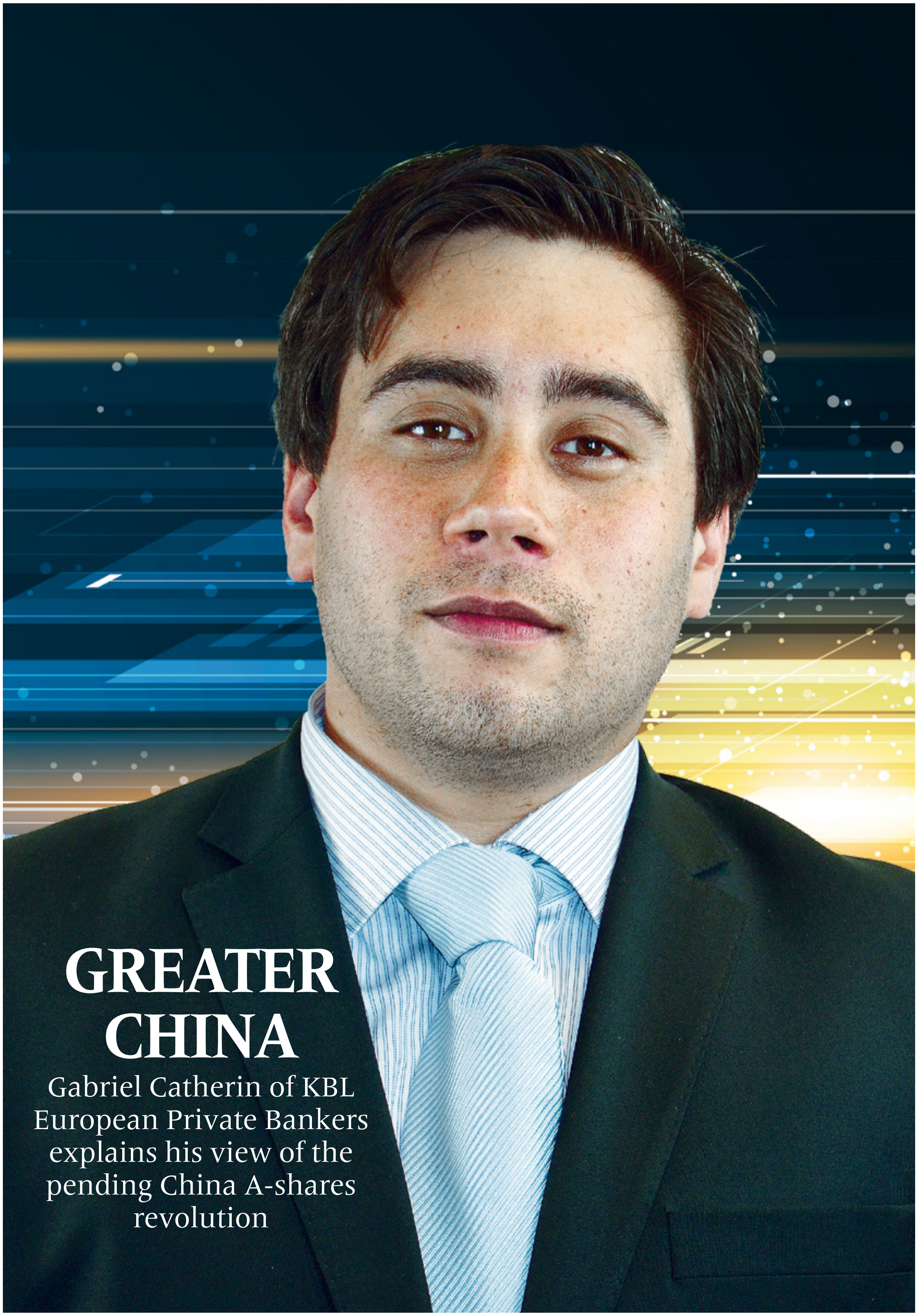
INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

INVESTMENT EUROPE

May 2018 ISSUE 91 Annual subscription €450 www.investmenteurope.net



GREATER CHINA

Gabriel Catherin of KBL European Private Bankers explains his view of the pending China A-shares revolution

Focused delivery

Formuesforvaltning's Niclas Hiller on providing value through selection

Liftoff

French fund selector association launches

Eye to value

Amiral Gestion on its Spanish business

SRI conversion

Possible snowball effect from LBPAM's commitment

Continuing voyage

EM outlook from Skagen's Kon-Tiki

Spotting trends

Robeco's approach to fintech

Tailored solutions

SYZ Asset Management's business development direction

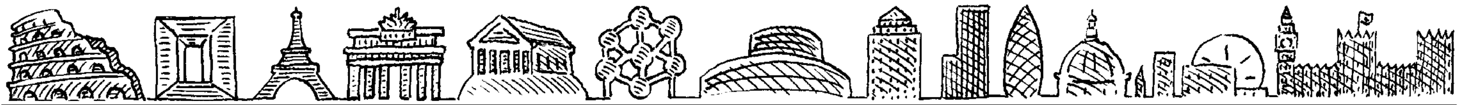
SharingAlpha

New entrants to list of top rated funds

EVENT REPORTS

- NORDIC SUMMIT
- FRABELUX FORUM
- ZURICH ESG FORUM

CONTENTS



10 *Gabriel Catherin*

INSIDE THIS ISSUE
Gauging the status of European equity and fixed income assets in an environment of growth concerns and uncertain rate rises

Digital editions of *InvestmentEurope* are available for your desktop, laptop, tablet and smartphone. Visit www.investmenteurope.net to download.

Follow us on Twitter
@inveurope

5,876 followers and growing!

INVESTMENT EUROPE
An Open Door Media publication

Little trouble in big China

Jonathan Boyd, editorial director of *InvestmentEurope*

How much exposure to China is enough exposure? In part the answer is already given by the decision to up the weight to China A-shares by MSCI in its ubiquitous emerging markets index.

This will, at least, up the exposure that passive strategies must have to Chinese companies. Active managers may or may not follow suit. But of course, some active managers are already pursuing greater exposure to China via other instruments, such as H-shares in Hong Kong, or ADRs in the US, and may already have been given certain leeway to partake in China's capital markets by virtue of being deemed qualified foreign institutional investors.

But still. Where Japan stands as Asia's sclerotic (in the eyes of many) market – notwithstanding more recent shifts to instil improved corporate governance and stewardship codes to the benefit of minority investors – China is not only big according to all sorts of metrics, but it remains on a growth rate that is well above any developed market, whilst having the capacity to support large ticket international investments into its economy, something that other emerging markets may not be able to emulate.

Interestingly, despite the opportunities spied, many of the comments gathered from both the buy and sell sides suggest that, like MSCI's softer ramping up of weightings, investors will proceed with some caution given that there are already ways and means to access underlying companies and their growth prospects without necessarily having to go directly to the local stock markets.

SPECIAL SUPPLEMENT

This issue of the magazine also includes a special supplement on Europe, considering developments as they affect both equity and fixed income investments.

There are still question marks over the strength of economic recovery in the region, while the pace of interest rate rises remains uncertain.

Keep an eye out for the subsequent ezine version on the subject. ■

Editorial
Editorial director: Jonathan Boyd
Tel +44 (0) 20 3727 9922
DACH & Benelux correspondent:
Mona Dohle
Tel +44 (0) 20 3727 9931
French-speaking Europe correspondent:
Adrien Paredes-Vanheule
Tel +44 (0) 20 3727 9920
Iberia correspondent:
Eugenia Jiménez
Tel +44 (0) 20 3727 9930
DACH correspondent:
Ridhima Sharma
Tel +44 (0) 20 3892 7911
Production
Phil Turton
Commercial
Sales director: Louise Hanna
Tel +44 (0) 20 3727 9929
Head of Sales: Eliot Morton
Tel +44 (0) 20 3727 9945
EMEA business development manager: Mathieu Gaussen
Tel +44 (0) 20 3727 9928
EMEA business development manager: Marion Williams
Tel +44 (0) 20 3727 9943
Events
Head of Events: Lizzie Barnett
Tel +44 (0) 20 3727 9923
Event manager: Lucy Wilson
Tel. +44 (0) 20 37 27 9948
Event coordinator: Anna Prunty
Tel +44 (0) 20 3727 9941
Marketing
Head of Marketing: Vanessa Forde
Tel +44 (0) 20 3727 9924
Marketing executive:
Emma Dinwoodie
Tel +44 (0) 20 3727 9927
Delegate relations
Head of Delegate Relations:
Patrik Engström
Tel +44 (0) 20 3727 9940
Delegate relations manager:
Luisa de Vita
Tel +44 (0) 3727 9932
Delegate relations executive:
Borja Díaz
Tel +44 (0) 20 3727 9921
DACH delegate relations executive:
Arzu Qaderi
Tel +44 (0) 20 3727 9936
Office Management & Accounts
Maria Margariti
Tel +44 (0) 20 3727 9925
Strategy
Head of Strategy: Richard Watts
Tel +44 (0) 20 3727 9939
CEO
Nicholas Rapley
Tel +44 (0) 20 3727 9939
Email: firstname.surname@odmpublishing.com

open door media
THE PPA 2015 Awards WINNER
PPA PUBLISHING INNOVATOR OF THE YEAR 2015
recycle
When you have finished with this magazine please recycle it.

Distributed by Open Door Media Publishing Ltd.

UPCOMING EVENTS

May means it is time once again for the DACH Summit Munich, which this spring takes place at the Hotel Bayerischer Hof on 15-16 May, ahead of a return to Barcelona on 31 May at the Hotel Majestic for locally based fund selectors.

InvestmentEurope's events programme then moves on to Norway for the Oslo Roundtable 2018, with the Swiss city of Bern hosting the Swiss Summit 2018 – our first such event in one of Europe's key fund markets.

Our first event in the second half of the year will be hosted as a Roundtable in Reykjavik. Also worth looking forward to later in the year are the Pan-European Sub-Advisory Summit 2018, taking place in Milan on 4-5 October, while the Miami Summit 2018 is now pencilled in for 2 November.

Feel free to contact our delegate colleagues at any time to express your interest in attending any of these events.

Full details of all events are available at: www.investmenteurope.net/events.

Fund selectors in the news

Investors offer views on China A-shares, SRI and the outlook for Spain, among other issues

www.kbl.lu

Name: Gabriel Catherin
Title: EM FoF portfolio manager, head of Competence Center Multi-Management Richelieu Investment Funds
Company: KBL European Private Bankers
Base: Luxembourg

What will be the impact of trade wars between US and China for A-shares?

A trade war between the US and China would surely imply a risk-off environment, fear from investors and some volatility on equity markets.

However, as China A-shares focus on domestic companies and are less exposed to export-related companies, any such trade war should have a limited impact on the earnings of such companies.

www.promepar.fr

Name: Murielle Hermellin
Title: Portfolio manager, head of SRI Fund Selection
Company: Promepar Asset Management
Base: Paris

Do you view the inclusion of UN sustainable development goals in funds as "greenwashing"?

More and more asset managers incorporate UN sustainable development goals in their funds. SRI-focused companies increase their advertising on goals their funds aim to cover.

"Greenwashing" or not, it remains difficult to find adequate metrics in order to measure the impact of these funds and to which extent they fulfil their objectives.

A number of start-ups have been launched with the aim of gathering and calculating all sort of environmental data but finally, they remain unable to compare greenhouse gas emissions balances from a firm to another in a tangible way.

I am therefore extremely cautious towards carbon footprint metrics. It will need time before we really get sorted.

sanso-is.com

Name: Edmond Schaff
Title: Portfolio manager
Company: Sanso Investment Solutions
Base: Paris

In which asset classes is it difficult to pick SRI-compliant funds?

If certain asset classes, such as large cap equities or even investment grade bonds, are well covered it is harder to find SRI-compliant products in the segments of small/mid-caps, diversified and flexible funds as well as in high yield fixed income and absolute return strategies.

With these asset classes, we have chosen to implement an engaging approach towards managers we work with. We incite them to deploy an ESG approach in their portfolio management and are in touch with them on a regular basis to measure progress achieved.

These asset managers are relatively receptive given they are conscious that SRI/ESG topics remain on the rise.

www.ariqon.com

Name: Stefan Ferstl
Title: CEO
Company: ARIQON Asset Management AG
Base: Vienna

What sources do you use to find new funds for potential investments?

We use mainly Morningstar to find new funds for potential investments. This is also supported by Bloomberg screenings and regular fund manager meetings. The latter are important for us to get an impression about how the fund management and the risk management of the fund work, what the investment process is and how decisions are made in the portfolio management.

For us, it is also essential to remain up to date about the positioning of funds in our portfolio. Therefore, we are in contact with the fund management or the sales representatives on a regular basis.

www.abanteasesores.com

Name: José Ramón Iturriaga
Title: Spanish Opportunities fund manager
Company: Abante Asesores
Base: Madrid

What is your investment outlook for Spain?

We are currently in one of those moments in which by investing in Spanish equities, you can obtain very high profitability. Spain has played most of the leading roles in every crisis during the past years, leading into an unprecedented distortion of valuations.

This is why Spain has been out of the institutional investor's radar and fundamentals have been pushed into the background for some time, despite their relevance for investment decisions.

Real estate, the banking sector, and those companies with more exposure to the cycle are particularly attractive.

www.arcanopartners.com

Name: Ion Zulueta
Title: Head of Manager Selection
Company: Grupo Arcano
Base: Madrid

Are you revisiting your EM exposure in light of the pending entry of China A-shares to the MSCI EM index in June? If you are, why; if not, why not?

No. We do not usually make country bets. It is up to the global managers we select to pick the best stocks in the country in which they may trade.

That said, we did invest quite recently in Fiera Capital, a Frontier Emerging Markets equity manager. This exposure adds diversification to our EM equity sub-portfolio.

We like the fact that these markets are more inefficient, passive and hot money is much less abundant and economic and market drivers are more domestic driven.

www.inverdif.com

Name: Gabriel J. López
Title: General director
Company : Inverdif Asesores Eafi
Base : Madrid

In this current environment of market uncertainties where would you recommend investing?

It is well known that companies which have consistently paid and grown their dividend for over 25 years are an excellent long term compounding investment. During the last 90 years, average dividend yield of the S&P500 has stood at 3.9% and over the last 20 years, 60% of total return is due to them.

They are excellent and expensive, but one is investing in high quality management and in most cases ESG friendly companies which due to their reputation and recognition brand deserve to be valued with a premium to the market.

In general they have a pricing capacity power enabling them to overcome inflation or competition. Their volatility is below average, which makes them an ideal choice in times of high volatility such as we have currently and at any time a sound investment.

People moves around the industry

KATHLEEN BOCHMAN

Loomis Sayles appoints ESG director

Loomis Sayles has appointed Kathleen Bochman as director of ESG.

In this newly-created role, Bochman will increase awareness of environmental, social and governance principles among Loomis Sayles investment teams and partner with teams to identify ways to integrate ESG criteria in their investment processes. She will report to David Waldman, deputy chief investment officer.

Bochman is also a co-portfolio manager on Loomis Sayles' large cap flagship fund and joined in 2006 as global equity analyst covering financials.

She will lead the existing Loomis Sayles ESG committee with the aim of providing strategic support to investment teams, conducting internal education and serving as a thought leader for the firm on material sustainability issues.

DAVID FORGASH

Pimco appoints head of European High Yield

Former Millenium Capital Partners' senior portfolio manager David Forgash has joined Pimco as an executive vice president and head of European High Yield Portfolio Management.

Based in London, Forgash will report to Eve Tournier, managing director and head of European Credit Portfolio Management. He will oversee the firm's investments in the European high yield market.

Prior to his tenure at Millenium, Forgash was an executive director for credit trading at Morgan Stanley in London and a managing director for credit trading at RBS Greenwich Capital.

MAARTEN ROELEVELD

Russell Investments makes Benelux push

Russell Investments has appointed Maarten Roeleveld as director, Business Development Benelux, effective 3 April 2018.

With responsibility for the further development of the firm's institutional investment activities in the Benelux region, he will focus on delivering multi-asset investment solutions, as well as transition management and currency overlays services.

Roeleveld is based in the Amsterdam office, which is responsible for the northern European region, and reports to Martijn Kuipers, managing director, Northern Europe.

Roeleveld, who has 16 years' experience in financial services, launched the distribution of investment funds to the retail public via Fundix.nl, then retail and defined contribution administration at Ordina BPO. For the past decade, he worked at Northern Trust as a sales manager for asset servicing, fund administration and outsourcing to professional investors.

IAN HESLOP

OMGI Asian equities team exits

Josh Crabb and the Asian equities team will exit Old Mutual Global Investors in May, when two Asian equity funds currently managed in Hong Kong will be instead run by the global equity team headed by Ian Heslop.

Hong Kong will remain a core distribution centre for OMGI.

It is understood the change follows a fund range review, during which OMGI concluded that investors in the Old Mutual Pacific Equity fund and the Old Mutual Asian Equity Income fund would benefit from the management of OMGI's global equities team.

ÁNGEL BORREGO

BNP Paribas WM names Spain fixed income director

BNP Paribas Gestión de Inversiones, the Spanish asset manager of BNP Paribas Wealth Management, has appointed Ángel Borrego as fixed income director.

Borrego, succeeding Marta Raga, will combine his new role with the responsibility of overseeing SRI, and will report to the group's investments director Silvia García-Castaño.

With over 23 years' experience, Borrego joined BNP Paribas WM in 2010 as senior manager. Prior to that, he was the fixed income and structured products director at Fortis Private Bank and previously, capital markets deputy director at Espirito Santo Investment. At this bank, he also worked as corporate finance senior analyst.

FRANK HAGENSTEIN

LBBW appoints Frank Hagenstein as new head

LBBW Asset Management has appointed Frank Hagenstein as the new head of its investment subsidiary.

Hagenstein will take over the management of LBBW Asset Management, succeeding Andrea Daniela Bauer, who leaves LBBW by mutual agreement to pursue new tasks. Bauer came to Stuttgart from Landesbank Berlin Investment in October 2015 and took over the management of LBBW Asset Management in June 2016.

Currently, Hagenstein is responsible for the development of investment strategies within the LBBW Group as chief investment officer Capital Markets. Prior to this, he was managing director at Deka Investment from 2006.

ROBECOSAM
We are Sustainability Investing.

Highly charged and ready to surge

The transformation of transportation has begun and its course is irreversible. Accelerating technological advances in materials and energy management, together with strong anti-pollution regulation are all paving the way for E-mobility to revolutionise urban transport

Thiemo Lang, PhD (top), Senior Portfolio Manager, RobecoSAM Smart Energy Strategy

Pieter Busscher, CFA, Senior Portfolio Manager, RobecoSAM Smart Materials Strategy

A SOLUTION FOR POLLUTION

Air pollution is a distressing global topic that has unleashed a bevy of outrage and a wave of action from not only environmental activists but also governments and corporations. Transportation is responsible for about 25% of global greenhouse gas emissions, with passenger cars and other light vehicles accounting for 17% of the total.* In China, one-third of pollution comes from internal combustion engines (ICE) and air pollution is the primary cause of over 1 million deaths per year.† In Europe, the European Environment Agency reported that dirty air resulted in the premature death of nearly half a million citizens.

ENGINE THRUST MEETS REGULATORY THRUST

In response, major European cities have announced diesel-powered vehicle bans by 2025. More dramatic still is a recent court ruling allowing German cities the right to outright ban diesel cars within city limits. In other parts of the world combatting air pollution by targeting automotive transport is also gaining momentum. The Chinese government is aggressively supporting ICE vehicle restrictions in smog-choked cities and is also promoting the Electric Vehicles (EV) market via subsidies.

AN OLD CONTINENT AND AN AGING INDUSTRY

The cost of reducing CO2 emissions in ICE cars is rising even as production costs for EVs are falling. Consequently, European automakers are moving fast, stepping up production of EVs. In summer 2017, Volvo announced bold plans to sell 1 million energy-efficient vehicles by 2025 and in a similar move, Volkswagen plans to roll out an e-model every month starting in 2019. Unwavering public and corporate commitment to clean energy initiatives, makes Europe a strategically important market for the development of smart mobility. Underscoring this reality, are a slew of investments in European Automakers from Chinese billionaire Li Shufu, starting with his buyout of Volvo in 2010 and continuing with his most recent stake in Mercedes-Benz parent, Daimler AG.

INNOVATIVE RAW MATERIALS – UNLOCKING PRODUCTION POTENTIAL

Mass production of cheaper and denser lithium-ion batteries is essential for the EV revolution. Lithium-based batteries are the preferred storage technology for electric vehicles thanks to lithium's high energy density and light weight. As a result, automakers are feverishly investing in securing battery power and storage technology. According to Goldman Sachs, the auto industry is expected to consume 24% of total lithium output by 2020, up from around 7% in 2015. Tesla opened its own electric "gigafactory" in 2016 to supply its EV fleet and Chinese battery producers are also ramping up production. In Europe, Volkswagen is investing $25 billion in battery supply technologies and will closely collaborate with European and Chinese companies to further enhance its battery and electric mobility platform.

SUPPLYING JUICE TO THE WHEELS AND CONSUMER POCKETS

For sure, EVs are considerably more energy-efficient compared to gas-powered vehicles – a good thing for the environment. But closer to consumer's pockets are the competitive advantages of e-vehicle production. The EV powertrain (the power that turns the wheels) is far simpler and the EV motor far lighter compared to ICE versions. This improves fuel efficiency on the road and reduces production costs through faster and easier assembly. Advantages like these are making EVs price-competitive compared to conventional vehicles and increases their mass appeal among consumers. An inflection point in EV sales is expected between 2025-2030.‡

** Credit Suisse Connection Series, «Drive Train to Supply Chain," April 14, 2016, p. 40.*
† Financial Times, "India air pollution deaths posed to exceed China's" February 14, 2017.
‡ Bloomberg New Energy Finance, Electric Vehicle Outlook 2017.

For more information, visit:
www.robecosam.com/en/professionals/strategies-services

RobecoSAM | Josefstrasse 218 | 8005 Zurich | Switzerland | T +41 44 653 10 10 | F + 41 44 653 10 80 | www.robecosam.com | info@robecosam.com.

Fund watch and product launches

Mirabaud merges US and global equity funds

Mirabaud Asset Management will merge the Mirabaud – Equities US fund (worth €54.3bn as of end March 2018) and the Mirabaud Equities Global Focus fund (€11.9bn AUM as of 30 March 2018) on 15 May 2018.

Mirabaud wants to provide a large geographical equity coverage to the shareholders of the absorbed fund (Mirabaud - Equities US) and the edges of a fund with a larger size to the shareholders of the absorbing fund (Mirabaud Equities Global Focus).

The firm's global equities head Anu Narula is lead portfolio manager and analyst on both strategies.

"The Mirabaud Global Equity focus fund is a concentrated fund of 25 holdings, it is multi thematic and ESG.

"We use themes to identify areas of long term structural growth allowing leaders in these areas to grow without depending on the macroeconomic backdrop.

"We currently have 10 themes, of which the newest addition is the Millennial Consumer. All fund holdings are subject to a strict ESG process," says Narula.

www.mirabaud-am.com

LGIM unveils listed infrastructure UK Ucits index fund

Legal & General Investment Management (LGIM) has announced the launch of the Legal & General Global Infrastructure Index fund, a Ucits compliant unit trust.

The fund invests globally in listed infrastructure, and aims to offer both income and capital growth by tracking the performance of the FTSE Global Core Infrastructure Index.

This in turn means the fund comprises over 200 index constituent holdings from over 30 countries. This provides broad exposure to listed companies owning, operating, managing or maintaining infrastructure across sectors including utilities, industrials and oil and gas.

Honor Solomon, head of Retail, EMEA, at LGIM, commented: "Infrastructure assets such as roads, railways and pipelines are essential for our economies to function.

An attractive combination of capital growth and a stable income stream, in many cases linked to inflation, has meant listed infrastructure has become increasingly popular with investors."

www.lgim.com

Fidelity and Deutsche Bank Spain launch multi asset fund for Iberia

Fidelity International and Deutsche Bank Spain have partnered to launch the Fidelity Funds Multi Asset Target Income 2024 fund (MATI 2024), a global multi asset solution targeting Spain and Portugal.

Managed by Patrick Peter, it will be available from 5 April to 23 May, exclusively to clients of Deutsche Bank in Spain.

With a portfolio made up of some 40 positions, it will invest across asset classes, including currencies, property, commodities, fixed income, equities, and alternatives, seeking always to preserve capital in periods of high volatility.

The fund references a horizon of six year and aims to provide an annual dividend of 2% until 2024 regardless of market environment.

www.fidelity.co.uk
www.deutsche-bank.es

Capitulum AM & Universal Investment launch interest rate strategies

Recently founded Berlin boutique Capitulum Asset Management and Universal Investment have jointly launched Capitulum Weltzins-Invest Universal, a global bond fund with a focus on local currencies, and the interest rate and currency hedged option Capitulum Annuity Optimised Universal.

Lutz Röhmeyer, founder Capitulum Asset Management was previously responsible for fund management at LBB-Invest, which has now been integrated into Deka.

Röhmeyer said Capitulum Asset Management's global bond strategies aim to capture the attractive internationally available interest rate advantage of systematically selected bonds in all market phases, and not just in the current low interest rate environment, but also avoiding excessive risktaking through absolutely index-free investing.

www.universal-investment.com

EG Capital Advisors launches high yield corporate EMD fund

London-based investment firm EG Capital Advisors has launched the $75m Emerging Markets Corporate High Yield Ucits, a mirror of its dollar-denominated strategy and a sub-fund of its high yield corporate EMD fund.

The move is intended to facilitate investor access to the strategy, which has previously targeted high net worth investors and family offices.

Chief investment officer, Fixed Income Dmitry Griko advises on the strategy of the Ucits fund, which despite not having a specific yield target, aims at delivering high returns over a full market cycle.

"We believe that Emerging Markets High Yield is gaining the recognition it deserves among serious investors, and is increasingly accepted as an important element of a balanced investment portfolio," Griko said.

www.egcapitaladvisors.com

10.1% China YoY increase in retail sales of consumer goods

Greater China

International investors are about to get a jolt in terms of their allocation to the world's second biggest economy, as index provider MSCI advances the inclusion of China A-shares in its ubiquitous emerging markets index in the coming month. Jonathan Boyd, Mona Dohle, Adrien Paredes-Vanheule, Eugenia Jimenéz and Ridhima Sharma have looked into the implications

China as an entity is rapidly maturing. As the World Bank puts it, the country is "an upper middle-income country that has complex development needs".

Among those needs are functioning capital markets that can enable businesses to raise funds and invest to grow further. In terms of both fiscal and monetary policy spheres, there have been a significant number of steps taken since the country joined the World Trade Organization to bring it closer to the global economy. This is needed. In 1990 China's GDP was estimated at $360bn; by 2016 it was about $11.2trn. At this size of economy, it is in the interests of both China and the rest of the world to facilitate capital flows.

So, what is next?

For many investors it is the decision by index provider MSCI to increase the allocation to shares in Chinese companies that are traded in China itself, affecting a key index used by both active and passive managers globally who are invested in emerging markets.

But how to respond to this specifically is less clear cut.

Invesco PowerShares recently noted that "Chinese A-shares are due to be included in MSCI indices. Will this be a watershed moment or a damp squib? We suspect neither but continue to prefer Chinese A-shares to US stocks.

"Foreign interest in Chinese A-shares comes and goes and has mainly been gone since the roller-

6 % China YoY increase in total value added by industrial enterprises

coaster ride of 2015. However, with the upcoming inclusion of A-shares in the MSCI Emerging Markets Index and the MSCI ACWI index (in two steps in June and September), some investors will be obliged to take an interest and others may be encouraged to do so."

However, the contrasting view is that: "Many investors who do not have to invest in China may still be dissuaded by the events of 2015/16. For many, that episode reinforced the suspicion that the Chinese economy is inherently unstable, largely due to overinvestment fuelled by unsustainable levels of debt."

THE CURRENT EXPERIENCE

Bruno Vanier, chairman and portfolio manager of the GemEquity and GemAsia funds at Gemway Assets is one who does already have exposure, of about 7.5% and 9% in the two portfolios respectively.

He has not experienced any difficulties accessing China because of the Stock Connect – the collaboration between Hong Kong, Shanghai and Shenzhen stock exchanges. And that noted, he says he is not planning to reallocate assets from China H-shares to China A-shares.

"The A-share inclusion in the MSCI Index is a well-known event released one year ago. Technically the effect will be felt in May and August. With a 7.5% weighting we will benefit from it."

The increasing exposure in the indices will however become more important for both passive and active managers, he agrees.

Jan Boudewijns, head of Emerging Equity Management at Candriam says the manager's EM equity fund currently has A-shares exposure of about 2%.

Here too the access has been done via the Stock Connect. An additional advantage of this is that it does not require the manager to apply for QFII (Qualified Foreign Institutional Investor) status "as was the case before if one wanted to be able to invest in the local A-share market".

"Of course, the set-up of all the

administrative, trading, settlement and custodian activities and procedures has taken some time, as everything has to be working smoothly in order to avoid trading and settlement problems. So, a good relationship with your investment houses and brokers is crucial for creating an efficient and successful trading process."

Boudewijns says that analysis of the pending inclusion of A-shares in the MSCI indices suggests that the overall weight of these shares will be initially limited. There could be some implication for H-shares, he adds.

"In first instance the investment in some A-shares could have a slight impact on the H-share exposure, but mainly depending on the overall exposure on China we will decide within the overall Emerging Markets strategy."

Any increasing Chinese weight in the indices will impact passive investors, and active ones through the decision on over or under-exposure, depending on their investment strategy. Candriam's own Belfius Equities China fund is likely to widen coverage to A-shares in future Boudewijns adds.

Catherine Yeung, investment director, Fidelity International meanwhile highlights one of the reasons why active investors would look to the A-shares market: it is under-researched.

"Over the past year, we have been focusing a lot on finding names with good earnings visibility yet are under-researched by the Street," she says.

That is a point picked up by another larger US originated group: Sukumar Rajah, senior managing director and director of portfolio management, emerging markets equity at Franklin Templeton Investments says that while the current exposure to A-shares is low "we have the resource to look at them wider".

"Apart from our team that directly follows Chinese A-shares, we have a joint-venture in China with Sealand Securities (Franklin Templeton Sealand Fund Management) which tracks the universe of A-shares in domestic mutual funds. We will ramp up our exposure as markets become more investable. Though there is a huge valuation issue currently."

Greater exposure is also subject to technical issues, such as limitations to the Stock Connect programme, listing rules, dissemination of company information in English and accounting standards, Rajah adds.

The issue of direct exposure is also noted by John Lin, portfolio manager China Equities, AllianceBernstein, who cites data from the People's Bank of China suggesting that while 87% of EM equity and index funds invest in Chinese equities, most are based on Chinese companies listed in Hong Kong (H-shares) or use American Depositary Receipts.

10.4% China YoY nominal increase of total property investments

"Almost three quarters of the funds do not hold any mainland shares. Chinese A-shares account for only $14bn (or 1.7%) of assets under management in EM funds."

Investors will need to do their homework if they are to increase their exposure, particularly in mind of different risk elements compared to investing in Western markets, Lin continues: "While the rhetoric of politicians in Western markets can usually be neglected, China's government often sets the rules on the market. Investors also need to be able to identify companies that are less concerned with the needs of small shareholders. Some state-owned enterprises attach more importance to public accountability than maximising profit. On the other hand, you also have to reckon with oligarchs who could exploit profits for other projects."

GAINING EXPOSURE

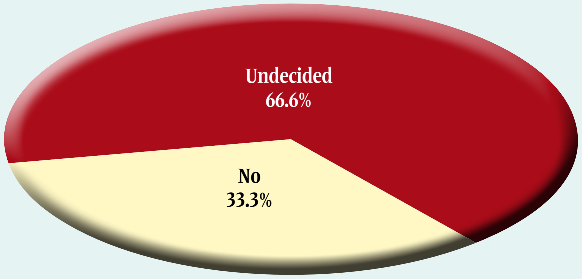
Maarten Geerdink, chief investment officer and partner at Econopolis, which launched an EM equity fund last December has said that following successful access to the Indian market, next on the list is accessing the A-shares market in China.

"This is a market that is very interesting to have exposure to, but it requires that you incorporate some specific elements in your prospectus. We are currently in the process of changing the prospectus to enable us to gain access to the Chinese A-share market."

"THESE MARKETS ARE MORE INEFFICIENT, PASSIVE AND HOT MONEY IS MUCH LESS ABUNDANT"
Ion Zulueta, Grupo Arcano

WILL YOU BUY CHINA A-SHARES TO REFLECT THE MSCI EM INDEX CHANGE PENDING?

InvestmentEurope's poll found that there is clearly a wait-and-see approach among investors as to the opportunities that may exist in accessing domestic Chinese shares.



Source InvestmentEurope poll, April 2018

Andrew Mattock, portfolio manager at Matthews Asia and manager of the firm's China Strategy suggests that the relatively low exposure threshold suggested by the initial MSCI index changes mean that ETFs will not be exactly rushing to significantly increase their exposure.

Meanwhile, as a holder of a QFII licence, Matthews Asia has held A-shares for a number of years, and the China Strategy now has more than 10% of assets in A-shares as of the end of March 2018.

"It would be higher today if valuations were more attractive. We currently see more value in Hong Kong because of foreign sentiment, but that is changing and Chinese participation in Hong Kong is picking up."

David Raper, Asia ex Japan portfolio manager at Comgest, like certain others does not see any immediate need to rush to increase exposure to A-shares.

"Comgest has researched the Chinese domestic market for over a decade and A-shares has been one of the very fruitful areas in terms of both new research ideas and contribution to fund performance in recent years."

He continues: "We are index agnostic and so we don't move our funds based on MSCI movements, rather the funds' weights are the result of our deep fundamental bottom-up company analysis. The attractiveness of a select number of companies within that market has been apparent to us for some time.

"It's worth noting that our exposure to A-shares is not broad, ETF-like exposure – of the hundreds of A-shares available on the Chinese market Comgest only owns six in our China fund today, positioned with weights in our portfolio that reflect our level of conviction whilst also taking into account the potential upside in light of current valuations."

RESEARCH QUALITY

Raper also notes the issues of quality of research currently being conducted on the market, and the implications for investors.

"The Chinese domestic market is a young and under-researched market for institutions which should make it doubly attractive for active investors willing to do their own homework. In recent years we have been able to buy into well-run, strong growth businesses with unique franchises that were seemingly off the radar for many international investors and trading at attractive valuations.

"This requires internal research capabilities that are ideally on the ground in Asia and encompassing Mandarin-speaking team members – so not all international investors have been able to participate. However, as the sell-side research coverage and overall quality increases, we believe that more active investors will come to the market.

"The passive changes clearly will have to follow the MSCI movements and so should provide an ongoing tailwind for the market, however this is going to be a slow, steady multi-year tailwind based on MSCI's public comments. At Comgest we will continue to focus on the fundamentals of individual companies."

SELECTOR VIEWS

Gabriel Catherin, portfolio manager of the KBL Key Fund-Global Emerging Fof and head of Competence Center Multi-Management of Richelieu

RMB10trn Q1 2018 investments in fixed assets (ex rural households)

Investment Funds at KBL European Private Bankers starts by defining his current exposure.

"The KBL Key Fund Global Emerging Markets fund of funds (Fof) has been exposed to global emerging markets since January 2015, but China A-shares allocation is limited. The current exposure is roughly 2.4%. Currently, we don't have direct exposure to A-shares through specific funds or ETFs, however we do have indirect exposure to diversified funds, such as Asia ex-Japan funds, Chinese funds and global emerging markets funds.

"We are not likely to revisit our EM exposure just because of the entry of China A-shares to the MSCI EM index, as most of our underlying funds – Global EM, Asia ex-Japan and China Equity – are already exposed and have the expertise to determine if there are further opportunities there. Moreover, the equity markets of countries entering MSCI EM Index, have seen their equity markets rallied before entering and collapsing after. Thus, we are not sure that the timing to reallocate is good.

"In our Fof, we will not switch allocation from China H-shares to A-shares, but prefer to have underlying funds where the portfolio managers can invest in the whole equity China – H-shares, A-shares, B-shares, ADRs, etc. Moreover, several differences exist between China H-shares and A-shares: index composition (double listing are limited), sector allocation, valuations, etc. Thus, switching from H to A will create portfolio bias, such as a reduction of IT exposure, an increase of small & mid-cap exposure, and so on."

But does Catherin believe that there will be increasing use of A-shares?

"Before the launch of the Hong Kong Stock Connect – Shanghai in 2014 and Shenzhen in 2016 – some active managers were already invested in A-shares through QFII and RQFII. Now with the Hong Kong Stock Connect, investing in A-shares is easier, so I think that active managers that were willing to invest in A-shares have already done so. However, as some investors prefer to have 'pure' products – 100% allocated to China A-shares – some asset managers will likely continue to create equity China A-share products.

"Active managers are not likely to increase their allocation to China just because the weighting in the MSCI indices has increased. Indeed, as emerging markets and especially China are increasingly important to the global economy, more opportunities arise that active managers are willing to invest in. As a result, active managers should increase their weighting in China because Chinese companies are better managed, are profitable, and are becoming bigger and more international."

Ion Zulueta, head of manager selection at Grupo Arcano does not foresee greater use of A-shares.

"We do not usually make country bets. It is up to the global managers we select to pick the best stocks in the country in which they may trade. That said, we did invest quite recently with Fiera Capital, a Frontier Emerging Markets equity manager. This exposure adds diversification to our EM equity sub portfolio. We like the fact that these markets are more inefficient, passive and hot money is much less abundant and economic and market drivers are more domestic driven.

"We think passive investment can sometimes be useful, but in some markets we deem it as too risky. China would be an example where we would not feel comfortable buying the whole market on an indiscriminate basis."

"Most of the managers we allocate money to manage the funds in an unconstrained manner. Even though they may try to maintain a balanced portfolio in terms of sector and country exposure, they would probably not increase exposure to China if it is not justified by the bottom up opportunities they find."

CHINA BY NUMBERS – AND THE IMPLICATIONS

Analysis published by Skagen recently suggest the following about China:

236 million Increase in working age population in 20 years to 2010. The increase in the five years to 2015 is just 4 million.

$15,500 GDP per capita according to purchasing power parity.

250% Credit to GDP ratio, this represents a doubling in the past 10 years.

Thus, the implication for investors is that there will be changes to its status as a low-cost manufacturing base, that consumption behaviour will change, that household leverage is increasing and there are questions over financial system stability.

All of these points will impact decisions on where and in what type of companies to invest.

POLITICAL HURDLES

Of course, one of the main factors casting a shadow over China's equity markets is the possibility of a trade war with the US.

According to Gemway Assets' Vanier: "Many tech exporters are listed in Shenzhen (around 12% of the market) and could be impacted by tariffs increase. But the main impact is on market perception and could increase volatility in the short term."

Fidelity International's Yeung says the outlook for Chinese exports is tricky given the ongoing trade discussions with the US.

"The biggest risk for the economy and the market this year relates is policy mishap."

Comgest's Raper adds: "A deep, protracted US/China trade war would have some impact on the fundamentals of the Chinese economy, therefore the fundamentals of the listed Chinese companies as well as the sentiment toward the market as well." ■

€1.92trn Assets under management of France-domiciled funds as of 31 December 2017

French fund selector association Société Française des Sélectionneurs de Fonds was launched on 22 March. Adrien Paredes-Vanheule caught up with its chairman Philippe Sarica

Highlighting French fund selectors' role

What has motivated the launch of the association?
The Société Française des Sélectionneurs (SF2) was created on my initiative around a group of financial experts.

It gathers all professionals whose daily work is to assess the performance of fund managers within French financial institutions. The association aims at highlighting the fund selector role's specificities, proposing best fund selection practices guidelines, delivering training modules and organising events on a regular basis.

It will be composed exclusively of professionals involved in fund selection, multi-management, research and financial teaching, whether they work for asset managers, entrepreneurial boutiques, banking and insurance group subsidiaries, advisory firms, financial research companies or universities and schools.

Its primary mission will consist of informing, supporting and contributing to the training of its members but also taking part to the financial education of a greater audience.

The SF2 carries the ambition of improving the professional knowledge of its members through discussions and experiences held during conferences. Its members will hence be able to integrate various workshops.

After the association's last administration board meeting on 4 December 2017, SF2's board is set as following: Philippe Sarica (La Finance Emotionnelle), chairman; Benoit de Brie (DNCA Invest), treasurer; Aurélia Caruso (Scala Patrimoine), general secretary; Jean-Christophe Cotta (Allocation & Sélection), vice-president; Sandrine Vincelot-Guiot (Vega IM), vice-president.

We are still in the early stages of the association's setup. We expect to reach a hundred members by next December.

What is your view on the job of fund selector?
Fund selection impacts a huge number of activities. It refers to those working in asset management but we must include companies' treasurers, financial executives working for insurance firms, provident and pension schemes. Individuals wanting to handle more fund selection for the management of their personal finance shall be considered as well.

What challenges do fund selectors face?
A challenge for fund selectors is to be recognised for the originality of their approach and their position within all financial institutions mentioned previously. Technically, it means putting forward all aspects of the fund selector's work but also better highlighting his/her role in the implementation of a tactical allocation of fund management styles within each asset class and better define his/her contribution to the value chain of an evolved open-architecture model.

Which challenges are specific to France?
Fund selection enables us to classify funds or portfolio managers within the European competitive asset management landscape, depending of their consistency and the regularity of their performance.

It also allows us to better identify management styles and performance factors portfolio managers are linked to.

In addition, it enables us to situate a selection of funds in comparison to those used or managed internally and to better handle factors of outperformance or underperformance within a company's own portfolio management for firms running an internal fund management business.

The main challenge is first to review past experiences and determine the good and bad practices seen in France.

A second remains to present the evolutions - going beyond quantitative and qualitative techniques – as well as the new ways of fund and portfolio manager's assessment and follow-up.

A further third challenge would be to upgrade regulation as it has much reduced and constrained the activity of fund selection.

What advice would you give to foreign asset managers targeting French fund selectors?
Being well aware of the great diversity of French fund selectors and of the current regulation in place prior to any move. All depends of the fund selectors' positions and roles they hold within the institution they represent and of the objectives that have been set by their organisations: insurance firms, provident institutions, asset managers, intermediary platforms, companies. ■

EURIZON
ASSET MANAGEMENT

ESG investment: the sustainable advantage

Corrado Gaudenzi examines the fundamental analysis skills and the behavioural guidelines behind the success of the Eurizon Fund Sustainable Global Equity

Corrado Gaudenzi is head of Long Term Sustainable Strategies at Eurizon Capital SGR

The focus on ESG (Environment, Social and Governance) issues is the consequence of a change in the way a number of financial institutions view the role of the investor. For many of them, the growing perception that the destiny of the companies in which they invest is inseparably tied to the future of the communities with which they interact has given rise to two distinct needs. One of these is the need to take a more proactive, responsible approach to being a shareholder. The other is the need to look not just at corporate earnings estimates when choosing the companies in which to invest, but also at how profits are earned, and thus to analyse non-accounting information as well. In the asset management sector, Eurizon has always been committed to formulating and promoting new rules and behaviours with a focus on sustainable investing. Since 1996 – when it became the first Italian company to launch ethical funds on the market – it has been on a journey that culminated in the adoption of the Italian Stewardship Principles in 2014 and then of the PRI (Principles for Responsible Investment) in 2015. In time, these behavioural guidelines have become an integral part of the management company's investment process, and in March 2017 they were extended to all management activities.

A SELECTION PROCESS WITH BUILT-IN SUSTAINABLE COMPETITIVE ADVANTAGES

Within the framework of an investment process and company structure with a strong focus on the role of responsible investors, in March 2017 we launched an equity fund that seeks to identify companies with sustainable competitive advantages, while complementing such assessments with ESG criteria: the Eurizon Fund Sustainable Global Equity. This sub-fund takes an active management approach to investing in international equity markets with the goal of outperforming the index MSCI World Hedged in Euro over the long term.

A SUSTAINABLE INVESTMENT UNIVERSE

The universe of investible securities is composed of stocks included in the MSCI World index, more than 1,600 large- and medium-capitalisation stocks from developed nations. The choice of the securities in which to invest is reviewed monthly according to an approach that integrates fundamental analysis with environmental and social sustainability analysis in a disciplined way. In our management activity, we use a proprietary ESG score that estimates the degree of sustainability of corporate profits and is based on information on their environmental, social and governance impact published by companies annually according to specific international standards. In particular, we attach greater importance to information that can be measured in the most consistent way possible and to the information that, in each sector, we believe may have the greatest impact on future earnings performance.

THE ADVANTAGES OF INTEGRATING ESG ANALYSIS FOR AN EQUITY FUND

In general, we believe that ESG analysis can complement fundamental analysis in identifying investment opportunities. In our case, ESG analysis is used to identify those companies which, based on fundamental analysis, possess significant competitive advantages and which have a greater probability of retaining these advantages for a longer period, due to the closer alignment of their businesses with protection of the environment and with the interests of the communities in which they operate. We are convinced that corporate profits are not all the same: profits earned by businesses that contribute to the well-being of communities and improve the environment are more likely to be sustainable over time than profits generated by short-term opportunistic strategies. Empirical evidence confirms that today environmental and social sustainability can be measured with sufficient accuracy to identify companies that show greater-than-average improvements in fundamental parameters. Our strategy focuses on companies that display solid, attractive fundamentals, while also presenting a more sustainable business model.

A NEW FUND BASED ON LONG EXPERIENCE

Eurizon Fund Sustainable Global Equity draws on all the fundamental analysis skills honed in managing Eurizon Fund Azioni Strategia Flessibile, an equity sub-fund that since its creation (2010) has stood out in its category for the risk-adjusted performance it has delivered. In particular, in the two portfolios we use the same proprietary metric for estimating net cash flows. In the case of Eurizon Fund Azioni Strategia Flessibile, this metric serves to identify the companies with the most sustainable dividends, whereas in the case of Eurizon Fund Sustainable Global Equity it helps identify companies that enjoy a significant competitive advantage.

NOK621,367 GDP per capita in Norway

NICLAS HILLER

Niclas Hiller is chief investment officer at Formuesforvaltning/Burenstam & Partners in Norway/Sweden respectively.

Hiller has broad experience in the finance and investment industry and has worked for several different financial institutions in various roles in Scandinavia and abroad. Hiller had different roles in the startup and expansion of the Norges Bank Investment Management sovereign wealth fund working out of Oslo, London and New York. He joined Formuesforvaltning in 2010. Hiller took his BS and MSc in Uppsala and Zurich respectively and is CEFA qualified.

Background image: Shutterstock.com

Focused delivery

Niclas Hiller, CIO Formuesforvaltning/Burenstam & Partners, explains the firm's focus on only delivering what the customer wants. Jonathan Boyd reports

Formuesforvaltning offers wealth planning, portfolio and investment, legal, business and art and philanthropy services to clients predominantly in Norway, and in Sweden through its sister organisation Burenstam & Partners.

Its offices are located from the northern Norwegian town Tromsø down to Malmö in southern Sweden, as well as in London.

From a fund selection perspective, this work is centralised and done in the Oslo office, with the team supporting the Burenstam & Partners clients from there, explains Hiller.

CUSTOMER FOCUS

More broadly, reflecting the makeup of the client base, the business tends to do a focused offering for customers, rather than run a platform that aims to do all things for all customers.

Also marking out the approach of the business is its commitment to charging, which means a focus on only delivering what customers want, such as investment returns results. There is a preference for long term horizon customers and avoiding the near-term trend.

There is not much use of ETFs when it comes to collective investment vehicles, Hiller notes. The selection focus also tends to look to fewer areas but aims to spend more time on each in turn.

It is also about putting together expertise from different managers, meaning the selection work is an application of process after defining investment goals, Hiller says.

"It is about managing an ecosystem of interested parties, for example, family wealth, and applying thoughts through a particular approach. Often, people talk about selection, but for us it is just one part in the value chain developing value for customers."

Regulation has also played a role. Sweden is in the EU. Norway is not but has, broadly speaking, an agreement in place to implement equivalence in areas such as financial services regulation.

INDEPENDENT APPROACH

Formuesforvaltning/Burenstam & Partners has taken an independent approach under Mifid. It is not tied as defined by Mifid, in contrast to the approach of other players in the market locally – but which then throws up issues of conflicts of interest.

> "TRANSPARENCY IS GOOD, ALBEIT IT MAY LOOK TOUGH TO START WITH AND WILL LEAD TO COST PRESSURES IN THE INDUSTRY"

Hiller stresses that he, and the business, see Mifid II as a positive step.

"A lot of what it does has already been implemented internally several years ago. So, it has become more of a confirmation of our strategic decisions," he says.

It will lead to changes in the industry, but because of their own adjustments previously there has been no need to implement short-term "heavy lifting", for example, in the form of Kiids implementation.

"Transparency is good, albeit it may look tough to start with and will lead to cost pressures in the industry; the capital volume required to start a fund will be bigger than 15 years ago," Hiller says, adding that he also believes it will become more difficult to introduce new ideas because entrepreneurs will be challenged.

The shift to passives and ETFs is understandable, but Hiller notes that "just because others increase their use of ETFs doesn't mean we need to."

"That said, some customers use passives, for example, foundations that have rules that they must use passive instruments. So, we may use both active and passive, but it depends on the reason for using them."

Quantitative strategies also have their place. Hiller prefers to refer to systematic modelled strategies rather than use the term 'black box' because it may mean different things to different people. .

NEW IDEAS

From the selection team perspective, they are always willing to consider new ideas, Hiller continues. The 21 investment professionals working for Formuesforvaltning/Burenstam & Partners do not engage along the lines of "we need some more biotech, we need some more India", Hiller says.

The company also offers discretionary management, which also affects responsibilities of the investment professionals on the team.

"We don't do Ucits hedge funds specifically. We will look offshore for performance. It will depend on the customer, but many buyers only look to Ucits vehicles," he notes. ■

BAILLIE GIFFORD

Emerging markets – reasons to be cheerful

With superb companies boasting excellent growth prospects and trading on reasonable valuations, Will Sutcliffe argues that there is every reason to be optimistic about the outlook for emerging markets

Will Sutcliffe, Investment Manager, Emerging Markets Equities, Baillie Gifford

Sutcliffe graduated MA in History from the University of Glasgow in 1996. He joined Baillie Gifford in 1999 and worked as an Investment Analyst in the UK and US Equities teams before joining the Emerging Markets Equities team in 2001, where he is an Investment Manager. He became a Partner in 2010. He is a member of the Emerging Markets Product Group

At the beginning of 2017, at a time when political events in the West had left most commentators in a state of confusion, we found ourselves more optimistic about a broader range of emerging market (EM) equities than had been the case for a number of years.

One year on, our sense of optimism remains. This feels at odds with much of the expert opinion from commentators and financial journalists.

For some pundits, fears are centred on the possibility that rising interest rates in the US will drive the sort of rally in the dollar that has tended to be bad news for EM. For others, it's the risk of contagion from China, where policy has been tightening at a time when growth in the other BRICs remains elusive. Where optimism about the asset class is expressed, it seems to be phrased only in terms of the appeal relative to 'over-priced' US equities. For us, it's about so much more than that.

GROWTH EVERYWHERE

For the first time in 10 years, the global economy is firing on all cylinders. Given the lags between the policy response in the US and elsewhere, this is a relatively de-synchronised expansion: full-blown monetary stimulus only reached Japan in 2013 and the EU in 2015, while several EM economies have only begun to ease policy within the last year or two. In Brazil, interest rates have come down from 14% to below 7% over the last 18 months, in Russia they have fallen from 11% to 7.5%. There are a significant number of emerging economies where the worst of the economic contraction appears to be past, and they are now entering into the 'sweet spot' that the US has been enjoying for much of the last five years, where profits are rising but policy remains highly accommodative.

Of course, we can debate the amount of staying power left in the US expansion, or the likely timing and magnitude of Federal Reserve (Fed) monetary tightening. However, while the 'rising rates = rising USD = bad for EM' mantra may be appealingly simple, there's not much evidence it works in practice. If anything, during most of the Fed tightening cycles that have taken place in recent decades, the dollar has actually tended to weaken. This makes sense for two reasons that remain relevant today: first, the dollar has often already appreciated in anticipation of tightening by the time rates actually start to rise, and second, capital flows are influenced by returns on capital invested in the real economy and therefore sensitive to cyclical economic conditions, not just interest rate differentials. We therefore don't think it makes much sense to be gloomy about EM just because rates might be going up in the US.

CHINA FAILS TO IMPLODE (AGAIN)

China has a long history of defying the pessimists. Ever since Deng Xiaoping launched the era of reform and opening in 1978, people have been predicting disaster: too much debt, too much corruption, not enough reform, not enough entrepreneurial vigour. Each of these arguments is losing traction.

Over the past couple of years, the market has been preoccupied with the risk of a meltdown in China's banking system. True, buying growth with large dollops of debt tends not to be something that an economy can sustain indefinitely, but when that economy has a closed capital account, a sky-high savings rate, and a government that owns most of the lenders as well as most of the problem borrowers, the music can keep playing for a lot longer than it might in a 'normal' economy.

The real surprise of 2017 was how adept Beijing was shown to be in cutting back lending to the riskier parts of the economy, while keeping credit flowing to worthy borrowers.

"The real surprise of 2017 was how adept Beijing was shown to be in cutting back lending to the riskier parts of the economy, while keeping credit flowing to worthy borrowers"

Xi Jinping is clearly serious about reducing financial risk, and with the target that he was bequeathed by his successors to double GDP by 2020 now pretty much in the bag, economic growth will continue to be de-emphasised as a political priority. For sure, this throws up plenty of interesting questions about the nature of those priorities. But, for an economy whose most dynamic parts are now dedicated to producing consumer efficiencies rather than large chunks of GDP, it shouldn't come as a surprise.

THE DIGITALISATION OF EVERYTHING

For a number of years now, one of our key contentions has been that underdevelopment of offline alternatives will drive a relationship between EM consumers and the mobile internet that is far more intensive than anything we are likely to see in more 'advanced' economies. Evidence to support this continues to accumulate. Indeed, the pace of change has been accelerating: Tencent grew its profits by more than 70% in 2017, compared to growth of 30% p.a. between 2011 and 2016. For Alibaba, it was 125% last year after 54% p.a. in the previous five. For sure, the most frenetic growth is in China, but something similar is happening across much

BAILLIE GIFFORD

of EM – witness MercadoLibre, where sales are currently growing at close to 50% year-on-year, nearly double the pace of recent years. Share prices may have risen, but competitive moats have been broadening and deepening. The success that companies such as Alibaba and Tencent have had in encouraging consumers to shift more and more of their lives online is way beyond anything that their Silicon Valley peers have managed. When we add in the fact that these companies are not only tolerated by the authorities, but actively encouraged, the comparison with the western platforms becomes even starker.

Of course, we must be careful not to conflate operational excellence with substantial upside in the equity. But, with Tencent currently making an average revenue per user that is still a fraction of that made by the likes of Facebook or Netflix in the US, or Alibaba having only just begun to experiment in an FMCG industry that's worth in excess of U$1trn, our view is that these businesses are still in the early stage of the growth opportunity.

"The success that companies such as Alibaba and Tencent have had in encouraging consumers to shift more and more of their lives online is way beyond anything that their Silicon Valley peers have managed"

IT'S NOT JUST TECH

We have a long-standing enthusiasm for technology: the sector has accounted for as much as half of our Global Emerging Markets (GEM) portfolios in recent years, and that's before we take into account holdings in stocks such as Naspers or JD.com that the index providers classify as consumer discretionary. While this was largely a function of our excitement about the outlook for stocks exposed to some of the themes described above, it also reflected a relatively cautious view on the investment prospects for much of the rest of the EM universe.

This has been changing. With credit growth at multi-decade lows in a number of emerging economies, but banking systems generally in good shape, we have substantially increased the exposure of our portfolios to a number of our favourite banking franchises in structurally underpenetrated markets. The relative weighting of the financials sector within our GEM portfolios is now at its highest level in a decade. And it's not just the banks that have been catching our eye: the stabilisation in commodity prices provides a more supportive external environment for several emerging economies that our portfolios have had relatively little exposure to in recent years, and opens up the possibility of an inflection point in dollar earnings for a number of consumer facing companies operating in these parts of the world.

We don't believe that the more favourable environment for global growth is enough in itself to kick-start another commodity super-cycle, – after all, the importance of China's investment cycle for steel, cement and a variety of other industrial commodities suggests that peak demand is probably behind us. However, there may be exceptions. Oil, for example, is one commodity where China remains a relatively small proportion of global demand, while even new-economy cheerleaders such as ourselves accept it will be a very long time before electric vehicles take over in markets like India. Indeed, with crude inventories at relatively low levels, questions over the ability of shale to respond to higher prices, and Saudi's apparent desire to ease the succession of Mohammed Bin Salman with an unofficial floor of U$60 a barrel, the odds of an extended period of elevated oil prices strike us as reasonably high. Given the disproportionately large number of assets in our universe that might benefit from such a scenario, it's a topic that we have been giving serious consideration.

A LOST DECADE

It's worth reminding ourselves what a laggard the EM asset class has been over the long term despite a decent period of relative outperformance over the last year or so. The MSCI EM index isn't much higher than it was a decade ago in dollar terms, and remains some way below the 2007 peak.

Whether the asset class is 'cheap' or not is a question others are better equipped to answer. For our own part, we can simply observe that when it comes to finding companies that meet our own investment criteria – that is, the potential for the share price to at least double in dollar terms within a five-year period – we find ourselves relatively spoilt for choice. Indeed, to the extent that our enthusiasms are coming from a broader range of sectors and countries than has been the case for a number of years, the current period feels to us more analogous with the early 2000s than it does with the late 1990s or the earlier part of the current decade.

There will come a time when our optimism is more fully reflected in market sentiment. But, when we look at the PE multiples attached to some of our largest holdings – single-digits for Sberbank or Samsung, low-teens for the likes of TSMC, Ping An or Reliance Industries – it's hard to escape the conclusion that it is fear, rather than greed, that remains the dominant market narrative. Superb companies, with excellent growth prospects, trading on reasonable valuations? The good times are surely just getting started.

16.1% Spanish unemployment in February 2018

French boutique Amiral Gestion entered the Spanish market two years ago attaining subsequently a 150% year-on-year increase in related assets through 2017. Eugenia Jiménez reports

Multiple views with a global focus

The entry of Amiral Gestion to the Spanish fund market could be partly explained by the time its founder and president François Badelon spent living in Barcelona.

There, he studied the Spanish asset management industry to identify business opportunities, arising from the growing appetite among local investors for value orientated funds.

According to Pablo Martínez Bernal, Amiral Gestion's head of Investors Relations in Spain, one of the reasons behind the hitherto success in Spain, is that the asset manager's value proposal was perceived as a compelling alternative.

"If you present to many investors an investment approach they already understand with a few unique characteristics – our sub-portfolio strategy and our global focus despite being a boutique – and your funds happen to be in the first decile in terms of performance, good things might happen."

INTERNATIONAL PRESENCE

Amiral Gestion, founded in France in 2003, has some 40 staff, of which 28 work as part of the asset management team based in Paris. Although the company has its headquarters in the French capital, it also has offices in Madrid – for commercial representation – and in Singapore, where the research activity takes place.

The boutique, which is fully owned by managers and other employees, is aimed half at retail clients and half at wholesale and institutional clients.

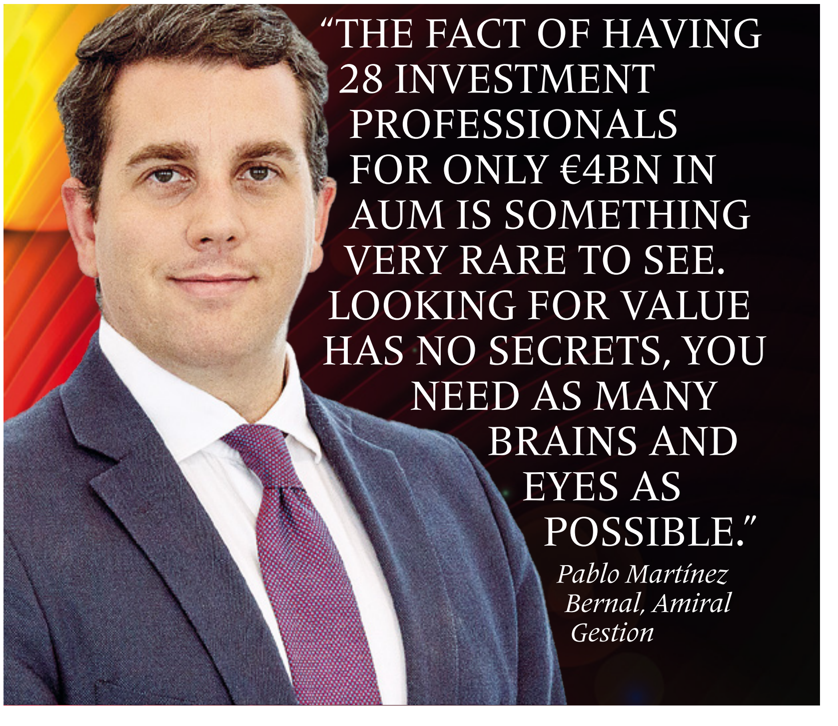
As of the end of February of 2018, it posted €4.1bn in assets under management – on behalf of European investors – of which €3.1bn belong to its Sextant fund range, €550m to institutional mandates, and the remaining €350m to wealth management.

As for fund classes, Amiral Gestion invests around 18% in pure equity funds, 2% in fixed income funds and 80% in mixed funds. Its Sextant fund range comprises six funds designed to provide investors with long-term performance and limited risk.

Four of the funds belonging to the Sextant range are equity strategies – the Sextant PEA, the Sextant Autour du Monde, the Sextant Europe, and the Sextant Bond Picking – all managed according to a sub-portfolio asset management approach. The Sextant Grand Large fund is managed by a committee that selects stocks based on their safety margins.

The sixth fund of the range, the Amiral Gestion Sextant PME fund, was hard-closed on 10 July 2017 after it reached over €250m in assets under management. Managed by Raphael Moreau and invested in European small-mid caps, the fund registered a 18.13% annualised average profitability having accumulated a return of 104.50% since January 2014.

Sextant funds' assets are divided into sub-portfolios, each of them managed independently by one of the team's managers, who have the freedom to invest



according to their own convictions, or conversely to subscribe to the ideas of others, thus leading the funds to be concentrated in the team's strongest convictions.

In this respect Martínez adds: "Probably the biggest difference we have with other value orientated managers is our sub-portfolio strategy that changes the working dynamic of the investment team, since people are independent managing their portfolio but have to convince their colleagues that their ideas are great. Therefore, ideas are more scrutinised and we have concentration in the upper level of our portfolios and diversification in the lower one, something that helps us to reduce the funds' volatility.

"In addition, the fact of having 28 investment professionals for just €4bn in AUM is something very rare to see. Looking for value has no secrets, you need as many brains and eyes as possible."

VALUE INVESTING PHILOSOPHY

Martínez refers to asset managers of local origin that also pursue a value investing philosophy. However, he emphasises that the majority were not seen by Amiral Gestion as competitors; indeed, as peers doing something similar to themselves: "We try to collaborate with them whenever there is a chance".

"We share a goal with them, which is to increase the sophistication of Spanish investors: making them understand the benefits of saving for retirement, while having a long-term approach and benefiting from volatility events instead of suffering from them."

In contrast, it is the bigger financial groups that are considered the 'real' competitors because of their large market share despite what Martínez suggests is their poor value proposition.

Independent boutiques with a value investment philosophy in Spain have grabbed less than €10bn of the market so far, he notes.

"Better informed investors might be able to shift this status quo, so time should be our best friend. Our investment approach requires remaining focused on the long-term prospects of companies, rather than on the short-term trends or market patterns."

ATTRACTIVE ASIA

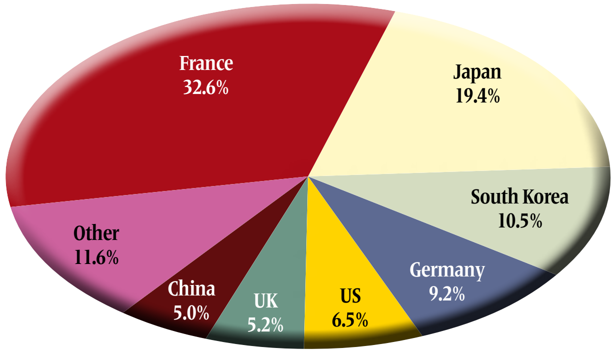
Regarding the best place to find value currently, Martínez marks out Asia, particularly Japan, South Korea and China.

"Since we opened our research office in Singapore at the beginning of 2017, we have to say that the attractiveness of the ideas we are finding in Asia are amazing. The US is pretty expensive, and Europe is reasonably priced, so it is harder to find value there compared to back in 2014-2015."

In Spain, the firm has found few companies to trade at attractive prices, so its funds have little exposure to the Iberian country. Baron the Ley, the supermarket chain Dia, Cements Molins and Técnicas Reunidas are the four Spanish companies where Amiral Gestion is invested.

Martínez adds: "Since we are pure bottom-up investors, we do not seek to invest in any given country for macro reasons. We have found these four companies attractive for different reasons.

GEOGRAPHICAL DISTRIBUTION OF HOLDINGS



As at 28 February 2018 Source Amiral Gestion

"In particular, Técnicas Reunidas is a very cyclical business and we think we are close to the bottom of the market.

"Its reputation is excellent, it is a wonderful business with a top-quality service that has been hit very hard for the margin tension suffered recently, which should stabilise and rebound by 2019. We are happy to wait and see the company increasing its backlog."

EXPANSION PLANS

When asked for the asset manager's goals for 2018, Martínez underlines Amiral Gestion's desire to further expand its brand in Spain, focusing on big institutional accounts as a way to consolidate its volume of assets under management.

Regarding potential expansions across new markets, the company plans to conduct business development in Portugal, Italy and Latin America, but operating from its Spanish office.

It aims also to expand its business activity in Switzerland and Luxembourg from the firm's headquarters in Paris. The company has no plans to open offices in any of these countries in the short term.

Although Martínez recognises that Spanish investors are increasingly moving towards equity investments, he considers there is still room for improvement. While he attributes this increase partly to the distortions generated by central banks in the fixed income asset class, he also admits that is not he only factor.

"Spain still has to do a huge catchup compared to other European countries in terms of equity exposure. It is not that Spaniards are more conservative than Germans, it is simply that our financial knowledge is lower."

Looking ahead, Martínez feels very optimistic in terms of Amiral Gestion's further developments in Spain, where fund inflows keep growing and independent boutiques are increasing their AUM. From this the French boutique draws a positive outlook. ■

1.2% Spain's inflation rate in March

A storm in a tea cup?

Spain's economy shrugged off the impact of the Catalan crisis in 2017, delivering GDP growth of above 3% despite the unresolved crisis in the region. Eugenia Jiménez reports

Catalonia's political impasse persists, with 16 Catalan leaders either imprisoned or having fled the country. Among them, former Catalan president Carles Puigdemont, who entered a German prison in March and has been now released on bail after the German Higher Regional Court of Schleswig-Holstein considered the accusation of rebellion "inadmissible" according to German criminal law (the offence of which he is accused in Spain, alongside sedition and misuse of public funds).

The German prosecution had requested Puigdemont's extradition and sent it to Schleswig-Holstein Court, which had to determine whether the accusations made by Spain's Supreme Court in the European arrest warrant had equivalency in German criminal law.

Although the Court ruled out the charge of rebellion, it agreed to put forward the extradition request by misuse of public funds, arguing it did not fear Puigdemont would face any political persecution once back in Spain, and that he would probably be judged justly on the charge(s) for which he was extradited.

The independence leader was intercepted by the German police on 25 March 2018 upon entering the country from Denmark five months after he fled to Belgium in the aftermath of the illegal referendum in October 2017.

The unilateral independence declaration that followed the referendum saw some volatility in Spanish stocks – as did the results of the December regional election – Ibex 35 Index Spanish stocks were down just over 8% in the six months to the end of March almost in line with Europe's broad-based FTSE Eurofirst Index falling by 6%.

Joaquim Gay de Montellà, president of the Catalan association Promotion of National Work recently said to the Spanish daily *El Mundo*: "Catalonia needs to form a government capable of negotiating and agreeing soon in order to attract investment. Otherwise, the region's economy might struggle from 2020 onwards, with a potential 10-year standoff period".

However, the latest European Commission predictions saw little to no impact on the wider Spanish economy from the political crisis, raising its 2018 GDP growth forecast for Spain from 2.5% to 2.6%.

Spain's GDP rose by 0.8% in Q4 2017, and by 3.1% over the whole year (a fourth straight expansion), a figure down two decimals on 2017 (up by 3.3%), a decline the Bank of Spain attributed to the Catalan crisis.

EQUITIES

Although the Ibex 35 Index remains nervous about Catalonia's political instability, the general sentiment is that the standoff will not escalate. Ibex fell by some 2% on 4 October 2017 with Spanish banking groups CaixaBank and Sabadell down by 5%.

Collins Patrimonios' equity analyst Adam Miquel says: "Currently, CaixaBank, Sabadell and even Catalana Occidente are above the minimums of 2 October 2017, erasing all those losses and concerns. Additionally, although some of the largest companies moved their headquarters, key indicators such as earnings, seem to be strong enough to sustain the good performance of these stocks, confirming that the Spanish equity market continues to be strong."

José Ramón Iturriaga, fund manager of Abante Asesores' Spanish equity fund Spanish Opportunies, adds: "The Catalan crisis might be beneficial for Spanish assets.

"On the one hand, the populist party Podemos has fallen down significantly in the polls given its ambiguous approach to the Catalan crisis after having been considered one of the major threats to Europe three years ago. On the other, Spain's legal security is stronger after the Government took direct control of Catalonia." ■

48% Inhabitants who do not have Luxembourg nationality

Compliance for good

SGG (Luxembourg) group sales and marketing director Renaud Oury sees no let-up in the continued pace of compliance requirements placed on the industry across Europe, but this can also mean positive outcomes. Jonathan Boyd uncovers more

From its beginnings servicing private clients, SGG today offers compliance, administration and asset services to investment funds, companies, high net worth families and entrepreneurs globally.

Interaction with fund managers occurs in four key areas:

- Fundraising and formation, where it provides launch services and regulatory compliance, whether under the Alternative Investment Fund Manager regulations, or focused on ManCo, or depositary requirements;
- Capital deployment, such as facilitating special purpose vehicles (SPVs) and holding company services;
- Investor monitoring and value creation, such as fund administration and transfer agency; and
- Investment exits, distribution and windup.

It has over $250bn in assets under administration globally, and according to Renaud Oury, SGG (Luxembourg) group sales and marketing director, has effectively increased its headcount from some 550 to 1,700 over the past 18 months through an organic and acquisition driven growth strategy.

Consolidation in the space is set to continue, he adds.

"The number one has a 7% market share, so it's very fragmented," he says.

Coming years will see consolidation, like the 'big four' in accounting, those that drive the consolidation will define the market and quality of service standards.

"This is where SGG wants to be," Oury says.

Mergers and acquisitions are often cited as a great way to destroy shareholder value. Oury says it is important

to be able to integrate parts of the business properly, which means aligning business cultures. SGG has an internal M&A team, but also uses outside consultants to advise on how to best integrate long-term client relationships.

There is a need to think 'employee first' when engaged in heavy M&A, Oury adds.

Looking at the business mix as it stands, he says the aim is to grow the institutional business.

Overall, however compliance will be a cornerstone in establishing growth. Oury sees no let-up in the pace of compliance that may be felt in other ways. The industry needs compliance requirements because it needs to be reliable and able to offer trust.

OUTSOURCING

Another trend seen is the increasing move to outsourcing, for example, to deal with know your client (KYC) requirements or anti money laundering

In terms of demands on the IT side, Oury sees a need for major spend on compliance and automisation and industrialising compliance. This must be done to be able to manage the growing burden of compliance. There is also a self-interest in finding more efficient ways to engage on compliance; some eight percent of people at SGG are linked to compliance when onboarding new clients and doing compliance checks.

This also comes back to the issue of customers looking for trust over the long term, Oury notes.

Meanwhile technology spend will also increase in response to the need to set market standards. Increasingly, SGG experiences larger asset managers asking about what systems SGG is using. Market standards help reduce the workload of integration, and that is important because integration teams are often the first point of entry for a client changing provider, which is not something done day to day.

"From the customer experience point of view, it's important the first point of contact is good."

OTHER TRENDS

There are other trends affecting those such as SGG, Oury notes.

For example, compared to some years ago, there is more focus on how the finance industry can contribute to improving society, of working as an enabler that helps clients to have a real impact on the real economy.

Another trend is the tendency toward impact investing, particularly notable among high net worth individuals and their views on impact investing becoming the top investment topic in years to come. Services providers such as SGG need to respond to this trend change, and work to facilitate both managing impacts and creating returns. Impact investing is becoming sustainable because investors are expecting to get a return from it. ■

As Japan's Sumi Trust continues to roll out its Ucits programme, Jonathan Boyd catches up on the Japanese small cap strategy already made available to investors across Europe

The small cap sweet spot

For investors seeking an uncorrelated asset class that is under-researched and therefore offers decent alpha generating opportunities for active managers, the Japanese small cap universe may be the solution.

That is the argument put forward by Satoshi Marui, chief portfolio manager on the Sumi Trust Japan Small Cap Strategy, which has been made available in a Ucits format for the European market (see boxout, right).

Marui has managed the $1bn (€810m) strategy since inception on 2005. He has been with Sumi Trust since 1988. Sumi Trust has some $475bn (€384bn) equivalent in AUM overall, making it one of Japan's largest asset managers.

Running a fairly concentrated portfolio of between 50-90 stocks, Marui notes that the universe stretches to some 3,000 companies overall, while the upper limit market cap cut-off of $3bn (€2.4bn) equivalent actually encompasses small to mid-cap companies. The ongoing research coverage sees views expressed on some 1,200 companies.

The research includes regular meetings with some 550 companies, Marui notes. The strategy is looking for companies that offer the promise of growth potential.

PROCESS

The analysts at Sumi Trust rely on a process they call MBIS – Management, Business Basis, Industry and Strategy. This is used to calculate a price trend for each individual stock. This means that the current market price of any stock can be measured against the MBIS expectations and a decision made on whether the stock looks under- or over-valued.

If the market price is below the expected point on the MBIS price trend line, then a buy decision may result. Similarly, if the market price moves above the expected MBIS price trend line, then a sell decision may follow.

The decorrelation effects of the strategy flow from the fact the companies being analysed and brought into the portfolio may be heavily dependent on developments in the Japanese economy.

Marui cites trends in areas such as technology and demographics for his mid-term expectations that there are significant alpha opportunities in technological progress and the ageing population.

These trends are reflected in the reasons for key holdings. For example, as of February 2018, one of the top holdings was a pharmacy seen as being efficient in both operations and delivery of prescription medication, but also in its ability to open new offices and expand out of its roots in northwestern Japan.

Another example would include the components and connector manufacturers, which are delivering products to car manufacturers that increasingly are rolling out electric vehicles. Another top 10 holding included a biotech company that was seen as being on the cusp of changing from being a maker of reagents into a medicines developer.

Recently, since February, there has been a correction in global markets amid concerns over import tariffs announced by US president Donald Trump. But barring an actual trade war, Marui expects the small and mid-cap market in Japan to regain upward momentum because of earnings growth in the financial year 2018, alongside stable economic growth in Japan. ■

THE SMALL AND MID-CAP MARKET IN JAPAN [WILL] REGAIN UPWARD MOMENTUM BECAUSE OF EARNINGS GROWTH IN THE FINANCIAL YEAR 2018, ALONGSIDE STABLE ECONOMIC GROWTH IN JAPAN

Satoshi Marui, Sumi Trust

UCITS AVAILABILITY

Currently, there are two Japanese strategies offered by Sumi Trust as Ucits: Japan Quality Growth and Japan Small Cap.

Another two strategies are set for Ucits launch going forward: Japan Sakigake and Japan Strategic Growth.

One other strategy is currently available on Aberdeen Standard Life Investments' platform: Japan Fundamental Growth.

Other Japan strategies that are not available via Ucits include: JFG High Alpha, Asian Equity, Asia Multi Asset Hybrid, and Equity Enhanced Index/Passive.

3% February YoY increase in Netherlands retail turnover

Applying a trends approach to fintech

The Robeco trends approach seeks to combine multiple low-correlated trends in one portfolio. Ridhima Sharma reports

Robeco launched the Robeco Global FinTech Equities fund last year. The fund invests in stocks of listed companies which benefit from the increasing digitisation of the financial sector.

Fintech offers abundant opportunities to monetise digitisation, according to the manager. This is a good thing: in today's investment world, the added value of portfolio managers is measured by the outperformance, or alpha, they can deliver. Robeco notes that there is a good opportunity to generate alpha through the most appealing trends and themes in the fintech sector, and by fundamental analysis to identify the best executors and stocks with attractive relative valuation.

> "DIGITAL FINANCE WILL OPEN THE WAY TO TWO BILLION PEOPLE WHO CURRENTLY DON'T MANAGE THEIR FINANCIAL AFFAIRS"
> *Patrick Lemmens, Robeco*

The trends investing approach seeks to exploit what the manager sees as an analytics edge in understanding secular change, and taking advantage of systematic behavioural biases that humans display.

Regarding the specific portfolio mentioned, it is a benchmark-agnostic fund with a concentrated set of equity holdings, each defined as either 'today's winners', 'fintech enables' or 'challengers'.

'Today's winners' includes companies that already have a competitive advantage in the fintech space. 'Fintech enablers' includes companies that facilitate the digitisation trend. 'Challengers' are the companies that could be the future winners. The segregation is intended to diversify the drivers and risks faced by the portfolio.

Patrick Lemmens, lead portfolio manager alongside co-manager Jeroen van Oerle, says: "We have invested in the digital finance trend for over six years now with Robeco New World Financial Equities as this is one of the three themes in that fund, but to launch a fund that solely invests in the Fintech space was a step ahead.

"I strongly believe that digital finance will open the way to two billion people who currently don't manage their financial affairs, and that online payment methods will become mainstream, while cash becomes the exception."

He describes an investment process of four steps. Firstly, to identify long-term growth trends in the fintech universe. Secondly, to identify the winners, enablers and challengers within the universe. The third step is bottom-up stock selection to find the companies that benefit most from the fintech trends. Finally, the portfolio construction looks to the conviction level, risk, diversification and a strict buy and sell discipline.

Thinking longer term is also important, Lemmens adds.

"We believe in long holding periods of typically three to five years. As it is very hard to pinpoint when a trend will start to perform, we position for the long run." ■

BLOCKCHAIN LATEST

Lithuania is looking to become the first ever country to offer entities from around the world the opportunity to register and manage companies using blockchain technology.

The regime is based on the introduction of Virtual Limited Liability Companies (VLLCs), which would benefit from a "sandbox" regulatory system that helps newcomers to set up operations.

Advantages touted of VLLCs include the ability for companies to be remotely managed, and for all share transactions to be fully transparent, as they would be performed entirely on a blockchain.

The plan is endorsed by the Bank of Lithuania, the country's regulator. Marius Jurgilas, a member of the board of the Bank of Lithuania, said he sees strong potential in the development.

"The Bank of Lithuania is already building LBChain – blockchain-based solutions accelerator for fintechs. The initiative to create virtual companies using blockchain is a move towards an even more ambitious goal, creating LTChain, ie moving relevant public services onto blockchain."

Monaco proposed a draft law in December aiming to provide a framework to blockchain technology with the objective of attracting more companies to the country.

The pending shift towards China A-shares, alongside the volatility of Russian equities, is creating investment opportunities, explains Fredrik Bjelland, the most recently installed portfolio manager for Norway's Skagen Kon-Tiki fund. Jonathan Boyd reports

Kon-Tiki holds the course

Fredrik Bjelland is a portfolio manager and part of the team running the Skagen Kon-Tiki emerging markets equity fund.

He joined Skagen from Norges Bank Investment Management (NBIM) in August 2017, following six years working for the manager of Norway's sovereign wealth fund, including as head of China, special mandates.

As an EM portfolio manager, Bjelland sees a number of key issues currently facing investors.

Taking the China A-shares first, he describes the pending inclusion of such securities in the ubiquitous MSCI EM index as a game changer and "a generational event".

It is a vast opportunity set, he continues; the A-shares market represents a $7trn market, with over 3,000 companies and an IPO backlog of some 500 companies.

And the MSCI move is likely to be followed by other index providers, such as FTSE, he says.

Another point to note about this change is that it offers better exposure to the direction of economic development in China. For example, Hong Kong listed shares in the 1980s and 1990s were about getting access to state owned companies. Today, there are a large number of domestic non state owned businesses to consider, Bjelland says.

RUSSIA

The Russian element to the Kon-Tiki fund has seen it invest in airline Aeroflot among others. The country overall, however, continues to exhibit sensitivity to the oil price. More recently, the country risk went up.

Over the longer-term and from a fund perspective, then, the question becomes one of looking to a reasonably stable and perhaps even higher oil price. There is opportunity for margin expansion by a number of local companies, Bjelland adds.

However, in the immediate term, the week when new sanctions were touted in Washington saw three holdings in Russia go up and down by more than eight percent in a day.

With the market trying to figure out the direction, overlaying the US and China trade issue points to more volatility, Bjelland says. As a broader EM portfolio, the Kon-Tiki fund faces the FX challenge; it means that if the currency bet is right it can 'supercharge' the upside. Similarly, however, if the investment is wrong currency risk can multiply the downside.

Another issue to recognise is that demographics is not the panacea that some suggest it is in regards to emerging markets investing, Bjelland suggests.

Instead, the aforementioned volatility, for example, coupled with market inefficiencies means that investment opportunities will exist for those placing capital in the market. Volatility implies the flows of capital will not be stable, but this means opportunities for those placing the capital, Bjelland says.

With such a broad sweep of stocks to select from, Bjelland notes that "for those who buy into high multiples, they need to be sure that they will obtain a higher multiple in turn" when it comes to exiting.

Re-ratings are more broadly an ongoing source of buy and sell triggers. Bjelland explains the example of the Johannesburg Stock Exchange, which saw a considerable shift in country risk following elections, which led to an exit at a particular price point.

Meanwhile, a decision to reduce the numbers of holdings in Kon-Tiki is seen as having reduced risks associated with longer tail of holdings. So, while the weight of the top 12 may not have changed much, the top 35 have, ie, the long tail of holdings is no longer there.

This is also healthy in terms of how dynamic the portfolio is, Bjelland concludes. ■

127 Funds granted the French public-backed SRI label (as of April 18)

The full SRI conversion

French asset manager La Banque Postale AM, managing €216bn in assets, has unveiled plans to become a fully SRI-compliant manager by 2020. Adrien Paredes-Vanheule finds out more on France's latest green wave

Socially responsible investing will become the only relevant asset management model in the coming years. That is the conviction of Daniel Roy, chairman of the board of Paris-headquartered La Banque Postale Asset Management, that had AUM of €216bn as of end December 2017.

The company has set the objective of becoming a fully SRI-compliant manager by 2020. Over half of its assets (€109bn) were already SRI assets at the end of last year.

LBPAM outlines three issues underpinning its belief: global warming; the demographic limits of the French social protection scheme; and the growing divide between the financial markets and wider society.

The manager's open-ended funds will hence converge towards a responsible investment process by 2020. In parallel, the firm will raise awareness of institutional clients whose assets do not integrate extra-financial filters yet.

In addition, LBPAM has unveiled a new SRI conviction fund range, composed of four sub-funds, with launch scheduled for June 2018 and covering equities, fixed income, green bonds and money markets.

GOOD NEWS

France teems with SRI asset managers. A pioneer in the area has been Natixis' affiliate Mirova whose chief executive officer Philippe Zaouati welcomes LBPAM's move.

"With recent events such as the One Planet Summit, or the release of the European Commission Action Plan, people at all levels are realising the importance to change the financial system. This is no longer a matter of growing sustainable finance as a part of finance, but of changing finance as a whole to make it more sustainable.

"LBPAM's announcement is a big step in this direction. It makes us at the same time happy and hopeful. We are talking about no less than the fifth biggest asset manager in France deciding to become 100% SRI. This really shows that sustainable finance is becoming mainstream," Mirova's CEO says.

In his view, a snowball effect is possible, other companies will follow because this evolution comes from discussions with clients demanding more SRI products.

He suggests French institutional investors are way ahead in SRI practices and that is no surprise first asset manager to make such a move is a French one.

The €2bn AUM boutique Promepar Asset Management, a fully-owned subsidiary of Bred involved in fund selection since 2003, has launched an SRI open-architecture offering for its mandate management business eligible to French equity savings plans PEA.

Promepar's head of SRI Fund Selection and portfolio manager Murielle Hermellin also considers LBPAM's step as positive news.

"Anything that sheds light on socially responsible investing practices and makes investors understand SRI makes sense in their portfolios is good. Though we do need to assess what kind of SRI we are talking about, since there are multiple shades of SRI.

"LBPAM has been pro-active in this field as 15 of its funds have been granted the French public-backed SRI label so far, but not all SRI funds are labelled yet. A few French managers are already fully SRI-compliant, many others will soon join the club but I am not convinced all managers will step into SRI," she explains.

Hermellin pinpoints the emergence of a huge trend around the integration of ESG criteria across the French AM industry.

She says the use of extra-financial ratings or analysis by fund managers is gaining traction, whether or not the final decision to take ESG criteria into account is theirs to make.

"Red flags on governance are particularly of interest for fund managers as it could affect the environmental and social pillars of the firm being analysed. The full integration of ESG criteria into French managers' processes would be a huge milestone. In France, SRI means full integration of the three ESG pillars. Otherwise we refer to thematic funds in which certain strategies could be SRI-compliant but others not," she adds.

The view echoes that of Benoit Magnier, managing partner at Sanso Investment Solutions for whom all players are likely to implement the integration of ESG criteria in their investment decisions without constraints.

"To draw a parallel with equities,

€25bn AUM of funds awarded the French public SRI label (as of April 18)

the probability is high you would look at a stock valuation before investing; but if this stock is expensive, this will not necessarily cause you to rethink the investment if growth prospects and other components seem attractive enough.

"Similarly, in the scope of an ESG integration process, a low ESG rating will not constrain your investments but will lead you to enlarge your view on the company.

"We think this type of approach will continue to co-exist with SRI management practices, whose process is more constrained."

For Magnier, LBPAM's move is a very good strategic choice. It demonstrates the SRI trend is strong and that investors get into the space globally with a strong mobilisation of asset managers.

Would this move push pioneers like Mirova to go even further in the SRI field?

"We created Mirova with the conviction that, at some point, ESG integration would become mainstream. Our aim was thus not to just do ESG investing, but to target impact.

"The financial industry needs companies like Mirova, really advanced and impact oriented, to open new ways and help change the paradigm. The current evolution is totally in line with what we expected and we intend to continue playing our role to pull the market even further," replies Zaouati.

Mirova has been working for two years on the new asset class of natural capital. With Althelia's team which joined last September, a range of funds allowing institutional investors to invest in sustainable land and ocean management has been developed.

CONVERSION: A RISK ?

For an asset manager, converting to SRI presents two main risks, according to Promepar's SRI fund selection head Hermellin.

"Being SRI-compliant costs a tremendous amount of money and time as you need reliable data and the resources to analyse this data in order to translate it into investment ideas for your portfolio.

"Another risk dwells in the notion of choice. As a fund selector, I can stress that the offering is tightly in a few asset classes such as bonds, convertibles, money market. And in the end, the SRI offering needs to be crystal clear and a long-term commitment for retail clients," she adds.

Edmond Schaff, portfolio manager at Sanso IS, explains SRI is multifaceted and should be described in many shades. He points out that an asset manager wishing to integrate an SRI layer in its investment process should first question itself about the approach that best fits its process and the ESG data that could enable the manager to enrich its analysis and investment decisions.

"Not doing this and copying a standard SRI process that will be perceived by fund managers as a constraint could be counterproductive in terms of performance and risk," says Schaff, for whom it is very likely other managers would follow LBPAM and Sanso IS' move.

Sanso IS went through the SRI conversion process as it was formed as a result of the merger of three asset management companies in June 2017, of which only one was SRI-focused.

Managing partner Magnier adds: "The investment process of all our open-ended funds now include a SRI layer. We have integrated ESG metrics to most of our monthly reports to reflect this. We have the ambition to continue to improve on these metrics and strengthen our commitment towards third-party managers and our SRI policy.

"Acquiring ESG data forms a significant financial investment but we do not see it as a cost given our conviction that taking into account this data will enable us to avoid certain risk and catch opportunities therefore to improve the risk/reward profile of our funds. Also we are persuaded that our approach will allow us to convince more investors."

RIGHT FIT

The fitting of SRI into the whole investment spectrum divides the investment community.

Sanso IS's Schaff says that certain asset classes are well covered such as large cap equities and investment grade bonds. but he points to difficulties in finding SRI products in segments like small/mid-caps, diversified and flexible funds as well as high yield bonds and absolute return strategies.

"With these asset classes, we have chosen to implement an engaging approach towards managers we work with. We urge them to deploy an ESG approach in their portfolio management and are in touch with them on a regular basis to measure progress achieved."

Pauline Lejay, head of SRI at Erafp, says the French pension fund does not face constraints to find SRI products across asset classes since its SRI approach is global, ESG issues are taken into account in all its investments.

"Erafp has selected a best in class approach to take into consideration the ESG criteria underlying its SRI charter for all its investments. Operationally, this principle takes the form of detailed rules that make it possible to determine, based on the scores that the issuers obtain for Erafp's SRI criteria, those that can be considered as the best in their category."

Mirova's Zaouati concludes that in a mid-long term investment view, SRI-compliant products can be created in any asset class. Though some asset classes will require to gather more data and create methodologies to assess the impact but "we've done it and can assure that it is totally manageable", he says. ■

SEK19,746.89 Value of SEK1,000 in 1918 in today's money

The recent Nordic Summit Stockholm 2018 saw a distinct tilt among presentations towards ESG factors, impact and sustainability objectives. Jonathan Boyd reports

ESG tilt

The latest edition of the Nordic Summit took place in the Swedish capital on 12-13 March, and was once again hosted at the Grand Hotel opposite the Royal Palace in the centre of the city.

The event brought together some 40 fund selectors from around the region to meet 12 asset management groups for presentations and networking.

Groups participating included Candriam Investors Group, Eaton Vance Investment Managers, Eurizon Capital, First Trust Global Portfolios, GAM, J O Hambro Capital Management, Jupiter Asset Management, La Française, OppenheimerFunds, RobecoSAM, Unigestion and Vontobel.

Topics included climate change, sustainable water objectives, impact investing, ESG considerations in global equities, emerging market equities and both hard and local currency debt, alternative risk premia, value and growth opportunities in the eurozone and dividends from Japan.

Delegates were also treated to a keynote presentation at the dinner, which highlighted ideas around technology developments (see boxout, right)

The emphasis on ESG factors, impact investing, sustainability and climate change was no accident. It has long been clear that across the spectrum of fund buyers in the region – institutional, wholesale, retail – there are increasingly strict parameters around the investments that should be made in mind of not only the long-term benefit of investors but also the ability to influence improvements in areas such as corporate governance.

EMERGING MARKETS

Charudatta Shende, senior client portfolio manager at Candriam Investors Group, outlined the manager's approach to emerging market debt. He noted as part of his presentation the investment process used to identify individual securities. It all starts with an SRI screening and the requirement that issuers achieve a minimum score before being considered in following steps in the process. That screening looks at human, social and natural capital, and economic sustainability, and relies on both 'best-in-universe' and norms-based screenings.

Remaining with emerging markets, but this time in the equities asset class, Marc Bindschädler, senior portfolio manager at the mtx boutique of Vontobel, highlighted the

11th Global ranking of size of Nordic region economy

importance of active stock selection. For mtx, the assessment of ESG risk is key to company valuation, he explained, because of the impact a negative ESG event can have on performance of a stock.

OPPORTUNITY IN CHANGE

Eurizon discussed its Sustainable Global Equity strategy. Corrado Gaudenzi, head of Long Term Sustainable Strategies and portfolio manager, explained how ESG is integrated into the stockpicking process, and which will exclude companies from the investable universe on the basis of, for example, having the worst corporate governance practice.

Gaudenzi also highlighted the shift in philosophy that has occurred in the industry since the days of Milton Friedman in the early 1970s. Then the mantra was "what is good for business is good for society", but this has been replaced with "what is good for society is good for business".

Charlie Thomas, head of Strategy, Environment & Sustainability at Jupiter, highlighted three decades of impact investment, given the launch in 1988 of the manager's ecology strategy.

Critical to recognise today, he added, are the broader trends such as the growth in Asia's middle class by numbers of people, the jump in renewable energy sources – particularly solar – electric vehicles and the impact on personal mobility. The connection between demographics, resource efficiency and sustainable infrastructure leads to the investment themes, he noted.

Climate change has been much mooted in recent years, and Laurent Jacquier-Laforge, CIO of La Française, addressed the issue in his presentation, which focused on how to achieve investment objectives linked to zero carbon initiatives.

Energy transportation is just one area of significant investment opportunities, as he also noted the emergence of electric vehicles and the disruption this is causing. It is also about finding those companies that can contribute to carbon reduction through the solutions they offer in areas such as automation, semiconductors, energy storage and renewables.

Another touching on a particular theme was Dieter Küffer, executive director, senior portfolio manager at RobecoSAM.

He outlined the challenges facing users of water, but therein the investment opportunities that arise in both developed and emerging markets.

Fixing ageing infrastructure is one area, but there are others, such as in the debate over to what extent agriculture should be allowed access to scarce water resources and how to supply more water to meet the levels of urbanisation occurring globally. The investment opportunities are then in areas such as capital goods & chemicals, construction & materials, utilities and quality & analytics, he outlined.

ESG AND EMERGING MARKETS

Another looking at emerging market debt was Eaton Vance. Matthew Murphy, institutional portfolio manager, highlighted the opportunities in debt denominated in local currency. Making the best of this includes going off benchmark where necessary to access the best opportunities, as well as being rigorous in analysis of all types of risk.

Hemant Baijal, head of Multi Sector Fixed Income, portfolio manager at OppenheimerFunds, also touched on EMD denominated in local currencies. A critical ongoing question facing those looking to the asset class is the extent to which they believe global growth is ongoing, and the implications for areas such as monetary policy and interest rates. Baijal suggested that the "new normal" could be retired in the face of the levels of growth ongoing.

In the space of ETFs, First Trust Global Portfolios discussed its conviction on the eurozone. Derek Fulton, CEO, outlined how factors other than market cap can illustrate the market trend, and how the provider's AlphaDEX methodology utilises these factors.

Alternative risk premia were the focus of GAM and Unigestion.

Oliver Blin, director at Unigestion, noted the increasing use of alternative risk premia to deliver uncorrelated returns, by looking to areas of carry and the factors of momentum, value, quality and size.

Anthony Lawler, co-head GAM Systematic, also noted factors such as value, momentum and carry from which returns

KEYNOTE

The keynote this year was Nicklas Bergman. A serial entrepreneur, investor, futurist, author and researcher into the impact of technology and technology disruption, he outlined the impact on the fund industry and the people within it of ongoing technology developments.

Acknowledging that he failed to partake in Spotify and Skype as an early investor, Bergman noted that in the current technology storm engulfing investors, producers, distributors and buyers, there are actually similarities to previous eras when people also felt overwhelmed, such as when the railways, mass industrialisation, electricity and flight impinged on everyday life for the first time.

As such, it is not only the technology that needs to be understood, but how humans react and make the best of what is happening around them, for example, with autonomous cars and the implications for what a night out on the town may mean in future when three is no longer a need to remain sober in order to drive home.

can be derived that are less correlated to traditional risk premia. For investors, the environment is encouraging from the perspective of what alternative risk premia strategies can offer; Lawler highlighted interest rate and US equity valuation risk, including geopolitical risk, as reasons why ongoing active diversification should be considered.

Japan and dividends were covered by Ruth Nash, senior fund manager of the JOHCM Japan Dividend Growth and Japan funds. Outlining the effects of Abenomics thus far, she noted that unemployment has fallen, wages are up, and index levels as measured by the Topix and Nikkei have gone up. And with companies sitting on large cash holdings, the expectations are up in terms of dividend payouts, she suggested. ■

For full access to all the presentations from the event, visit www.investmenteurope.net/past-event/nordic-summit-stockholm-2018

Speakers

Laurent Jacquier-Laforge is CIO Equities at **La Française**, which he joined in 2014 from La Banque Postal Asset Management. Previously, he also worked at CCF, Handelsbanken, CDC Ixis AM, Fortis and Scor Global Investments

Matthew Murphy is a vice president of **Eaton Vance Management** and institutional portfolio manager on its global income team. Before joining Eaton Vance in 2011, he was affiliated with Cambridge Associates LLC and Matrix Capital Markets Group, Inc.

Marc Bindschädler is portfolio advisor for the mtx boutique at **Vontobel Asset Management.** He joined the group in 2011, having previously worked at UBS Wealth Management and SAM sustainable asset management

Dieter Küffer is a senior portfolio manager responsible for managing the **RobecoSAM** Sustainable Water fund. Before joining in 2001, he led a team running institutional equity mandates at UBS Asset Management.

Charudatta Shende has been a senior client portfolio manager at **Candriam Investors Group** since 2016, responsible for communicating fixed income strategies. He previously worked at Carmignac Gestion in France and Pioneer Investments in Dublin.

Corrado Gaudenzi is head of Long Term Sustainable Strategies and portfolio manager at **Eurizon Capital**, which he joined originally in 1997 as head of quantitative research. He oversees the investment process, asset allocation and stock selection of equity flexible investments.

Olivier Blin is a director, head of Systematic Strategies at **Unigestion**, which he joined in 2014. He previously worked at Lombard Odier Investment Managers, focused on asset allocation, and before that in the delegated management department of the French reserve fund.

Anthony Lawler is co-head of **GAM Systematic**. Before joining the manager in 2011, he spent eight years at Man Group. Before that he held roles at Man Glenwood, Prudential Securities, Castling Group and Merrill Lynch.

Derek Fulton is a director and CEO of **First Trust Global Portfolios**. Before joining in 2011 he helped found a boutique fixed income manager in Paris. He previously spent 12 years at Aberdeen Asset Management, including as head of Asian fixed income in Singapore.

Ruth Nash is senior fund manager on the **JOHCM** Japan Dividend Growth and Japan funds. With over 30 years' experience, she joined JOHCM in 2005. Her career has seen her hold roles at Coopers and Lybrand, Scottish Equitable Life Assurance, Royal Insurance, Prudential Portfolio Managers and the British Steel Pension Fund.

Charlie Thomas joined **Jupiter** in 2000 and is head of Strategy, Environment and Sustainability. He is manager of the Jupiter Ecology, Responsible Income, Green Investment Trust, and Global Ecology Growth funds. He previously worked at BP as an environmental policy adviser and new business development analyst.

Hemant Baijal is co-head of the Global Debt Team, head of Multi-Sector Fixed Income and portfolio manager of the **Oppenheimer** International Bond, Emerging Markets Local Debt, Global Strategic Income and Global Unconstrained Bond funds. Previously he worked at Six Seasons Global Asset Management, Aravali Partners, Havell Capital Management, Neuberger Berman, Banca Di Roma, First Boston Corporation and Merrill Lynch and Co.

Selectors at the Ritz

Fund selectors from France, Belgium and Luxembourg heard from six asset management companies at the first *InvestmentEurope* Frabelux Forum at the Hotel Ritz Paris on 22 March 2018. Adrien Paredes-Vanheule reports

In history books, French king Louis XV remains associated with the rise of luxury and the arts in France at their finest. And so it is in a room named after the monarch, Salon Louis XV, at the renowned palace Hotel Ritz Paris that 25 fund buyers from France, Belgium and Luxembourg attended the first ever *InvestmentEurope* Frabelux Forum.

Six asset management companies presented on various topics : Candriam; First Trust Global Portfolios; Finisterre Capital, a Principal Global Investors boutique; T. Rowe Price; Pyrford International , a subsidiary of BMO GAM; and TwentyFour Asset Management, owned by Vontobel.

EM DEBT VIEWS

Candriam's senior client portfolio manager Charudatta Shende kicked off the event, presenting on the company's emerging market hard currency debt outlook.

Shende highlighted the robust position of emerging markets, arguing they have become less vulnerable to external economies and that reforms and orthodox policies are being applied. In addition, they are being supported by a rebound in commodities and domestic demand.

A common headwind for EM remains US president Donald Trump's politics. The Trump effect will not be uniformed within the emerging markets landscape as not all countries have similar exposure to US trade, noted Shende.

Fundamentals are strong and EM's growth remains on the rise, he said, adding the firm expected returns of 4% in EMD hard currency and of 7% in EMD local currency space over a one-year horizon.

A particularity of the Candriam Bonds EM fund, looking for relative value opportunities in the EMD space, is the inclusion of a socially responsible investing country screening relying on four pillars : human capital, natural capital, social capital, economic sustainability.

Asked about the most important SRI factor by the audience, Shende picked social and pointed out China and Russia's scores on this component were nil.

As of end February 2018, the Candriam Bonds EM fund kept a positive stance on high yielder energy exporters such as Angola and Iraq as well as on high yielders with supportive structural reform momentum (Argentina, Ukraine, Egypt).

Quasi sovereigns with attractive relative value were preferred to sovereigns. The fund was underweight in countries sensitive to US treasuries changes.

Another EM debt picture was brought to investors by Damien Buchet, CIO total return strategy at Finisterre Capital, who presented on the Finisterre EMD total return fund, whose Buchet suggested it presents a convertible bond risk profile with priority given to limit capital loss and volatility.

EM fixed income formed 17% of the $96trn global financial securities universe as of March 2017, he recalled, making the asset class too large to be ignored by investors.

Speaking about the positioning of an EM total return portfolio across the market cycle, Buchet said markets may be in the middle of a correction that started earlier this year. Inflation is catching up in many places especially in Asia and markets have not caught up enough with monetary policy normalisation.

This normalisation could propel volatility and credit spreads rise as well as higher default rates in EMD world, explained Buchet.

"We are hostage of the global outlook, EM credit cannot escape some widening if US rates grow. It does not mean that we will not see a repricing on the short term," he assessed.

According to Buchet, EM growth remains strong and synchronises with DMs, but EM are losing momentum and still too dependent on global trade over domestic sources, with investment lagging.

US trade war potential still forms the main risk focus while he observed EM political risks lingering in Mexico, Brazil, Colombia, Turkey with improvements seen in South Africa and Russia though.

LONG/SHORT CURRENCIES

Playing currencies through a smart beta ETF was the topic of First Trust Global Portfolios' chief executive officer, who presented the asset class as the largest in the world with a daily turnover of €5trn in 2016.

The First Trust Factor FX strategy applies a currency carry approach, that consists of borrowing in low yielding currencies against lending in high yielding currencies, this has historically generated excess returns said Fulton. Value and momentum are used to extract carry.

It aims to benefit from a global currency divergence led by a megatrend that sees globalisation, innovation and technology reducing market segmentation to the law of one price – "a good must sell for the same price in all locations".

In practice, First Trust's smart beta strategy is long undervalued and higher yielding currencies with positive momentum while shorting overvalued and low yielding currencies with negative momentum.

Developed and emerging markets currencies are separated in the FT Factor FX strategy's process.

The smart beta strategy was long Singaporian dollar and Turkish lira at the time of Fulton's presentation.

JAPAN'S CORPORATE IMPROVEMENT

Japanese equities have been more volatile but a better yielding asset class to invest in than their counterparts over the last decade. This was the initial postulate of Laurence Taylor, a portfolio specialist in the equity division at T. Rowe Price.

Tremendous positive changes are happening in Japan's corporate sector assessed Taylor. In reaction to low profitability and shareholders returns issues, Japanese firms change their behaviour, highlighting the implementation of the Corporate Governance Code and StewardShip Code.

In 2017, 90% of non-independent directors were appointed in Japan corporate boards whereas in 2004, almost three quarters of directors were not independent, Taylor pinpointed.

Surveyed on the Japanese central bank purchasing stocks, he reckoned BOJ's behaviour was symptomatic of its will to make things change in corporate governance locally. Corporate governance question starts to be raised more and more, Taylor said.

Profitability has improved as well in Japan. Free cash is now more used either for dividends payments or share buybacks purposes and less retained in Japanese corporates balance sheets than a few years ago, he noted.

For T. Rowe Price's portfolio specialist, Japan is closing the cash flow gap and local companies are really giving back to shareholders for the first time in history.

Robotics' rise form a main play of the T.Rowe Price Japanese equity fund holding 80 positions, IT and related services was the first sector invested by the fund at the end of December 2017.

EQUITIES AND GOVIES TO PRESERVE CAPITAL

The Pyrford Global Total Return (Sterling) fund has had zero weight in Japan throughout the 1990s and similar exposure to US and European banks since 7 years.

An argument for Pyrford International's senior product specialist Lars Nielsen to explain the fund is neither peer group influenced nor index oriented in its equity selection.

Nielsen outlined the process of the Pyrford Global Total Return (Sterling) fund, that puts capital preservation

17% Share of EM fixed income in the global financial universe as of March 2017

through low volatility and significant downside protection at core.

It invests in value and quality equities, high-quality sovereign bonds and holds a bit of cash while exposure to alternatives is found via listed equities.

The reason why Pyrford uses equities and sovereign bonds is the strong correlation of other bonds segments such as high yield credit with equities, said Nielsen. Liquidity constitutes another important criteria for the strategy and high yield bonds cannot be sold anytime, Nielsen argued.

Issuers eligible to the fund on both asset classes are analysed through a five-year return frame.

Four returns drivers have been underlined by Pyrford's Nielsen : asset allocation, duration management, active equity selection, currency.

Pyrford's general outlook is that both equity and bond markets are expensive. "Low single-digit returns are probably the best that can be expected on a medium-term outlook."

"Overall debt levels (relative to GDP) have increased in the developed and emerging economies since the financial crisis. We believe this to be the most significant threat to "healthy" economic growth going forward. The debt ratios need to be modified without triggering another financial crisis."

NO HARD LANDING FOR US

Is it time to leave fixed income? No, replied Gary Kirk, founding partner and portfolio manager at TwentyFour Asset Management, as fixed income markets are broad and have always been the best source of income.

Kirk emphasised on the importance to know where investors are in the economic cycle and a way to know it is to pay attention to clues embedded in central banks' quarterly reports.

End of cycles have a huge impact on junk bonds (CCC rated) said Kirk, recommending to stay clear of the segment as the current expansion cycle is ending in the US.

Though he highlighted not every cycle ends with a hard landing. A total of 14 US recessions have been recorded since 1920 with only five hard landings tallied, suggested Twenty Four Asset Management's portfolio manager.

He added there was no hard landing occurring if the cycle was to end today because rates remain ultra-accommodative, the banking system is well capitalise and coordinated global recovery means system can better withstand idiosyncratic shocks.

Kirk said credit spreads will remain unchanged this year and rates markets stay at risk of producing negative returns.

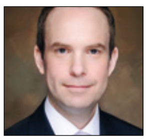
TwentyFour Asset Management is hence to avoid a number of segments this year including European govies, long dated IG corporates, CCC rated bonds, gilts and gilts-correlated bonds, sectors where the European Central Bank applies its purchasing program.

In contrast, Kirk highlighted three sectors standing out as having most relative value and likely to contract in 2018: European CLOs, subordinated debt, emerging market debt hard currency

Kirk said that if his portfolio was a bond, it would be a high quality and well researched credit bond to avoid default risk, short dated to avoid rising rates and mark to market risk, in hard currency and yielding around 4% with three or four years to maturity. ■

Speakers

Charudatta Shende is senior client portfolio manager within the fixed income team at **Candriam** since September 2016. Before, he was product specialist at Carmignac and product research analyst at Pioneer Investments in Dublin.



Laurence Taylor is portfolio specialist in the equity division at **T. Rowe Price**. Prior to that, he was a portfolio manager at AXA Rosenberg, with responsibility for European institutional clients, and began his career at Hewitt Associates in the UK Investment Practice.

Derek Fulton is director and CEO of **First Trust Global Portfolios** he joined in 2011. Formerly, he established a fixed income boutique in Paris managing global bond funds. Prior to that, he spent 12 years at Aberdeen AM where he held roles such as head of Asian fixed income in Singapore and head of global fixed income strategies in London.

Damien Buchet is CIO of the total return strategy at **Finisterre Capital**. Before joining the firm in 2015, he was AXA IM's global head of EM Fixed Income. Previous roles include head of Sovereign & EM credit trading and structuring at Dexia Credit Local in Paris and head of EM at CCR Gestion. He also served as senior fund manager, deputy head of alternative EM funds at Barep Asset Management in Paris.

Lars Nielsen is senior product specialist at **Pyrford International**. Nielsen previously worked in similar roles at Dalton Strategic Partnership, TT International and Alliance Capital. He started his career at investment analytics company Barra.

Gary Kirk is a founding partner, investment committee member and portfolio manager of **TwentyFour Asset Management**. He manages the firm's multi-sector bond team with funds including the dynamic bond fund and strategic income fund. Kirk's former asset management roles were with Daiwa Capital, Royal Bank of Canada, CDC and Wachovia Bank.

0.7% Swiss population growth in 2017

InvestmentEurope's first ESG Forum in Zurich addressed different approaches to alternative investing. Mona Dohle reports

Tackling ESG challenges

InvestmentEurope's first Zurich ESG Forum attracted some 30 delegates from across Europe discussing the latest trends and challenges in sustainable investing. The event, held on 12 April at the Bar au Lac Hotel in Zurich, was sponsored by Hermes Investment Management, UBS ETFs, RobecoSAM and Liontrust.

EMERGING MARKETS

Andrew Parry, head of Sustainable Investing at Hermes Investment Management opened the event by discussing how an ESG strategy offered opportunities in emerging markets for active asset managers.

Presenting the group's Unconstrained Impact Opportunities Strategy, he argued that a concentrated, actively managed portfolio of ESG compliant stocks enabled investments in opportunities not captured by mainstream indices.

As an example, he mentioned investment strategies focusing on water leaks and pollution, with Indian irrigation firm Jain Irrigation Systems being a prominent holding in his portfolio. Another example is the theme of financial inclusion, with only 36% of Indonesian adults having access to a bank account, the group is invested in Malaysia-headquartered Islamic cooperative Bank Rakyat to capitalise on growing demand for banking services in Southeast Asia.

One of the firms to be consciously excluded from Hermes' strategy is energy provider eon, due to its overreliance on conventional sources of energy, car manufacturer Tesla and Unilever.

"I don't care about country or sector weighting; our tracking error and active share is inevitably high. At the same time, our turnover tends to be low, rather than selling at the first sight of problems, we tend to have strong engagement with the companies we invest in," he stressed.

PASSIVE STRATEGIES

Raimund Müller, head of Passive and ETF Specialist covering Switzerland and Liechtenstein for UBS Asset Management approached the sustainability theme from the opposite angle by highlighting how ESG criteria

1% Share of Swiss population affected by long term poverty as of 2016

could be incorporated into passive strategies.

Working with MSCI's SRI indices, UBS's screenings exclude alcohol, tobacco, nuclear power, adult entertainment, GMO and weapons from their passive investment funds. As a result, MSCI's SRI indices exclude ¾ of the firms included in the conventional MSCI indices, as Müller highlights.

"As the level of information on corporate ESG integration improves, it becomes easier to reflect this in passive vehicles,"Müller said.

In a bid to ensure the compliance with SRI criteria, UBS SRI ETFs are physically replicated and do not involve securities lending in order not to risk indirect exposure to companies which should be excluded, Müller said.

Despite these quite rigid restrictions on the index's universe, the MSCI SRI index has performed in line, or even slightly better than the parent index over the past ten years. This outperformance is particularly pronounced in developed markets with a higher level of transparency around SRI implementation, Müller highlighted.

For example, the annualised performance of the MSCI EMU SRI index over the last three years was at 12.46%, compared to 8.53% for the conventional index. A similar pattern can be seen for the UK and Japan, while the US represents a notable exception, with the MSCI US SRI index performing slightly worse than the conventional index.

ACTIVE APPROACH

Neil Brown, investment manager, Pan European Equities at Liontrust followed up by introducing an actively managed approach to SRI investing.

As part of an established European equities team which moved from Alliance Trust to Aviva and subsequently in 2017 to Liontrust, he introduced their SRI strategy, which is based on a broad number of sustainable investing themes. These range from fuel effiency and auto safety to healthier eating, affordable healthcare to sustainable food production.

Unlike many other SRI funds, the fund uses the conventional MSCI Europe index as a benchmark. The fund has 40-60 holdings and a tracking error of 3-7%.

An example of a stock being included as part of the auto safety theme is LED headlight producer Hella.

Liontrust is also invested in Irish food manufacturer Kerry Group, which among others offers low fat dairy brands distributed in UK supermarkets.

"We always look for consumer trends, rather than regulation when identifying new investment themes," Brown stressed.

"We believe the world is becoming better and healthier with an explosion in transparency being the growth driver" Brown concluded.

SDG GUIDELINE

The event was wrapped up by Ruben Feldman, senior quant analyst and member of the portfolio management team at RobecoSAM, who introduced the firm's Sustainable Impact Equities strategy.

Using the United Nations Sustainable Development Goals as a guideline, the strategy combines impact investing with negative screening and ESG integration approaches.

Based on a universe of 5,000 global equities, the team filters a portfolio of 60-80 stocks.

Due to the broad nature of the UN SDG's, the funds' impact on some goals such as improving health and wellbeing is more pronounced than on other more abstract goals such as strong institutions, Feldman acknowledged.

The fund tends to be concentrated in large-and mid-cap companies, about a quarter of its portfolio is invested in small caps.

Compared to its benchmark, the MSCI world index, the fund is relatively more invested in sectors such as industrials, utilities and consumer stables whilst being less invested in sectors such as financials, information technology and consumer discretionary.

"The United Nations Sustainable Development Goals are a key driver behind a huge set of market opportunities, solution providers will be the main beneficiaries," Feldman argued. ■

Speakers

Andrew Parry is head of Sustainable Investing and a member of the **Hermes** Strategy Group. He joined the firm in 2009, initially as CEO and co-head of Investment for Hermes Sourcecap, becoming head of Equities in 2014 and taking on responsibility for developing Impact investing in August of 2016. Prior to joining Hermes, he co-founded European equity boutique Sourcecap in 2006 and Pembroke Capital Management in 2003.

Raimund Müller is head of Passive and ETF Specialist Switzerland and Liechtenstein for **UBS**. Müller has been working for UBS Asset Management based in Zurich since 2012. Prior to UBS, he worked in institutional sales positions within the asset management units at Deutsche Bank and Lombard Odier.

Neil Brown is **Liontrust**'s lead fund manager on the SF European Growth OEIC and SF Pan European SICAV and co-fund manager on the SF UK Growth and UK Ethical funds. He joined Liontrust in 2017 after spending five years at Alliance Trust Investments as investment manager on the European funds.

Ruben Feldman is a senior quant analyst and member of the portfolio management team at **RobecoSAM** and part of the portfolio management team for RobecoSAM's Global Sustainable Impact Equities Fund. Prior to that, he worked at Stoxx Ltd in Zurich.

Approaching events

InvestmentEurope visits Munich and Barcelona in May ahead of events in Oslo and Bern in June

NEXT EVENTS

INVESTMENT EUROPE
DACH SUMMIT MUNICH 2018

MUNICH, 15-16 MAY

InvestmentEurope's returns for the DACH Summit Munich 2018 on 15-16 May at the Hotel Bayerischer Hof.

Over two days the Summit will offer some 40 delegates access to latest thoughts from asset management groups including Azimut, Baillie Gifford, Candriam Investors Group, Columbia Threadneedle Investments, Edmond de Rothschild Asset Management, First Trust Global Portfolios, Invesco, Mandarine Gestion, RobecoSAM and RWC.

Collectively, they will address areas including European small and mid caps, EM equities, EMD, US corporate bonds, the electric mobility and transportation revolution, and value and growth in the eurozone.

As a Summit, the event will also feature a keynote by Dr Sandro Gaycken, director of the Digital Society Institute at ESMT Berlin.

As an adviser to the German government, Dr Gaycken helped create Germany's foreign cyber policy strategy, the German MoD's cyber defense process, the German chancellery's German-Chinese No-Spy agreement, as well as serving as an expert witness in NATO cyber counterintelligence cases.

Networking is encouraged through a programme that includes boardroom sessions, coffee breaks, dinner and breakfast for those staying at the venue hotel.

To register your interest in attending this exclusive event please contact Arzu Qaderi at arzu.qaderi@odmpublishing.com or +44 (0) 20 3727 9936.

INVESTMENT EUROPE
BARCELONA ROUNDTABLE 2018

BARCELONA, 31 MAY

InvestmentEurope's Barcelona Roundtable 2018 takes place 31May at the Hotel Majestic, offering some 20 fund selector delegates access to participating groups including AllianceBernstein, Candriam Investors Group and T. Rowe Price.

They will be offering views on US equities, emerging market equities amid decreasing reliance by EM based companies on growth in developed markets, and fixed income in light of global growth and rising rates.

To register your interest in attending this exclusive event please contact Borja Diaz at borja.diaz@odmpublishing.com or +44 (0) 20 3727 9921.

TAKE PART IN THE DISCUSSION

Delegates to the Pan-European Summit Lausanne 2018 and the DACH Summit Munich 2018 are encouraged to connect ahead of the event by tweeting using the hashtag #FSSUMMIT.

For those attending the Oslo Roundtable 2018 it is #IEOSLO; and for the Swiss Summit 2018 it is #IESUMMIT.

InvestmentEurope's website now offers the opportunity to learn about both past (http://www.investmenteurope.net/past-events/) and future (http://www.investmenteurope.net/events/) events.

INVESTMENT EUROPE OSLO ROUNDTABLE 2018

OSLO, 7 JUNE

The the Oslo Roundtable 2018 takes place 7 June at The Grand Hotel in the Norwegian capital.

Targeting some 20 delegates, the event offers a time efficient way to access investment ideas from participating groups including Acadian Asset Management, AXA Investment Managers, Fisch Fund Services, GAM Investments, Mirae and T. Rowe Price. Topics being discussed include EM equities, convertible bonds and multi-factor investing in European equities.

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

INVESTMENT EUROPE SWISS SUMMIT 2018

BERN, 7-8 JUNE

InvestmentEurope's inaugural Swiss Summit 2018 takes place on 7-8 June at the Hotel Bellevue Palace in Bern.

Participating groups include AllianceBernstein, Danske Invest, First Trust Global Portfolios, and Investec Asset Management.

The event keynote will be delivered by FC aka 'Freakyclown' – an ethical hacker who has spent over two decades perfecting ways to break into and penetrate companies.

To register your interest in attending this exclusive event please contact Arzu Qaderi at arzu.qaderi@odmpublishing.com or +44 (0) 20 3 727 9936.

Aberdeen Standard Investments
Acadian
American Century Investments
AllianceBernstein
Allianz Global Investors
Amundi Asset Management
Amiral Gestion
Anthilia Capital Partners
argonaut
Artisan Partners
Artemis The Profit Hunter
Aviva Investors
AXA Investment Managers
Azimut
Barclays
ossiam
Baillie Gifford
BlackRock
BLI Banque de Luxembourg Investments
BMO Global Asset Management
BNY Mellon
Brandes Investment Partners
Capital Group
Candriam Investors Group
Carmignac
Comgest
Columbia Threadneedle Investments
cpr asset management
DNB
Danske Invest
Deutsche Asset Management
DWS
Duemme SGR
Eaton Vance
Edmond de Rothschild
EVLI
Eurizon Asset Management
La Financiere de l'Echiquier
First Trust
First State Stewart
Franklin Templeton Investments
Fisch Fund Services
GAM Investments
Generali Investments
Goldman Sachs Asset Management
Invesco
Investec Asset Management
iShares by BlackRock
Janus Henderson Investors
Jennison Associates
J O Hambro Capital Management Group
Jupiter Asset Management
Kames Capital
La Française investing together
Lazard Asset Management
Legg Mason Global Asset Management
Lemanik
Liontrust
Lord Abbett
Lombard Odier Investment Managers
Macquarie
Mandarine gestion
M&G Investments
MainFirst
Matthews Asia
MFS
Mercer Make Tomorrow, Today
Mirabaud Asset Management
Mirae Asset Global Investments
Natixis Global Asset Management
Neuberger Berman
neptune The Real World Investors
new capital funds by EFG Asset Management
Nordea Asset Management
NN investment partners
Nomura
Nuveen
Oddo BHF Private Equity
Old Mutual Global Investors
OppenheimerFunds The Right Way to Invest
Pictet Asset Management
PGIM Investments
Jennison Associates
PIMCO
QCAM Currency Asset Management
Principal
Raiffeisen Capital Management
ram active investments
RobecoSAM We are Sustainability Investing.
RWC
Schroders
Seilern
Smith & Williamson
Sycomore am
Tortoise Capital Advisors
Tokio Marine Asset Management
T. Rowe Price
UBS
Unigestion
Vontobel
Wellington Management
Westwood Holdings Group, Inc.

EVENTS CALENDAR 2018

15-16 May	Munich	DACH Summit
31 May	Barcelona	Roundtable
7 June	Oslo	Roundtable

Following a highly successful event in 2017, InvestmentEurope returns to the Norwegian Capital with up to six groups presenting to local fund selectors



7-8 June	Bern	Swiss Summit
13 September	Reykjavik	Roundtable

InvestmentEurope returns to its most northerly event in Iceland's capital for a second year, to present international investment ideas to local fund selectors



27 September	Lisbon	Roundtable
4-5 October	Milan	Pan-European Sub-Advisory Summit
17-19 October	Hamburg	Pan-European Summit

The twin-sister event to the Lausanne Summit earlier in the year, this event also caters to 72 fund selectors from across the region with a bias towards Northern Europeans


25 October	Madrid	Forum
30 October	Copenhagen	Roundtable
13 November	Zurich	*Pensionskassenforum*
20 November	Milan	Forum
27 November	Tel Aviv	Forum

For further information on sponsoring these events contact: eliot.morton@odmpublishing.com.

Three new funds have joined the list of top 10 most highly rated funds determined by users of the SharingAlpha platform over the past month

Troika of funds join highest rated

The latest monthly update of highly rated funds on the SharingAlpha platform has highlighted the Belgravia Épsilon, PIMCO GIS Global Bond and Odey Absolute Return funds as joining the list of top rated funds, as selected by the platforms users constituting professional fund selectors across Europe and beyond.

SharingAlpha has also published updated tables of highly rated providers, most popular funds, popular categories and highly rated funds by category. The results are based on the expressed preferences and expectations of fund selectors reviewing funds on the basis of people, price and portfolio factors.

Users of the SharingAlpha platform have also indicated through comments on certain funds that they are comfortable sticking with them in the face of certain challenging periods of performance or in light of how certain asset classes are struggling.

Beatriz Hernández, funds analyst at atl Capital said of the M&G Optimal Income fund that it "has the distinctive feature that it can invest a little percentage of the portfolio in equity markets, therefore although we are going through a tough environment within fixed income, we still have conviction on Richard Woolnough's skill to find opportunities in the market."

Similarly, Jose Reinosa, investment advisor at Julius Baer, noted of the Nordea 1 – Stable Return Fund that "several decisions have hurt the performance recently, but my confidence in the strategy remains high."

And Ignacio Martín Ocaña, senior portfolio manager, Alpha Plus Gestora, noted of the Old Mutual Global Equity Absolute Return fund "athough an attractive long-short market neutral approach with no correlation to equity markets…I think the fund has too much AUM (over $13bn) to manage this strategy in a comfortable way so I can't imagine how it should perform as well as it has done in the past." ■

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	Domicile	Average rating	Raters	Move from previous
Belgravia Épsilon FI	Spa	4.93	5	New
Magallanes European Equity FI	Spa	4.83	19	▲
Cobas Selección FI	Spa	4.82	7	▲
Vanguard US Opportunities Fund	Ire	4.82	6	▲
ECP Flagship SICAV European Value	Lux	4.8	6	▲
Sextant PEA	Fra	4.8	15	▼
Schroder GAIA Two Sigma Diversified	Lux	4.78	13	▼
Nordea 1 - European High Yield Bd Fd II	Lux	4.78	9	◆
PIMCO GIS Global Bond Fund	Ire	4.76	10	New
LF Odey Absolute Return Fund	UK	4.76	8	New

POPULAR CATEGORIES

Category	Rating	Allocation	Position
Europe Equity Mid/Small Cap	100	100	◆
Market Neutral	46	57	◆
UK Equity Mid/Small Cap	60	35	◆
Africa Fixed Income	34	45	◆
Africa Equity	53	8	◆
Precious Metals Sector Equity	40	17	▲
Europe Equity Large Cap	37	15	▼
Currency	34	17	▲
Asia ex-Japan Equity	29	22	◆
Africa Money Market	6	47	▼

As at March 2018 Source www.SharingAlpha.com

4.97 million Employees in Switzerland in 2016

Tailored solutions

Innovation is at the core of the SYZ Asset Management brand, as highlighted by recent fund launches. Ridhima Sharma reports

SYZ Asset Management is the keystone of SYZ Group and over the years, it has built up expertise in strategies such as European equities, fixed income and multi-asset allocation solutions.

For over 20 years, SYZ's main objective has been to offer clients high conviction, value-added strategies that take an active approach.

The OYSTER fund range is a well-established brand in Europe. In order to meet the specific needs of institutional clients, the company has created tailor-made mandates and investment solutions together with its clients.

ACCESS TO ALPHA

The asset manager also continues to work to broaden access to high-alpha active solutions across its product range – from high conviction equities, active fixed income and multi-asset solutions, to liquidity management. Its team of investors focus on a limited number of strategies, where their expertise can be fully exploited, as Katia Coudray, CEO, explains.

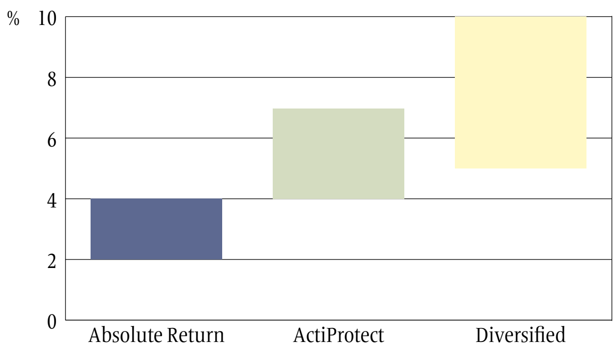
"We believe it is better to be among the best, than among the biggest," she says.

"Asset managers are becoming increasingly differentiated in the current context. In the rush to grow assets, spectacular mergers are creating huge asset management houses – suggesting the only possible choice for the active industry is to go big.

"We see this as a concerning trend. It may lead to further pooling of large amounts of capital, accelerating liquidity constraints and a reduction in the ability of active managers to exploit market inefficiencies and invest in undiscovered stocks or out-of-favour sectors. More managers will be forced to invest in large and liquid assets and become index-like, with limited differentiating factors.

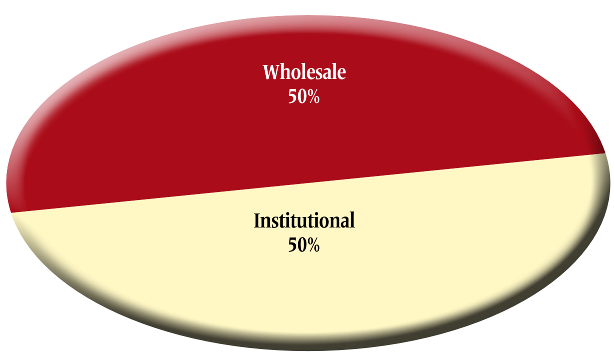
"This has allowed us to cultivate an increasingly distinctive brand – that is not afraid to think differently. We have stuck to our DNA as alpha creators and are providing durable core and complementary solutions to investors. This will come to the fore as market directionality diminishes. Our investment managers rely on their fundamental research to forge convictions and deliver superior performance."

VOLATILITY OF OYSTER MULTI-ASSET



As at 31 December 2017 Source SYZ AM

SPLIT OF BUSINESS (TOTAL AUM €18.2BN)



As at 31 December 2017 Source SYZ AM

SINGULAR ENTITY

In terms of the wider SYZ group, its history in and development of wealth management gives it a particular insight when it comes to developing investment products and creating appropriate and tailored solutions for an evolving market.

SYZ Asset Management has developed a diverse client base across geographies, however, it works as a singular entity organised under a unifying set of expertise and an active approach.

For Coudray, innovation is at the core of the SYZ Asset Management brand, as highlighted by recent fund launches.

"We are always looking to innovate. For example, we recently brought to the market a global version of our successful equity premia fund, which is a source of alpha disconnected from broader market behaviour. In an environment of low rates and stretched valuations, this is an alternative solution. This is an example of going against the herd within product development. On another side, the advisory service of SYZ Wealth Management also launched a sustainable advisory project with the World Bank.

"Within fixed income, we have launched a credit fund focusing on European Subordinated Corporate Debt (OYSTER European Subordinated Bonds). This is a strategy run by the same successful team based in Milan, which also manages the European Corporate Bonds strategy."

The growth of SYZ Asset Management's multi-asset solutions is reflective of the changing market environment and the experience of the team, says Coudray.

"Today, we have over €1.6bn in a growing multi-asset solution, run by a deeply experienced team. As correlations between asset classes break down or at least become more volatile, an agile and dynamic top-down approach is extremely important in this current market environment. The multi-asset investment team are stewards to a range of robust investment strategies to suit diverse risk and return profiles.

"Our portfolio managers discover investment opportunities across a wide range of asset classes, instruments and countries, in order to access multiple sources of returns regardless of the market environment. The flexibility of our active approach allows us to create a range of solutions that are in line with the risk preferences of investors."

MINDING THE GAP

In terms of a gap in the current line-up, SYZ is constantly looking to develop and evolve innovative ideas.

"We continue to broaden our offices and locations to help support the needs of our European client base. We identify where we can build strong teams within large talent pools – that is why, for example, there is a substantial presence in London", adds Coudray

"We also understand local demand for tailored solutions within individual markets. The heads of distribution within these areas can give a unique tailored response to how these different markets are evolving and the solutions needed. We have also recently enhanced our institutional and advisory business with new hires.

"Where we are already present, we will also look to deepen our footprint in local markets, for example by offering a broader range of funds. We are also looking to add more share classes where we are seeing investor demand. For example, we just launched a sterling share class of the OYSTER Diversified fund.

"This requires looking at the dynamics of each individual market and assessing how we are trying to 'fill gaps' in the product range."

SYZ has also invested in its portfolio management teams by building out its analyst base and integrating functions across portfolio management systems.

"We have significantly developed our European equities and multi-asset teams in recent years, as well as our back-office operations to strengthen our entire supply chain." ■

KATIA COUDRAY

Katia Coudray is currently chief executive officer at SYZ Asset Management. Coudray joined SYZ Group as product development manager in 2011, before becoming head of investment, then CEO in 2015.

Prior to this, she was an executive committee member at Union Bancaire Privée (UBP). She also held several positions at Credit Suisse, Pictet and, later, at Banque Edouard Constant.

InvestmentEurope's Editorial Board members give their views on active vs passive amidst rising protectionism, share class proliferation, and unconstrained funds

Ideas generation

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

EMMANUEL FERRY

Chief Investment Officer
Banque Pâris Bertrand Sturdza
Geneva
www.bkpbs.com

THOMAS ROMIG

Managing Director
Head of Multi Asset Portfolio Management
Assenagon
Frankfurt
www.assenagon.com

Are active funds going to be a better way than passive ones to play increasing geopolitical uncertainty and protectionism involving DMs and EMs?

There are two types of political market events.

On the one hand, if it is a one-off event (Middle East unrest, North Korea), the key takeaways include: equity market drawdowns around geopolitical events averaged -6% and lasted an average 14 trading days, with a recovery in 22 trading days. It is a tactical event with no long-lasting effect. The best response is to be diversified, buy the dip or to do nothing.

On the other hand, if it is a new structural element (Vietnam War, German unification, Brexit), it might have durable repercussions (higher inflation, higher volatility, and higher risk premium). Be defensive, be active, and rely on a non-emotional investment process.

Basically, we think that a real actively managed fund is the better choice to protect capital in stress periods which are caused by geopolitical uncertainty and discussions about trade protectionism.

For us, important characteristics of a real active manager are a high active share/high tracking error and a clear view on the market, as well as a convincing track record especially in past stress situations.

These qualities are the foundation for taking advantage of the opportunities raised by the two mentioned topics. ETFs could be a valid instrument for an investor to track a market.

FILIPPO STEFANINI

Hedge Funds & Product Management
Eurizon Capital SGR
www.eurizoncapital.com

Are there too many/too few/just enough share classes in the market to meet your needs?

The first difficulty in selecting a fund is to consider the right share class, that is, the cheapest share class and the longest living share class.

Often, they do not coincide, and it is necessary to adjust the longest track record to take into account different fees when comparing fund performances. And there is no standardisation in the names of share classes: institutional share classes and retail share classes are labelled differently by different fund houses.

We need more standardisation in the naming of newly created share classes.

JON BECKETT

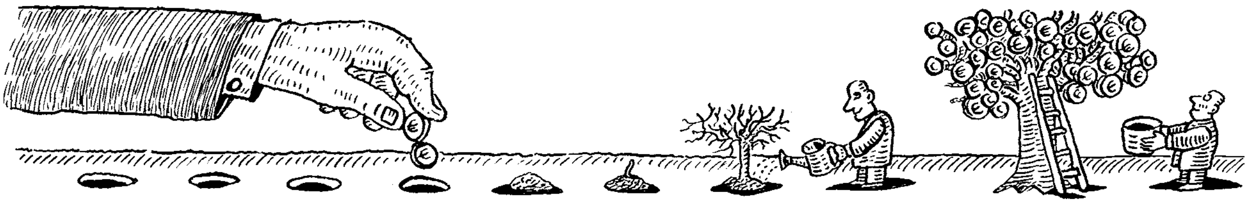
Author of *New Fund Order*
London
http://jbbeckett.simpl.com/get_the_book.html

How do you view the use of unconstrained funds?

Fund buyers appear caught off-guard by unconstrained fund managers behaving in an unconstrained way.

That surprises me, since good due diligence would have identified that flexibility. Examples include strategic bond managers who can use equities, and diversified growth funds that can be 'go anywhere'.

Their dynamic nature means we delegate TAA decisions to the fund manager. These funds then are challenging for allocators and risk budgeting, but we should buy knowingly.



QARP: Quality at a reasonable price

Jon Beckett is author of New Fund Order and UK director for the Association of Professional Fund Investors

I'm sure many of us have watched the Zuckerberg Senate and Congress committees; not to mention the resulting volatility in tech stocks and markets generally as Syria overtakes Siri. It has brought into sharp relief the quality of Facebook's earnings stream. How fund managers determine quality is far from agreed.

Glibly put, when quality is king then both value and growth managers argue for holding quality; when it's down then everyone is contrarian. Style agnostic managers are less wedded but will exploit quality stocks, if and when they can see a valuation anomaly.

Thus, the rise of bond proxy stocks from unloved 'zombies' to darling 'quality' is an interesting observation of investor behavior.

Until 2015 many companies were classified as value and out of love – fallen angels, defensives, laggards, compounders, value traps even. Then as the maturing bull market sought room to grow – led by a vanguard of tech stocks – these stocks with their lower rating, but higher cash flow than market, became more popular.

Boring became sexy, stocks were re-rated, priced-up, value investors exited, growth investors moved in, they gathered momentum, then (as inflation and monetary policy began to turn) they fell back. Having moved in favour of growth managers over value in the last 10 years, fund buyers were left reeling by the reversal and fund managers with valuation discipline started putting plenty of distance between themselves and those once steady compounders.

> "QUALITY IS NOT A SINGULARITY; THE PRICE YOU PAY FOR QUALITY STILL MATTERS"

As the voice of value managers finally begins to rise after a long hiatus, the strength of the 'quality' premium has begun to show strong signs of heading South.

The dissent for "bond proxies" began to emerge in 2017, and into 2018 fund buyers, again, are reassessing the case for style rotation and trying to determine which group of global equity managers has it right this time. Who is right?

DEFINITION

The notion of quality and what makes a quality stock has been heatedly debated over recent years.

The inflection in monetary easing and rates has again reignited the efficacy of bond proxy stocks, which had become the fashionable perennials of income-producing, safe-haven investing franchises.

To be deemed a quality company requires brand and market strength, profitability and a view that the strength can last.

Where confusion between bond proxies and quality arises is across a number of common factors: high cash flow, low leverage (debt) and positive return on capital/assets.

This is where it gets tricky for the fund buyer. Where the difference tends to arise is the rating of the stock, its expected future growth. Here the rating on a bond proxy will likely be lower than a growing quality name or a quality company.

That difference unfolds over the long-term. Bond proxies tend to have mature business models and lower outright growth and internal rate of returns.

PERCEPTION

Actually 'quality' should itself not refer to price or valuation multiple. Hence, as the valuation multiple changes through the business cycle, then quality companies can find themselves attractive to either value or growth managers.

The perception of quality in turn becomes hotly contested. Of course, in many cases the common denominator may well be the same, the companies held. What tends to change is the nominator, price.

One of my favourite rankers for separating quality from value traps is the F score, devised by Joseph D. Piotroski, The University of Chicago in his paper 'Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers' where he notes: "Nearly half of all high book-to-market firms are classified as having high levels of financial distress or poor trends in profitability."

His composite tanker captured many measures such as return on assets, cash flow, accruals and leverage but also changes in liquidity and operating margin. Here then quality and intrinsic value crossover in the 'margin of safety'.

How then to capture funds that tend to hold companies with lower leverage, strong balance sheets and cash flow?

Traditional style measures offer limited insight; quality is cyclical and can transcend either value or growth investing for reasons explained. Instead, I suggest using macro factors that will pick up a fund's sensitivity to leverage (term premium, default spreads), volatility, inflation and so on.

Alas quality is not a singularity; the price you pay for quality still matters but with valuation discipline, QARP remains a sensible starting point for global equities. ■

FRANCE ALPHA 3-YEAR

Fund	Alpha over 36 months v. sector
ETFS 2x Daily Long Tin USD in GB	33.30
Baker Steel Precious Metals A2 EUR in GB	31.33
Xtrackers Physical Rhodium in GB	28.00
Natixis H2O MultiStrategies R C in GB	27.37
Natixis H2O Vivace R in GB	26.73
ETFS 5x Short CHF Long EUR in GB	26.41
ETFS 2x Daily Long Zinc USD in GB	26.31
ETFS 1x Daily Short Natural Gas in GB	25.84
ETFS 1x Daily Short Natural Gas USD in GB	25.84

FRANCE CROWN + PERFORMANCE

Fund	Crown rating	36 months
Lazard Objectif Small Caps France R in GB	x5	122.70
Baker Steel Precious Metals A2 EUR in GB	x5	103.78
Keren Essentiels in GB	x5	103.32
Old Mutual UK Sm Cos Focus A Inc GBP TR in GB	x5	99.13
Natixis H2O Multibonds R EUR in GB	x5	94.37
Amilton Premium in GB	x5	91.27
Amiral Sextant Peak Oil I in GB	x5	91.22
CIC Micro Cap in GB	x5	90.46
FPM Stockpicker Germany Small/Mid Cap C TR in GB	x5	86.25

FRANCE SHARPE 3-YEAR

Fund	Sharpe
Lazard Objectif Small Caps France R in GB	2.09
Polar Capital UK Absolute Equity R GBP in GB	1.86
Old Mutual UK Sm Cos Focus A Inc GBP TR in GB	1.85
Keren Essentiels in GB	1.82
Lazard Objectif Investissement Micro Caps in GB	1.77
Raymond James Microcaps A in GB	1.77
Sycomore Sycovest 1 A in GB	1.76
Amiral Sextant Peak Oil I in GB	1.73
Amilton Premium in GB	1.61

FRANCE PERF/VOLATILITY 3-YEAR

Fund	Cumulative	Annualised
ETFS 2x Daily Long Natural Gas USD in GB	-88.11	75.95
ETFS 2x Daily Long WTI Crude Oil USD in GB	-67.96	63.64
ETFS 2x Daily Long Brent Crude USD in GB	-54.00	63.01
ETFS 2x Daily Long Nickel EUR in GB	-22.67	60.66
ETFS 2x Daily Long Gasoline in GB	-44.83	59.61
ETFS 2x Daily Long Gasoline USD in GB	-44.83	59.60
ETFS 2x Daily Long Petroleum USD in GB	-54.99	59.16
ETFS 3x Daily Short DAX 30 EUR in GB	-48.13	58.87
ETFS 3x Daily Short DAX 30 in GB	-48.13	58.83

FRANCE FIXED INTEREST 3-YEAR

Fund	36 months cumulative
Natixis H2O Multibonds R EUR in GB	94.37
CPR Credixx Global High Yield P EUR in GB	47.35
Algebris Financial Credit R Acc EUR in GB	43.21
GAM Star Credit Opportunities EUR A EUR in GB	43.17
Aviva Investors Alpha Yield A in GB	43.10
Global Evolution Manco CGS FMS Gbl Evol FM R EUR in GB	40.81
Edmond de Rothschild EDRF Emerging Credit A USD in GB	40.60
Barings European High Yield Bond Tranche E Acc EUR in GB	40.60
DPAM L Bonds EUR Corporate High Yield A TR in GB	40.53

FRANCE BETA 3-YEAR

Fund	Beta over 36 months v. sector
ETFS 5x Long GBP Short EUR in GB	-5.59
ETFS 3x Short JPY Long GBP in GB	-5.26
ETFS 3x Short USD Long GBP in GB	-4.67
ETFS 3x Short EUR Long GBP in GB	-4.25
ETFS 3x Daily Short FTSE 100 in GB	-3.66
ETFS 3x Short AUD Long GBP in GB	-3.56
ETFS 3x Long GBP Short USD in GB	-3.08
ETFS 3x Daily Short Euro STOXX 50 EUR in GB	-3.03
ETFS 3x Daily Short DAX 30 in GB	-2.80

FRANCE PERF/TER 3-YEAR

Fund	Cumulative	TER
BlackRock SF European Opps Ext E2 EUR in GB	56.79	8.38
E de Rothschild EDRF Gbl Val R EUR in GB	11.96	6.85
E de Rothschild EDRF Prem Brds R EUR in GB	19.91	6.73
Rothschild R Mines d'Or in GB	29.60	6.52
Man AHL Trend Alternative DNY Acc USD in GB	-2.41	6.07
BlackRock SF European Divers Eq Abs Ret E2	6.24	5.86
E de Rothschild EDRF China R EUR in GB	12.91	5.19
E de Rothschild EDRF Eur Synergy R EUR in GB	19.23	5.04
E de Rothschild EDRF US Value R EUR in GB	13.16	4.92

FRANCE INFORMATION RATIO 3-YEAR

Fund	Ratio rel vs sector
Old Mutual UK Smaller Companies Focus A Inc GBP TR in GB	2.39
Sycomore Sycovest 1 A in GB	2.35
Lazard Objectif Small Caps France R in GB	2.23
Keren Essentiels in GB	2.20
Amilton Premium in GB	2.10
Amiral Sextant Peak Oil I in GB	1.95
Amiral Sextant PEA A in GB	1.76
Polar Capital UK Absolute Equity R GBP in GB	1.73
Fiera Capital Magna MENA N EUR in GB	1.71

Source for all charts FE Analytics, bid-bid, to 13/4/2018.
All figures in % and are gross return rebased in euros

Managed portfolios prosper

As calculated by Financial Express, the passive space has offered investors in France access to some of the more extreme alpha, beta and volatility scores over the past three years. However, beware the implications.

Extreme volatility from leveraged long and short ETF strategies did not produce returns for those unlucky enough to be in the wrong asset class, whether a commodity or a market index.

Interestingly, it is the actively managed portfolios that have tended to produce the better risk adjusted returns, as identified by the Crown ratings – also in commodity areas such as precious metals and oil – as well as being able to focus in on categories such as smaller companies in particular markets like France, UK, Germany and Japan.

And amidst the ongoing debate about how to access bonds through passive approaches tracking indices, the actively managed funds invested in corporate bonds of varying ratings levels have continued to offer returns to investors.

Ultimately, it looks as if there are worse ways to track down consistently performing funds than looking to the Crown ratings matched up with Sharpe scores – which also point to opportunities in smaller companies and certain commodities. ■

GROSS RETURNS ON FUNDS FOR SALE IN FRANCE REBASED IN EUROS

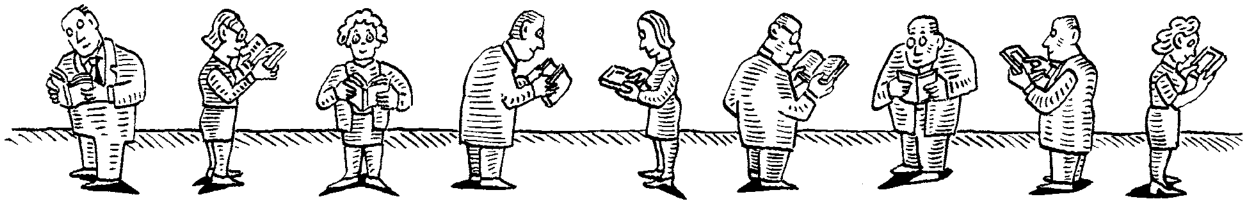
Fund	1m	3m	6m	1yr	3yr	5yr	10yr
Lazard Objectif Small Caps France R in GB	-0.49	-2.24	1.54	25.16	122.70	212.33	
Natixis H2O Allegro R in GB	1.72	8.54	16.59	41.22	105.38	140.42	
Baker Steel Precious Metals A2 EUR in GB	0.57	-8.81	-9.16	-18.53	103.78	77.87	
Keren Essentiels in GB	-5.12	-6.73	-6.01	17.98	103.32	190.17	
Old Mutual UK Smaller Companies Focus A Inc GBP TR in GB	-2.07	-2.76	-2.66	18.70	99.13	180.57	393.77
Natixis H2O Vivace R in GB	5.08	3.11	10.17	36.86	94.83	182.29	
Natixis H2O Multibonds R EUR in GB	2.70	8.10	14.30	27.61	94.37	166.24	
ETFS 5x Short CHF Long EUR in GB	4.60	0.48	11.43	64.28	93.96		
Amilton Premium in GB	-2.74	-5.77	-1.77	24.61	91.27	116.16	
Amiral Sextant Peak Oil I in GB	-3.92	-4.96	-6.06	13.58	91.22	164.66	
CIC Micro Cap in GB	-2.59	-4.60	-2.73	25.83	90.46	123.09	168.70
Polar Capital UK Absolute Equity R GBP in GB	-0.97	-3.30	8.11	31.96	90.35		
ETFS 2x Daily Long Tin USD in GB	-1.83	2.21	-2.54	1.61	88.79	-14.66	-43.95
Natixis H2O MultiStrategies R C in GB	3.59	2.69	8.69	30.29	87.89	213.85	
FPM Stockpicker Germany Small/Mid Cap C TR in GB	-4.64	-11.03	-2.50	28.22	86.25	137.40	273.44
Polar Capital Global Technology USD in GB	-7.33	-1.38	3.47	21.96	85.80	175.86	418.35
Parvest Equity Japan Small Cap Classic Cap JPY in GB	-4.50	-7.06	1.68	20.61	84.30	131.14	303.41
PineBridge Japan Small Cap Equity Cl Y USD in GB	-5.69	-4.82	7.19	30.22	82.04	163.93	325.82
Sycomore Sycovest 1 A in GB	-2.24	-3.80	-1.68	8.77	80.92	118.30	143.59
BlackRock GF World Technology A2 USD in GB	-8.13	-2.45	5.50	26.25	80.36	159.83	

World 50 funds

The performance of carbon is highlighted in the figures covering the past year, however it should be noted that both top performing funds have been staging a recover since shedding significant value after launching in 2008

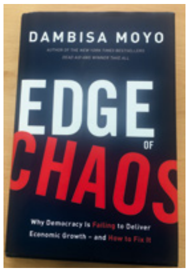
NAME	LIPPER GLOBAL SECTOR	% GR 1YR 31/03/17 TO 31/03/18	SHARPE RATIO 1YR 31/03/17 TO 31/03/18	FUND VALUE (€M)	FUND MGT CO	DOMICILE
1. iPath Exchange Traded Notes Gbl Carbon;A	Commodity Energy	179.71	1.08	4.63	Barclays Bank PLC	USA
2. ETFS Carbon EUR	Unclassified	176.8	1.04	3.11	ETFS Mgt Co (Jy) Ltd	Jer
3. Samsung KODEX KOSDAQ150 Levg ETF	Unclassified	151.73	0.6	1169.21	Samsung AMC	RoK
4. Mirae Asset TIGER KOSDAQ150 Levg ETF	Unclassified	150.01	0.6	115.68	Mirae Asset Global Inv	RoK
5. Vestas Investment Specialist Prv Real Est 11	Undisclosed	141.6	0.43	21.52	Vestas Investment Mgmt	RoK
6. KIM Prv JP Value-Added ReEst FOF 1	Undisclosed	119.13	0.43	11.84	Korea Investment Mgmt	RoK
7. Samsung KOSDAQ150 1.5 Levg Deriv Cls A	Unclassified	98.71	0.61	106.89	Samsung AMC	RoK
8. Mirae Asset TIGER KOSDAQ150 Biotech ETF	Equity Korea	89.83	0.68	12.25	Mirae Asset Global Inv	RoK
9. La Salle Private Placment Real Estate 3	Undisclosed	87.44	0.25	26.25	LaSalle Invest	RoK
10. Mirae Asset TIGER Health Care ETF	Equity Korea	86.74	0.76	137.23	Mirae Asset Global Inv	RoK
11. Mirae Asset Korea Health Care Equ 1 Class A	Equity Korea	85.46	0.8	21.33	Mirae Asset Global Inv	RoK
12. SAMSUNG KODEX Healthcare ETF	Equity Korea	83.56	0.74	14.02	Samsung AMC	RoK
13. Five Star Focus Fund	Mxd Asset EUR Flex - Gbl	77.28	0.47	16.51	Ahead Wealth Solutions	Lie
14. db Physical Rhodium ETC USD	Commodity Precious Metals	72.28	0.63	46.02	Deutsche Bank AG (London)	Jer
15. AfricaRhodium ETF	Commodity Precious Metals	71.69	0.38	44.67	Africa ETF Issuer RF Ltd	RSA
16. Direxion Semiconductor Bull 3X Shares	Unclassified	69.9	0.39	602.58	Rafferty Asset Management LLC	USA
17. Ultraserfinco AIC Ecopetrol	Equity Sector Energy	69.51	0.55	2.92	Ultraserfinco	Col
18. Direxion Dly CSI China Internet Idx Bull 2X	Unclassified	68.49	0.51	105.46	Rafferty Asset Management LLC	USA
19. Commodity Capital - Global Mining Fd P	Eq Sector Gold&Prec Metals	67.86	0.51	15.76	von der Heydt	Lux
20. XIE Shares Chimerica FTSE N Share Dly (2x)	Unclassified	65.5	0.53	9.23	EIP Limited	HK
21. Boost Short Usd Long Eur 5X Daily ETP	Unclassified	64.8	0.45	3.78	Boost Mgmnt (Jer) Ltd	Ire
22. MYAM Small Equity Fund	Equity Jap Sm&Mid Cap	63.7	0.74	230.48	MYAM	Jap
23. Nikko Growing Venture Fund	Equity Jap Sm&Mid Cap	63.13	0.75	311.47	Nikko AM	Jap
24. IGIS Asset Private Placement Real Estate 59	Undisclosed	62.24	0.32	40.1	IGIS Asset Management	RoK
25. KB KBSTAR Healthcare Exchange Traded Fund	Equity Korea	60.71	0.68	9.35	KB AM	RoK
26. Boost Brent Oil 3x Leverage Daily ETP	Unclassified	60.38	0.31	1.99	Boost Mgmnt (Jer) Ltd	Ire
27. SBI Small Capital Growth Equity Fund	Equity Jap Sm&Mid Cap	60.01	0.77	220.98	SBI AM	Jap
28. Samsung KODEX BIO Exchange Traded Fd	Equity Korea	59.11	0.57	8.87	Samsung AMC	RoK
29. DGB Asset Pioneer Specialist Inv Prv Plc Eq 7	Undisclosed	57.58	0.39	1.45	DGB Asset Mgmt Co Ltd	RoK
30. Mirae Asset TIGER Kosdag 150 ETF	Equity Korea	56.38	0.63	439.76	Mirae Asset Global Inv	RoK
31. Samsung KOSDAQ150 Index Deriv Class Cf	Alternative Other	56.22	0.65	0.01	Samsung AMC	RoK
32. ARK Web x.0 ETF	Equity Sector IT	56.12	0.9	377.11	ARK Investment Management LLC	USA
33. Samsung KODEX Kosdag 150 ETF	Equity Korea	56	0.62	847	Samsung AMC	RoK
34. KB Star KOSDAQ150 Index Deriv Class A	Alternative Other	54.26	0.65	154.64	KB AM	RoK
35. ETFS 5X Short CHF Long EUR	Unclassified	53.46	0.55	2.23	ETFS Mgt Co (Jy) Ltd	Jer
36. Direxion Daily MSCI EM Bull 3x Shs	Unclassified	51.13	0.41	293.44	Rafferty Asset Management LLC	USA
37. Tongyang New Stock Private Placement Eq 1	Undisclosed	50.72	0.22	1.82	Tongyang ITMC	RoK
38. Boost Short USD Long EUR 4x Daily ETP	Unclassified	50.45	0.46	2.39	Boost Mgmnt (Jer) Ltd	Ire
39. Tokio Jap Owners Equity Open	Equity Jap	49.94	1.28	14.81	Tokio Marine AM	Jap
40. ProShares Ultra Semiconductors	Unclassified	49.92	0.47	65.62	ProShare Advisors LLC	USA
41. Direxion Daily FTSE China Bull 3x Shares	Unclassified	49.03	0.25	252.3	Rafferty Asset Management LLC	USA
42. Direxion Daily Technology Bull 3x Shares	Unclassified	48.91	0.43	479.8	Rafferty Asset Management LLC	USA
43. Boost EM 3x Leverage Dly ETP	Unclassified	48.73	0.41	7.05	Boost Mgmnt (Jer) Ltd	Ire
44. Shiozumi Jap Opportunities Fund	Equity Jap Sm&Mid Cap	48.45	1.2	12.26	Shiozumi Inv Mgt (Ber)	Ber
45. SMP VolCtrGbEq I GBP	Alternative Multi Strategies	47.59	0.36	394.5	Schroder Invstmt Mgt Lts	Lux
46. ETFS 3x Daily Short Sugar	Unclassified	47.49	0.18	0.52	ETFS Mgt Co (Jy) Ltd	Jer
47. Daiwa Women Activity Support Fund	Equity Jap	47.05	1.14	189.45	Daiwa AM	Jap
48. ARK Innovation ETF	Equity Sector IT	45.5	0.77	556.97	ARK Investment Management LLC	USA
49. Direxion Dly MSCI South Korea Bull 3X Sh	Unclassified	45.33	0.3	16.67	Rafferty Asset Management LLC	USA
50. Tongyang Free Stock Private Placement Eq 1	Undisclosed	45.25	0.22	2.57	Tongyang ITMC	RoK

The ranking of these 50 top performing funds are based on total return percentage growth over one year, in local currency terms, giving the purest measure of fund performance without being impacted by exchange rate fluctuations. The funds are included regardless of domicile, and are drawn from the Lipper Global universe, covering 80 countries. The % figures are based on bid-bid, income reinvested.



Dambisa Moyo's *Edge of Chaos* presents the economic struggles that are weakening democracies and how they can be overcome without abandoning democracy itself. Ridhima Sharma examines her analysis of the problem and proposed cure

Why democracy is failing to deliver economic growth



Edge of Chaos
by Dambisa Moyo
320 pages
Little, Brown
ISBN-13: 978-1408710890

Zambian-born economist Dambisa Moyo has taken on a number of questions around economic and political stagnation. In her book *Edge of Chaos*, she shows why economic growth is essential to global stability, and why liberal democracies are failing to produce it today. Rather than turning away from democracy, she argues, it ought to be fundamentally reformed.

Edge of Chaos is chock full of statistics. Moyo summarises the state of the world and every major economy and proposes 10 far-reaching reforms to democracy that are designed to combat the myopia, overcome the headwinds challenging the global economy, and galvanise economic growth.

The proposals include transforming the way elections are held, altering how politicians are judged, and ensuring that both voters and politicians take a long-term view. To this end, the proposals include lengthening political terms to better match long-term economic challenges, imposing minimum standards on both politicians and voters – such as minimum qualifications for candidates as well as other requirements such as introducing mandatory voting and implementing a weighted voting system to empower the most knowledgeable and engaged citizens.

Effectively, the author is calling for an aggressive retooling of the broader political system.

GLOBALISATION ISN'T WORKING… FREE TRADE IS ANYTHING BUT FREE TRADE

NO GROWTH? NO DEMOCRACY

The book goes on to argue that liberal democracies of the sort prevalent in the West simply cannot deliver the required economic growth without substantial reform.

Without fundamental changes, democratic politicians will struggle to address the numerous headwinds the global economy faces. The myopia within democracy identified by Moyo leads to the misallocation of scarce resources, such as capital and labour, and short-sighted investment decisions by politicians and business. Ultimately, the myriad economic challenges are a manifestation of a corrosive problem in the democratic political process, she argues.

For Moyo, that economic growth is a *sine qua non*: without it, the developing world cannot attain developed status, and the developed world cannot flourish. Democratic capitalism may be preferred to other systems, but it has shortcomings that play out in the economic and political spheres.

If democracies are to endure, she writes, then inequality must be combated, and elections need to be truly competitive and involve more than mere duopolies. The fundamental enemy of growth and democracy alike is "short-termism," behaviour that ignores the long view in favour of immediate returns and gratification.

Stagnant growth, entrenched poverty, high unemployment, unwinding globalisation, and geopolitical unrest have become the new normal. The scepticism among policymakers, politicians, and ordinary people about the capacity of democratic capitalism to deliver growth and reduce poverty over the long term is in fact very rational.

Globalisation isn't working at its optimum because it isn't real globalisation. Free trade is anything but free trade. Treaties are a thousand pages long, with carve-outs, exceptions and workarounds that make them a fraud. Globalisation is shrinking under its own pointless baggage, not because it is a failing strategy.

FLAWED SOLUTIONS

Yet Edge of Chaos insists on the promise of liberal democracy. After all, per capita incomes in liberal democracies continue to rise, albeit sluggishly. Meanwhile, the problems of growth are not confined to market capitalism – and real problems such as corruption infecting state capitalist and other competing systems.

Rather than turning away from liberal democracy, nascent democracies need to prioritise creating growth over the immediate devotion of some paradigm of democratic perfection. And established democracies must put their own houses in order by passing aggressive constitutional reforms.

However, Moyo's prescription for saving democracy arguably presents its own problems. The solutions, at least some of them, could be described as superficial, naïve and impossible. Democracy has its flaws, but being selective about who gets to participate in democracy may be the equivalent of a cure that kills. ■

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

Congratulations

MAINFIRST

Top European Ideas Fund

Awarded by SharingAlpha's community of professional fund buyers

To see the full list of highly rated providers and funds visit SharingAlpha.com