with key emerging trends. Jonathan Boyd reports

The *InvestmentEurope* Copenhagen Roundtable took place on 30 October in the Danish capital at the Hotel d'Angleterre, offering local fund selectors access to quick-fire ideas through a format lasting a couple of hours, with additional time for networking.

Four groups participated, Fisch Fund Services, Jupiter Asset Management, MainFirst Asset Management and UBS Asset Management.

Between them they covered off topics including convertible bonds, the benefits of shorting, developments in global equities, and the role and place of China in portfolios.

CONVERTIBLE BONDS

The first to present was Martin Haycock, senior product manager at Fish Fund Services, the Luxembourg subsidiary of Swiss boutique Fisch Asset Management.

Having worked with convertible bonds for over two decades, it is no surprise that Haycock chose to focus on developments in the asset class, and the benefits that are on offer for investors at a time of a movement towards rate tightening.

For example, he noted that the primary market has become increasingly active in response to rising rates over the past year, as this type of debt issuance becomes relatively more attractive to companies. And for investors in the secondary market for convertibles, the return performance is less contained than standard debt instruments in an environment of rising rates, he argued.

In the case of investments made by Fisch, the investment philosophy leads to investments on a long only basis and into "regular" convertible bonds, not into synthetics.

THE BENEFITS OF SHORTING

Also looking to a changing market environment, Magnus Spence, head of Investments – Alternatives at Jupiter Asset Management outlined how short sellers may be poised to stage a return in light of the uncertainties currently facing investors – who have certainly shifted towards a risk off approach.

It is not easy to benefit from going short, Spence noted, as costs, regulatory risk, and crowding and "short squeezes" challenge those seeking to benefit from this type of approach. However, for purposes of diversification and looking ahead to changing market conditions it still has a role to play, he argued.

For Jupiter one of the keys to success is taking a long term approach, which means continuing to pursue short selling opportunities, even when the market environment is not helpful. Maintaining activity as well as observing the actions of other short sellers over time creates opportunities when markets do weaken, he added.

For example, companies can always fall prey to accounting manipulation or excessive leverage, which fosters the opportunities.

Generally speaking, with a global

5.8 Tonnes per capita CO_2 emissions in Denmark

equities market that he described as "long in the tooth", there are also broader top down reasons to consider taking short positions, such as trade wars, Brexit, inflation and geopolitical risk associated with Korea, China, Mexico and Russia.

OPPORTUNITY IN CHANGE

Another outlining opportunity in change was Jan-Christophe Herbst, portfolio manager at MainFirst, who outlined his ideas on the drivers of returns from global equities.

In particular he highlighted what MainFirst has identified as alpha generation from investing in structural growth.

Examples of associated trends include the direction of inflation in Western countries that could mirror what happened in Japan since the 1990s; the rising share of global population represented by China and the US versus Europe and Japan – but also the ageing of the population in the world's biggest economies as the baby boomers retire in the US and China's one child policy spurs a massive shift in the number of people over 65. Moderate wage growth and the implication for consumer goods prices, and the shift to robotised manufacturing are other key trends affecting structural growth.

Meanwhile costs continue to tumble for things such as 3D printing, drones, solar power and computer memory storage. For investors looking ahead, the implications also include a significant shift in terms of what the largest companies will be. MainFirst sees significant dominance by US and Chinese companies by 2025 in terms of the biggest companies by market capitalisation globally, while sectors such as digital advertising, ecommerce and self-driving transportation account for an increasing share of wealth generation versus areas such as oil, banks, insurance and utilities – to which the unconstrained fund worked on by Herbst has no equity exposure.

Continuing the focus on China in particular, Kevin Barker, senior equity specialist at UBS Asset Management, outlined the opportunities in what is considered the Chinese Year of the Dog.

Firstly, he noted that the actual impact of the Trump tariffs on investments in Chinese equity funds may be less felt than the impact on the broader Chinese economy. One reason is that China's inclusion in the ubiquitous MSCI EM index means that flows to the asset class have received a significant boost. Barker noted that China A shares could have a 40% weighting in the index at full inclusion. And China, which is already the second largest stock market overall, remains underrepresented in most global portfolios. ■

Speakers

Jan-Christoph Herbst joined **MainFirst** in 2013. He is a fund manager and member of the Global Equities team at MainFirst. He manages the MainFirst Global Equities and Absolute Return Multi Asset funds

Martin Haycock joined **Fisch Asset Management** in 2015 following a 20 year stint at UBS. He is a senior product manager and member of the Investment Office supporting the Convertible Bond portfolio management team.

Kevin Barker is a senior equity specialist at **UBS Asset Management**, where he has worked for more than 30 years as a portfolio manager, analyst and equity specialist.

Magnus Spence is head of Investments – Alternatives at **Jupiter Asset Management**. He joined Jupiter in 2016 and is responsible for developing and expanding capabilities in alternative investments.

66,498 Number of Spain's foreign residents who acquired Spanish citizenship in 2017

InvestmentEurope's Madrid Forum 2018 received some 20 delegates treated to a bunch of investment ideas ranging from fixed income's current challenges to global equities. Eugenia Jiménez reports

Competitive propositions

The Madrid Forum 2018, held on 25 of October at the Westin Palace Hotel, saw a group of leading asset managers addressing four key areas: fixed income; global equities; emerging markets; and multi-asset.

Fabio Faltoni, investment specialist at Aviva Investors, outlined Aviva's fixed income multi-strategy, an investment approach aimed at helping investors improve the risk and return profile of their fixed income portfolios by aiming to deliver a return of cash plus 3% with less volatility than global fixed income.

Investing mainly in bonds, money market instruments and bank deposits globally, the Aviva Investors Multi-strategy Fixed Income fund aims to produce steady returns in all market conditions while seeking to preserve capital, by using a multi-strategy approach, combining a range of global investment ideas. The ideas are implemented as strategies within the fund. Some strategies are expected to perform well when financial markets rise; others when they fall; and a third group looks to generate returns while being indifferent to the direction markets take.

According to the firm, with just under $10trn of government debt worldwide now yielding less than zero, fixed income investors should start questioning whether they are being adequately compensated for the risks they are assuming, which in some cases are heavily skewed to the downside.

"Our view has been positive in terms of global economic growth over the past year, although we see now higher risk than at the beginning of the year, mainly arising from the trade war between the US and China," Faltoni said.

MULTI-THEMATIC GLOBAL EQUITIES

Anu Narula, head of Global Equities at Mirabaud Asset Management, explained the multi thematic approach to global equities followed by his team.

This approach starts by using proprietary themes as a driver for selecting opportunities. These multi-themes cut across traditional sector definitions, and help to narrow down stocks that are growing faster than GDP. The second stage of the process focuses on leaders and consists of a

7.6 million International tourists visiting Spain in October 2018

selection of companies with a competitive advantage, outstanding business models and a runway of growth ahead. Then, incorporating ESG criteria, the team excludes investment in certain industry sectors – tobacco, alcohol, gambling and defence – and then the remaining companies are only selected for inclusion in the portfolio if they have a rating by leading ESG analysis provider. The last stage of the approach is about high conviction and benchmark aware: sector limits to ensure stocks are ultimately driving returns; risk and returns are derived from stock selection, rather than any particular geographic or sector factor; concentrated portfolios and diversified across industry sectors; and high active share.

Narula presented the Mirabaud Equities Global Focus and Mirabaud Global Equity High Income funds, which he co-manages alongside Paul Middleton. The latter aims to provide dividends of at least 25% above the yield of the MSCI World Index by investing mainly in global equities judged to offer above average dividend yields with prospects of dividend growth and the potential for long term capital growth.

The Mirabaud Equities Global Focus fund seeks companies with a competitive advantage, an outstanding business model and growth potential.

Both funds only select companies rated highly for ESG compliance.

Some of the themes included into Mirabaud equity portfolios are health and wellbeing, reflation, ageing population, millennial consumers or automation. Narula said: “Multi themes drive opportunity, which is key to sustainable growth. Automation and the millennial consumer are new themes for 2018.

“Millennials, on average, earn the least, get the least vacation time, and take the least vacation, and spend the least on their vacation, when compared to their older counterparts. This will drive innovation in the travel and tourism sector as millennials seek to maximise their ability to capture experiences and memories from smaller budgets.”

EMERGING MARKET EQUITIES

Paulo Salazar, senior equity analyst – Emerging Markets at Candriam, outlined how the firm’s fund Equities L Emerging Markets fund generates alpha consistently, through a unique investment approach that combines a winning stock picking approach with a thematic overlay.

According to the equity analyst, with growth patterns less dependent on developed markets, companies operating in emerging countries offer numerous opportunities in the most traditional sectors, as well as in megatrend related sectors, such as technology and demography.

Candriam Equities L Emerging Markets invests principally in equities in emerging countries of Asia, Latin America, Central and Eastern Europe. These securities are quoted on local and international markets.

The fund aims to create long term capital appreciation through emerging markets equities.This is achieved through a diversified, conviction based portfolio of attractively priced companies with strong sustainable growth and profitability.

MULTI-ASSETS

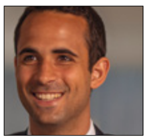
Aberdeen Standard Investments’ head of Diversified Multi-asset Mike Brooks shared his views on multi-asset portfolios while giving an update on two of the main Aberdeen Standard Investments’ multi-asset strategies.

The Aberdeen Global Diversified Growth fund, launched in March 2017, seeks to achieve capital growth combined with income by actively managing allocation in investments in worldwide transferable securities including equity and equity-related securities, investment grade and sub-investment grade debt and debt-related securities issued by governments, corporations or multilateral development banks, cash, deposits and money market instruments.

Brooks also introduced the Aberdeen Global Diversified Income fund, whose investment objective is to achieve income combined with capital growth by investing in worldwide transferable securities including equity and equity-related securities, investment grade and sub-investment grade debt and debt-related securities issued by governments, corporations or multilateral development banks, cash, deposits and money market instruments.

According to Aberdeen, investing across a wide range of asset classes can be a simple way for investors to improve their returns and to lower the risk of their portfolios in the current market environment. ■

Speakers



Fabio Faltoni is an investment specialist focusing on Aviva Investors’s multi-strategy capabilities. In his role, he works closely with the firm’s portfolio managers to articulate their investment process, portfolio positioning and investment performance to clients and consultants around the world. He joined Aviva Investors in August 2016 after having spent two years at ICAP.

Anu Narula is head of Global Equities at **Mirabaud Asset Management**. He manages the funds Mirabaud – Equities Global Focus and the Mirabaud – Global Equity High Income fund and has experience in the portfolio management industry since 2001. Prior to joining Mirabaud Asset Management in 2013, he worked at AXA Framlington.

Senior equity analyst – Emerging Markets, **Paulo Salazar** joined **Candriam** in 2015 as an equity research analyst covering emerging markets. He has over 10 years of experience in private equity and financial markets. Prior to joining the firm, he worked as a private equity associate at The Riverside Company based in Brussels

Mike Brooks is head of Diversified Multi-Asset at **Aberdeen Standard Investments**. He joined Aberdeen in 2015 from Baillie Gifford, where he was an investment manager working at the diversified growth team.

90% Trade volume handled by enterprise groups in Switzerland

Tackling the key challenges

Interest rates, currency markets and the Trump approach to trade were among the weighty global matters to the fore at this year's *Pensionskassenforum*, but specifically Swiss issues were not neglected. Ridhima Sharma reports

This year's *InvestmentEurope* Pension Fund Forum held at the Bar au Lac Hotel in Zurich attracted delegates from across the Swiss pension industry to discuss key challenges.

The event was kicked off by Beat Affolter, senior lecturer & project manager – Corporate Finance bei ZHAW School of Management and Law, who discussed the efficacy of currency and interest rate forecasts.

Affolter suggested that these markets are among the most complex, marked by innumerable factors such as expectations about future economic development, monetary policy and interventions, and supply/demand around consumption and investments.

According to him, risk management is less about predicting future events, but about preparing for adverse events.

He was followed by Chris Remington, director of Income Product & Portfolio Strategy at Eaton Vance. Remington outlined senior secured loans behavior in different market cycles.

He spoke about the loan returns and yield in context.

Rune Brinch Kristensen, head of Research and Senior Portfolio, manager Danske Bank Asset Management, argued about global mortgage bond market is more attractive than euro corporate bonds.

The first panel debate of the day features Beat Affolter, lecturer & project manager – Corporate Finance bei ZHAW, Andreas Dänzer, head of Investments – Pension Fund ASGA, St. Gallen, Peter Kaste, head of Financial Engineering – Swiss Life Asset Management and Iwan Deplazes, head of Asset Management, Swisscanto Invest, discussing currency or interest rate forecasts make sense in portfolio management or not.

The debate followed Thorsten Becker, senior fund manager, J O Hambro Capital Management who discussed stock picking in the Trump era and the opportunities and risks involved in the US stock market.

His thesis is that Trump believes that the US and its interests in been sold short in previous treaties and amendments to NAFTA will be a roadmap for Europe. The US is decoupling from the global decline in growth. Fiscal policy is very stimulating in the US and the EU is experiencing weak growth.

According to Becker, small company stocks are in the ideal phase of their life cycle with opportunities for mergers and acquisitions. Innovation and technology industries exits with real products and revenues. There is less risk involved when investing in small stock companies.

Edward Rumble, portfolio manager from RWC Partners discussed the alpha opportunities in European equities. Benjamin Baumann, senior infrastructure portfolio manager, Mercer talked about how to build

-9.4% 2016 decrease in Swiss dementia deaths

a portfolio of infrastructure investments.

LOCAL ISSUES

The session was followed by David Czupryna, senior client portfolio manager, Candriam, who outlined Responsible Investing and how Swiss pension funds make the difference.

Yvonne Seiler Zimmermann, financial market professor, Institute of Financial Services, Train IFZ/ Lucerne University, discussed Capital-covered provision in the zero-interest-rate environment.

He argued that saving in a capital cover procedure requires the building up of a national capital stock, not primarily to finance debt (bonds). The efficiency of the capital recovery process requires investments with a return above the economic growth rate (or wage growth rate).

The key to security through intertemporal compensation is that for each contribution payment, interest is guaranteed up to the retirement date, which corresponds to the average return of the pension fund assets of the past 10 years; that is retirement capital is equal to the sum of the accrued claims.

The strength (economic efficiency) of a funded system lies in the long-term construction of a real capital stock (real capital), not risk-free investments. Risks must be taken into account and variable pension schemes are inevitable. Separation between socio-political objectives (securing minimum existence) and wealth creation as pillars of precaution.

For social policy concerns, the funded pension is not suitable; pay-as-you-go models are more adequately regulated.

The afternoon panel discussion picked up again on the challenge of the Swiss pension fund reform, focusing on social security policy. Baumann and Seiler Zimmermann were joined by Miriam Staub-Bisang, president, Profond Sammelstiftung, and Hanspeter Konrad, lawyer, director, Asip. ■

Speakers

Thorsten Becker is senior fund Manager of the **J O Hambro Capital Management** US Small Mid Cap Equity and Global Smaller Companies Strategies. Prior to joining JOHCM, he was a portfolio manager at Fidelity Institutional Asset Management (formerly Pyramis Global Advisors). Since January 2004 he has been responsible for the financial and telecom values of the large-cap, small/mid-cap and 130/30 strategies. From 2000 to 2003, Becker was an equity analyst at Fidelity in London.

Chris Remington is director of Income Product & Portfolio Strategy at **Eaton Vance**. He is responsible for market research and analysis, advancing the firm's managed strategies through thoughtful investment communications and insights on the credit markets. He began his career in the investment management industry in 2000. Before joining Eaton Vance in 2008, he was affiliated with Fidelity Investments as a fixed-income product specialist. He was responsible for product strategy, investment communications and client portfolio management for Fidelity's suite of fixed-income investment capabilities.

David Czupryna has been senior SRI client portfolio manager at **Candriam** since joining the firm in September 2018. As a member of the team of SRI analysts and portfolio managers, his role is to deliver Candriam's unique blend of sustainability credentials and market wisdom to European investors. Before that, he led the growth of SRI strategies in German speaking countries at Sycomore Asset Management and in Northern Europe at Erste Asset Management.

Rune Brinch Kristensen is head of Research and Senior Portfolio Manager at **Danske Bank Asset Management**, Copenhagen since 2013. He has been occupied with Danish fixed income for his whole career covering different fields like risk management, sell side research and now portfolio management. Before joining Danske Bank Asset Management, he was heading the Fixed Income and Derivatives Research team at Nykredit.

Edward Rumble is co-portfolio Manager at **RWC Partners**. He joined RWC from Pensato Capital where he was a founder partner and portfolio manager. Rumble began his investment career with Fidelity Investments in London in 1995 as an equity sector analyst working closely with Graham Clapp, and later worked as fund assistant on the Fidelity European Small Cap Fund.

Benjamin Baumann is principal and senior portfolio manager for Infrastructure and Real Estate Investments of **Mercer Investments**' Private Markets Group. He is responsible for the portfolio management of Mercers Real Asset Programs and, as such, is involved in the sourcing and due diligence of primary and secondary fund investments as well as infrastructure co-investments. He is also a member of the Mercer Private Markets Investment Committee as well as the Mercer Real Estate Boutique Rating Review Committee.

Approaching events

InvestmentEurope's February Sub-Advisory Summit in London leads the events programme into 2019, followed by the Milan Forum in early March

NEXT EVENTS

INVESTMENT EUROPE
PAN-EUROPEAN SUB-ADVISORY SUMMIT LONDON 2019

LONDON, 27-28 FEBRUARY

InvestmentEurope will be hosting the Pan-European Sub-Advisory Summit London in the UK capital at the Mayfair Hotel for some 40 fund industry professionals. Sharing insight into a sector that could attract more than €200bn of flows into sub-advised funds over coming years in key markets including the UK, Italy, Ireland and France.

Headline partner for this event is Goldman Sachs Asset Management, with instiHub as the event's Knowledge partner, and Associate partners in the form of Columbia Threadneedle Investments, Invesco, Janus Henderson Investors, Jennison Associates, Lord Abbett, Natixis and Pictet Asset Management.

The event includes sessions on the growth of sub-advisory worldwide, key trends in the European sub-advisory market, understanding what makes for successful sub-advisory partnerships, designing sub-advisory solutions, oversight of related multi-asset developments, and the future of the sub-advised market.

To register your interest in attending, contact Vanessa Orlarey at vanessa.orlarey@odmpublishing.com or call +44 (0)74 7393 4144.

INVESTMENT EUROPE
MILAN FORUM 2019

MILAN, 8 MARCH

InvestmentEurope returns to Italy in the first quarter of the year for the Milan Forum 2019, which takes place 8 March at the Four Seasons Hotel. Targeting some 35 fund selector delegates, the event will facilitate the sharing of latest investment ideas in a boardroom format, enabling fund selector delegates to get even closer to the speakers from groups taking part.

Networking will be encouraged through a coffee break and lunch.

The Milan Forum 2019 also will highlight the issue of diversity in the Italian fund industry, as InvestmentEurope is set to launch its Women In Investment Awards programme on 8 March, International Women's Day.

The Awards will take place 2 October, also in Milan, ahead of the Pan-European Sub-Advisory Summit Milan 2019, which runs 3-4 October.

To register your interest in attending the Milan Forum 2019 on 8 March, contact Luisa de Vita at luisa.devita@odmpublishing.com or phone +44 (0)20 3727 9932.

TAKE PART IN THE DISCUSSION

Delegates to the Pan-European Sub-Advisory Summit London 2019 are encouraged to connect ahead of the events by tweeting using the hashtag #IESUMMIT. For the Milan Forum 2019 use the hashtag #IEFORUM.

InvestmentEurope's relaunched website offers additional opportunity to learn about upcoming events, including http://events.investmenteurope.net/subadvisorylondon and http://events.investmenteurope.net/milanforummarch.

LOOKING AHEAD

INVESTMENT EUROPE
NORDIC SUMMIT STOCKHOLM 2019

STOCKHOLM, 12-13 MARCH

InvestmentEurope returns to Stockholm on 12-13 March for the latest edition of the Nordic Summit, which will bring together some 40 fund selectors from across the region to listen to and discuss investment ideas across asset classes.

Taking place at the Grand Hotel, the programme includes boardroom sessions, networking opportunities via coffee breaks and lunches, as well as a dinner with keynote.

To register your interest in attending this event contact Patrik Engstrom at patrik.engstrom@odm-publishing.com or +44(0) 20 3727 9940.

INVESTMENT EUROPE
FRABELUX FORUM 2019

PARIS, 20 MARCH

Also in March, *InvestmentEurope* returns to Paris for the Frabelux Forum 2019, bringing together fund buying professionals from France, Belgium and Luxembourg, who will gain access to investment ideas.

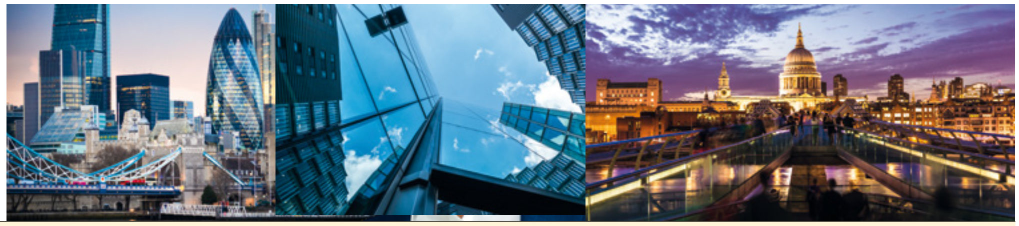
Further information on this event taking place 20 March at the Ritz, and other events, visit www.investmenteurope.net/events.

➤ The calendar of *InvestmentEurope*'s 2019 events up until September is presented overleaf. For information on sponsoring any of these events, please contact Eliot Morton on +44 (0) 203 727 9945 or e-mail eliot.morton@odmpublishing.com.

EVENTS CALENDAR 2019

27-28 February | London | Sub-Advisory Summit

InvestmentEurope's first Pan-European Sub-Advisory Summit will outline opportunities in one of the fastest growing segments of the industry, hosting some 40 delegates in Europe's largest financial centre



8 March | Milan | Forum

12-13 March | Stockholm | Nordic Summit

Sweden's capital city once again hosts a two-day event for some 40 fund selectors based across the Nordic region, with boardroom sessions, networking and a keynote

20 March | Paris | Frabelux Forum

10-12 April | Berlin | Funds To Watch

A new concept for fund selectors across Europe, this event has been designed to highlight up and coming and evolving funds, as well as offering additional opportunities to interact with portfolio managers

30-31 May	Barcelona	Iberian Summit
5 June	Oslo	Roundtable
6-7 June	Rome	Italian Summit
13-14 June	Zurich	ESG Summit
24 September	Helsinki	Roundtable

***InvestmentEurope*'s calendar of events for 2019 is available in an electronic format here: https://opendoormedia.turtl.co/story/iecalendar2019.**

Remember to check the website for regular updates at www.investmenteurope.net/events.

For further information on sponsoring these events, please contact Eliot Morton at: eliot.morton@odmpublishing.com.

1,800 Number of vetted SharingAlpha members from 68 countries

As the SharingAlpha platform nears the ubiquitous 36 month record, co-founder and CEO Oren Kaplan shares his views on what has been achieved

SharingAlpha's mission

HIGHLY RATED FUNDS

Ratings are based on the preferences expressed by users of its platform, on the factors of people, price and portfolio, and are rated on a maximum score of '5'. Start your own rating. Visit www.sharingalpha.com for more information.

Fund name	Domicile	Average rating	Raters	Move from prev
Liontrust European Income Fund	UK	5	8	◆
Valentum FI	Spain	4.84	9	▲
azValor Iberia FI	Spain	4.84	6	▲
Lindsell Train Global Equity Fund	Ireland	4.83	9	◆
Sextant PEA	France	4.82	14	▲
Cobas Selección FI	Spain	4.81	8	◆
Magallanes European Equity FI	Spain	4.81	23	▲
Robeco Global Consumer Trends Equities	Lux	4.81	5	▼
Cartesio X FI	Spain	4.8	5	▲

As at November 2018 Source www.SharingAlpha.com

"SharingAlpha went live almost three years ago," explains Oren Kaplan.

"At the time we were too busy getting the initial users on board and skipped the stage of sitting down and writing our goals. Now that we have gathered over 1,800 vetted members from 68 countries, we decided to put them in writing. So here they are."

SHARING INSIGHT

According to Kaplan: "No single research team can cover the wide range of funds available and thus typically focus their efforts on a very limited number of funds, those with excellent track record have become blockbuster or 'mega funds'.

"Consequently over 95% of the funds lack independent qualitative analysis and don't receive significant flows.

"Using the power of the internet we are able to scale and offer forward-looking ratings on funds, from our community of professional fund investors, to share insight, to share alpha."

RECOGNISING TOP FUND ALLOCATORS

"We offer professional fund investors and analysts the chance of building a proven track record of their fund selection capabilities," continues Kaplan.

Oren Kaplan, SharingAlpha

"Until now, only fund managers of listed funds had the possibility of generating a public track record. Now, for the first time, those fund specialists that select fund managers also have an opportunity of standing out among their peers. This in turn will enable them to be rewarded according to their proven track record.

"In addition, we offer two further ranking mechanisms. One is based on the performance of virtual fund of funds created on the platform by our members. The other ranking mechanism is based on the value of members' commentary, as voted for by their fellow community members."

He adds: "These additional rankings, together, with specific country rankings, offer our members excellent opportunities to exhibit their talent and receive recognition.

"Obviously, the longer the track record, the more significant it becomes. We advise professional fund investors to start building their track record without delay."

REMOVING POTENTIAL CONFLICTS OF INTEREST

"SharingAlpha's model is not based on charging fund managers for appearing on our platform," explains Kaplan. "We offer the same chances to all fund managers be they large international firms or small local boutiques.

"Furthermore, we empower buyers to take control of the distribution process by to deciding which fund managers they want to hear from which leads to better targeted leads through a process that is entirely independent from our fund rating methodology," he concludes. ■

-2.76% YTD development of S&P 500 to 14 December

Valuing the US differently

Smead Capital Management is focused on bringing a different message about US equities to investors in Europe. Jonathan Boyd reports

Smead Capital Management may have first crossed the radar of fund investors about a decade ago when it launched in July 2007, but its roots go back to the early 1990s.

In 1993, the business was originally formed to offer services in the areas of private wealth and foundations in the Pacific Northwest of the US. However, there was at the time no public vehicle offered to investors. What the work at the time did do was provide confidence to work in open markets in an open way, explains Cole Smead, managing director and portfolio manager.

Thus, there were some 14 years of work behind the business even before it launched its services into the US mutual funds market using the family name of both Cole and William Smead, father of Cole, and CEO/CIO.

Besides the money saved on not trying to develop a 'brand', this also speaks to the contrarian nature of the management approach, Cole Smead suggests.

However, Smead is about more than just one family, and some six months after the launch of the asset management business in 2007, the firm was joined by Tony Scherrer, director of Research and portfolio manager.

Others have followed, and the whole firm now constitutes some 14 staff, still being run on lean, entrepreneurial lines – as Smead puts it: "People have the rope to hang themselves."

An example he notes is that the firm had never taken its Ucits offering to South America until earlier in 2018, when following a single phone call, two people could make the decision to head into the region.

"The autonomy gives people the ability to use their entrepreneurial capabilities.

"People running things from the top down can be sluggish. Those that give local managers the ability to act do better. They are interacting with their customers. We fall into same thing, just on a smaller size."

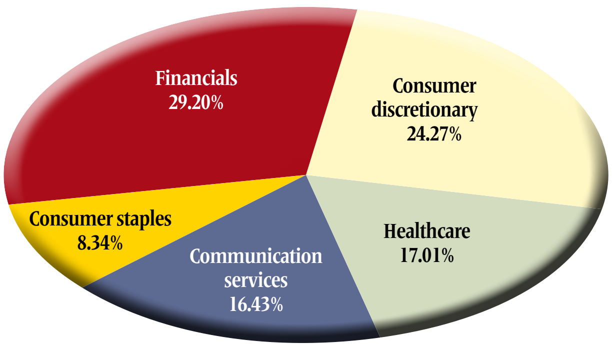
The firm's core focus is a US large cap equity strategy – which for European investors is offered as the Smead US Value Ucits fund, with AUM of some $102.5m as of the end of September 2018 – which it pursues according to eight investment criteria for determining when to buy a particular stock.

Five of the eight are required over the entire holding period, in which a stock must: meet an economic need, have a strong competitive advantage, have a long history of profitability and operating metrics, generate high levels of free cashflow, and be available at a low price in relation to intrinsic value.

Smead Capital Management has two offices, in Seattle and London. The former serves the Americas, from Canada to South America, while London serves Europe, the Middle East and Africa.

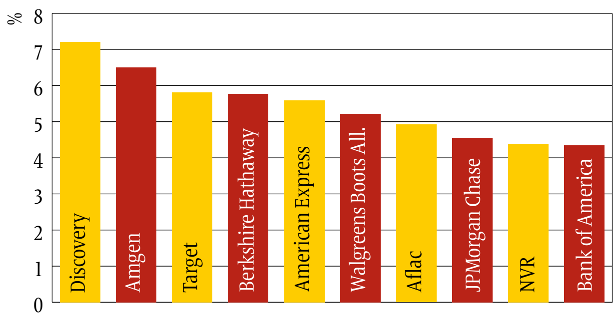
"We are great airline customers! Where we sit isn't as important as where we can tell the story," Smead notes.

US EQUITY SECTORS IN STRATEGY



As at 30 September 2018 Source Smead US Value Ucits Fund

TOP 10 HOLDINGS



As at 30 September 2018 Source Smead US Value Ucits Fund

676 S&P 500 in March 2009

"We have customers in Asia, but we are learning to walk before we run. Over time it will be a place to have someone serving people locally, but being closer doesn't necessarily mean the client wants to see us more often, but it would be another resource for them.

Meanwhile, as the business grows in Europe, expectations are that more people may be allocated to the region. The two biggest markets for the business currently are the UK and Belgium, which are easy to serve from London.

The bigger question on Europe will be about the circumstances for those managers such as Smead that do not want to participate in the mania of US large cap stocks, including, particularly, technology stocks, Cole Smead suggests.

"Beyond the pure investment discussion, there is a size question," he also notes.

"But as the size question goes away, it leverages places such as Switzerland and Italy, which will come with size. It means being patient, meeting people – for example, we just picked up our first Nordic client recently."

The question of size also depends on the type of investor. Smead sees an inflection point around the equivalent of $150m-200m of AUM in the Ucits fund.

For larger investors that would be too small still, requiring $300m-350m.

Currently, the key client groups in Europe are seen as single and multi-family, then private banks and funds of funds. There are good relationships with banks already, and additional inroads into multi-family offices would be seen as a positive development.

One of the reasons for this area of focus in terms of client types is that it follows the proliferation of CFA chartered professionals. As they need a certain level of understanding of English, access similar databases, and have links through the CFA as an institution, it throws up similarities to the home market experience, Cole Smead says.

Cole Smead is managing director and portfolio manager at Smead Capital Management. As a member of the investment committee, he oversees the management of the firm's separate accounts and mutual funds.

Before joining Smead, he was a financial advisor at Wachovia Securities in Scottsdale, Arizona. He graduated from Whitman College in 2006 with a degree in both Economics and History and received the CFA designation in 2011. He is a member of the CFA Institute and the CFA Society of Seattle, Washington.

LOOKING FORWARD

It is clear that Smead Capital Management does not see a need to consider an additional Ucits product to raise its profile in Europe.

"We could run at least $20bn, with Ucits $4bn-5bn of that, without worrying the US large cap strategy.

"We are more interested in doing well for the client than looking for more product.

"Working with local investors is more important than trying to find new product to sell."

Also, while Smead acknowledges that there have been discussions around, for example, partnerships with third party marketeers, it is yet to be of sufficient interest.

Acquisition of a European based fund invested in US domestic equity to create size is another thought, but it is highly unlikely that such a fund would be available. The focus remains the own US strategy.

"There are things coming from the US we would like to poke holes in," Smead continues.

"US equity returns are going to be poor for the next 10 years. Saying that going passive is the way forward, just as tepid returns are reality, means some investors won't want to be in these stocks. From a 10-year perspective, nobody is being honest. We can benefit from this as an active manager."

What is also clear to Smead is that being a boutique entering Europe is not an insurmountable challenge.

"People act like it's a huge hurdle to overcome to go from the US to Europe as a boutique. But, as long as people want to invest in the US, there is immense opportunity. In every market there are investors who understand the opportunities in public stock markets over time, and others that do not. We need to shepherd investors through the steps." ■

1.3% Rise in Italy's total import prices index MoM in October

Visiting the community

Visits conducted by *InvestmentEurope* with the fund selector community across the region continued over the past month in both northern and southern countries, as Jonathan Boyd reports

November and December were busy months for *InvestmentEurope*'s staff involved in supporting the publication's own event series in locations as far apart as Tel Aviv and Stockholm, while still engaging with locally based fund selectors through research trips.

Recent highlights are listed below.

Stockholm

Jonathan Boyd, Patrik Engström and Tom Meadley visited buy side and sell side professionals located in Sweden's capital.

These took place on 5-6 November (Jonathan Boyd & Patrik Engström), and again on 3 December (Jonathan Boyd and Tom Meadley) ahead of the 4 December Stockholm Forum, which took place at the Grand Hotel (an event report will feature in the next issue of the magazine). Meetings included:

- Joakim Ahlinder, partner, Carl Barnekow, CEO – Coin;
- Lars Fredrik Hansson – managing director – Portable Pension;
- Mikael Eriksson – senior client manager – Mercer;
- Mikael Haglund – head of Manager Research – SEB;
- Jesper Hallgren – senior partnership manager – SEB;
- Henrik Nordling – manging director – Consularis Investment Advisors;
- Helena Nieckels – business development manager Nordic Representative Office – Allianz Global Investors;
- Christopher Crystal – head of Nordic Distribution – Amundi;
- Stefan Nordenberg – associate director, Wholesale Client Coverage – UBS Asset Management; and
- Jon Sheiber, CEO, Mattias Martinsson, Deputy CEO, CIO – Tundra Fonder.

ESG is a requirement of any manager seeking access to the Swedish market; but there is not a single way to approach the topic. Certain fund selectors have or are

Upcoming trips

The *InvestmentEurope* editorial and delegate recruitment teams will continue to visit fund selectors across Europe in coming months, including:

- January/February – Oslo and Helsinki – Jonathan Boyd and Patrik Engström;
- February – Bilbao and Barcelona – Eugenia Jiménez and Angela Oroz; and
- March – Berlin and Hamburg – Ridhima Sharma; Lisbon – Eugenia Jiménez and Angela Oroz.

If you would like to meet any of InvestmentEurope's colleagues during these visits, please contact them by email or telephone. Details are available at www.investmenteurope.net/contacts.

2019

InvestmentEurope's events programme for 2019 has been announced (see page 32).

This includes a number of additional locations, where events have not previously been held, or locations to which InvestmentEurope is returning. Examples include:

- Pan-European Sub-Advisory Summit London 2019, on 27-28 February;
- Funds To Watch Berlin, 10-12 April;
- Italian Summit Rome 2019, on 6-7 June;
- Helsinki Roundtable 2019, on 24 September; and
- Funds To Watch Geneva 2019, on 9-11 October.

Staff will be doing visits to these cities ahead of these events, to ensure that locally based fund selectors have all the latest information required to ensure the most efficient use of their time when attending. Keep an eye out for further information on these and other visits.

A full calendar of events for 2019 is available at: https://opendoormedia.turtl.co/story/iecalendar2019.

6.2 % Sweden unemployment rate in November 2018

developing their own matrix of factors to determine whether a product is ESG compliant.

No significant changes are expected from the next administration – Sweden has remained without a new government since elections in September left no single party able to claim leadership of a coalition.

However, investors are keeping an eye on the potential implication for both domestic and foreign funds on the PPM platform following implementation of new regulations intended to reduce risk to long term savers.

Rome

Delegate relations manager Luisa de Vita (pictured right) visited Rome, where meetings included:

- Daniele Ursicino and Salvatore Romano – Finance and Risk Management – BCC – Fondo Pensione Nazionale;
- Graziana Scampoli & Fulvia Lesciutta – Investment Department – INARCASSA;
- Emilio Pastore – Head of Finance – HDI Assicurazioni – HDI Group / Insurance; and
- Alessio Accetturi – Investment Manager – ENPAPI – National Agency of Retirement and Assistance of Nursing Profession.

HAVE COPY, WILL TRAVEL

The *InvestmentEurope* magazine is read across the region. We would be happy to publish pictures showing it *in situ*, as this examples from the recent trips to Stockholm and Rome illustrate.

Send your photographs to: jonathan.boyd@odmpublishing.com.

InvestmentEurope's Editorial Board members give their views on alternatives entering the mainstream and look back at 2018 and forward to 2019

Ideas generation

If you would like to be considered for inclusion in *Investment-Europe*'s Editorial Board, please email the editor at: jonathan.boyd@odmpublishing.com

JON BECKETT

Author of *New Fund Order*
London
http://jbbeckett.simpl.com/get_the_book.html

Which 'alternatives' have become 'mainstream' if any?

Whilst those involved in mainstream alternatives have increasingly sought high yielding assets, commodities, trade finance, leasing, Reits and infrastructure, now rising correlation, the rise of default risk and rising WACC will change strategy over the next cycle.

What we now see is the growing development of alternative risk premia strategies, designed to extract uncorrelated returns from long and short markets. Those premia are being played out in an arms race in data extraction, washing and modelling.

AI and algorithmic approaches will also be applied to alternatives far more than ever before – across asset classes including derivatives. Demand is growing for positive impact infrastructure investing and emerging health technologies.

FILIPPO STEFANINI

Head of Multimanager Investments & Unit Linked
Eurizon Capital SGR
Milan
www.eurizoncapital.com

Which 'alternatives' have become 'mainstream' if any?

Alternative strategies can invest in liquid securities using short positions or using leverage (ie, hedge funds or liquid alternatives) or can invest long only in illiquid securities without using any leverage (ie, private equity funds or private debt funds).

There are alternative strategies that we could say can be called traditional alternatives. I refer to buy and hold strategies that invest in bank loans.

In the liquid alternative space, there are some hedge fund strategies like long/short equity or merger arbitrage are the oldest ones and are very well researched by academic literature.

In recent years alternative risk premia strategies have grown rapidly in popularity and represent an evolution of the so called hedge fund replication strategies.

BERNARD AYBRAN

CIO Multi Management
Invesco
Paris
www.invesco.com

Has 2018 been a great, good or so-so year?

From an European investor's point of you, it is unlikely 2018 can be labelled great or good or even so-so.

Though most major asset classes did not suffer record losses, most of them did suffer losses, both in the fixed income or equity spaces, which, in other words, means that diversification did not pay off that much, except to minimise the losses. Whether this is the signpost that the cycle is ending remains to be seen.

In any case, it is a valuable reminder that diversification remains key but lies on shaky foundations: unstable correlations between asset classes, which opens new grounds for both academic research and actual management techniques.

.

EMMANUEL FERRY

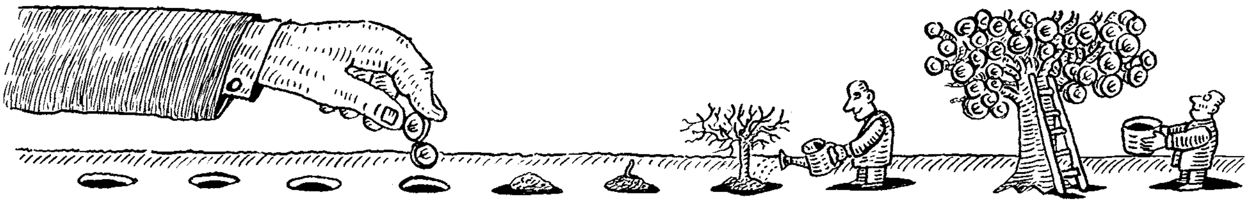
Chief Investment Officer
Banque Pâris Bertrand
Geneva
www.parisbertrand.com

Which asset class do you feel will outperform most others through 2019?

Gold is probably the most compelling opportunity in 2019. It is the best equity diversifier, with a consistently negative correlation with the dollar and with US rates. It is an alternative source of returns, cheap and liquid.

Following a decade of debt-driven reflation, there is a lack of diversifier, liquid alternatives and safe haven. This is the reason why Gold as an asset class is a must-have.

Momentum is positive, positioning is clean and a more dovish Fed is a strong positive catalyst. Reasons for owning gold for the next decade include political and geopolitical tensions, populism, above 3% inflation and Fed Put 2.0.



Modernising DDQs: An open letter from the asset management community

An initiative conceived by fund selectors across Europe to streamline investment due diligence is gaining traction. A growing community of asset managers supporting this initiative have joined together to direct more of their clients to a new information sharing platform called Door. They believe it can save their clients' time replacing the legacy due diligence questionnaire.

"Dear Professional Fund Investor
Providing an exceptional customer experience to fund investors is our common goal. We are among a growing community of asset managers which recognises the legacy approach to DDQs needs modernisation. We are partnering with a new, independent technology platform called Door to provide our clients with essential fund due diligence on our organisations and investment products. Door is provided to you, our clients and prospective clients, at no cost.

As asset managers, we are competitors. But we share the common objective of meeting our clients' need for greater levels of transparency, faster response times and a fuller understanding of our product information.

We recognise that the current due diligence process can be inefficient, and we want to take steps to improve the service we provide. Word documents and Excel spreadsheets are not the best way of communicating changes to our product information. We want to help reduce the amount of time our clients spend gathering and reading our product information to look for important changes.

Door helps solve the challenges posed by the legacy approach to DDQs through the combined benefits of standardisation and digitisation. The Standard Questionnaire on Door was created through industry collaboration. Professional fund investors across Europe created a detailed, peer-reviewed standard questionnaire. While the questionnaire is comprehensive, it can be supplemented with proprietary questions for those investors seeking additional information.

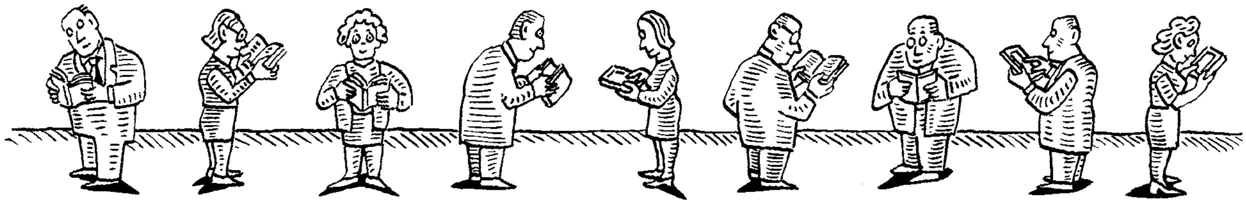
Door is independent and endorsed by the Association of Professional Fund Investors to ensure it continues to represent best practice in fund due diligence. Door has been operating since late 2017 with a robust technology platform. Around 160 manager research teams are registered for Door and have already processed 1,400 requests for our fund information.

Several of us collaborated with fund investors to help shape the platform and have been using Door since launch. Some of us are new to the service. We continue to improve the content on Door as new users come on board and outline their diverse needs.

Please go to Door for your due diligence information on our funds. We are convinced it will be much more efficient for you and it will enable us to serve your needs better. ■"

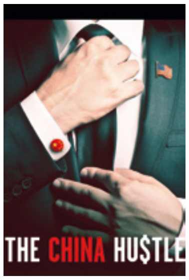
AllianceBernstein	Aviva Investors	DNCA Investments	H2O Asset Management	Matthews	Pictet Asset Management	UBS
BNP Paribas Asset Management	BMO Global Asset Management	Eaton Vance	Hermes Investment Management	MFS	Robeco The Investment Engineers	Whitehelm Capital
Amundi Asset Management	Capital Group	EI Sturdza	La Française Investment Solutions	Nordea Asset Management	Schroders	WisdomTree
Artemis The Profit Hunter	Carmignac Risk Managers	Evenlode Investments for Life	Lyxor ETF	Natixis Investment Managers	springcapital	woodford
Artisan Partners	Chelverton Asset Management	EVLI	Macquarie	NN investment partners	T.RowePrice	Zadig Gestion Luxembourg
AberdeenStandard Investments	Columbia Threadneedle Investments	First Trust	Manulife Asset Management	Ostrum Asset Management		

You can find more information at www.guidetodoor.com.



What is capitalism? At its heart, it rewards those who work hard, but it also rewards those who are willing to take advantage from others. Eugenia Jiménez reviews a film that uncovers the shocking tale of one the greatest financial frauds of the past 25 years

The China Hustle: The dark side of capitalism



To watch The China Hustle, got to www. thechinahustle film.com

It is the dark side of capitalism, reflected in the documentary *The China Hustle* that shows how this economic system can be as perfect as diabolic.

Released in March, *The China Hustle* provides insight into how real life US-China collusion took advantage of lax Chinese laws in order to sell "bad" investments to US retirees in the fall of the 2008 financial crisis. It is directed by Jed Rothstein, responsible for the Academy Award nominated documentary Killing in the Name.

The China Hustle tells the story of one of the greatest financial frauds of the past 25 years in which some 400 Chinese companies came to the US market during the reverse merger boom – proving later to be overvalued or even frauds – costing American citizens over $14bn in public pension and retirement funds.

These companies, in a bid to attract profit-eager US investors to the China boom, merged with shell companies based in the US. At first glance there was no reason to doubt them: they were subsequently listed on US stock exchanges, claimed they were making earnings, creating revenues and growing the business.

The problem was that it was all one big lie. For instance, if they were making $10m, thye would claim to profit ten times as much. With paperwork falsified, banks and investment firms promoted this business opportunity with China as good investments. Due diligence was lost in translation.

OUR MAJOR INSTITUTIONS OPERATING AT ALL LEVELS AND CAPACITIES ARE PART OF A LARGE SYSTEMIC, INSTITUTIONALISED CORRUPTION

That green light opened the tap as billions of dollars poured into these companies that were worth close to zero.

The fraudsters made their money by charging huge commisions from the victims investing in the schemes.

Chinese companies relied on the collaboration of many major institutions – banks, brokers, regulators, auditors, lawyers, investment firms, etc – that were aware of the situation and knew the risks involved, but simply ignored it or actively enabled it because it was making "everyone" rich. In this capitalism story, there are no good guys. Only fraudsters and victims.

Dan David, CIO of the short-bias hedge fund F.G. Alpha Management, and co-founder of the due diligence firm GeoInvesting, is the protagonist of the documentary, as he worked as a whistle-blower uncovering fraud in these US-listed Chinese enterprises.

David's Chinese story started after the 2008 crash when he travelled to China looking to make a quick buck. However after having pushed US investors towards Chinese companies in the early days of this reverse merger era, he realised something dodgy was going on and started investigating.

But David also turned into short-selling these stocks, an investment decision betting on failure, which some may argue calls into question the altruistic and moral character of his actions.

While David is presented as a man with a moral compass, he also takes financial advantage along the way, as he started keeping the profits from the Chinese companies' executives and from their US investors, what he called himself "betting against fraud".

Through TV clips and talking heads, the documentary shows the entire spectrum of people: from those who lost everything to this scam; others who made a profit of it; to others who did the same but now work to expose and put an end to it.

Although the fraud story is shocking itself and signals a major threat to global trade and economic instability, it also hints at major institutions as part of a large and systemic institutionalised corruption. After this documentary, it may be even harder to answer that simple question: what is capitalism?

The result of these investigations led David to change tactics and spend several years trying to raise awareness, to the extent that he later lobbied Congress to change federal laws regarding the listing of China-based firms on US stock exchanges. ■

If you'd like to contribute to this page, please email the editor at jonathan.boyd@odmpublishing.com

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