INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

# INVESTMENT EUROPE

June 2018 ISSUE 92 Annual subscription €450 www.investmenteurope.net

## CONSTRUCTIVE COMMODITIES

Rita González of Baluarte SCI on prospects for gold, oil & other commodities

## Play it safe

Jens Herdack of Weberbank on avoiding losses

## Beware the boiler rooms

Spain's CNMV warns of rise in scams

## Still buying Bunds

Yields up but German investors remain hungry

## Litigation finance

Focus of France's IVO Capital Partners

## Sub-advisory

The next industry event

## Europe beckons

SKY Harbour Capital's development plans

## Germany… again?

UBS' FIFA World Cup predictions

## SharingAlpha

Popular funds highlighted

EVENT REPORTS

- #MICUK
- #ALFILONDON18
- LAUSANNE SUMMIT

open door media

**Upcoming events:** Oslo, Bern, Reykjavik, Lisbon, Milan, Hamburg, Copenhagen, Zurich, Madrid, Milan, Tel Aviv

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

ROBECOSAM

We are Sustainability Investing.

# Shape the future with **Impact Investing**


**Impact Investing** intentionally seeks measurable and environmental benefits alongside a financial return. Our Impact Investing offering combines over 20 years of experience in Sustainability Investing with our unparalleled research. We are convinced that financial markets have the power to promote sustainable business practices and address global social and environmental concerns. It is this conviction that guides our efforts to mobilize capital towards creating a positive impact.

- **Intentional** – Aligned with investors' social and environmental objectives
- **Measurable** – Environmental and social metrics enable investors to manage their portfolio's impact
- **Profitable** – Companies that excel at managing risks and opportunities associated with global challenges are more likely to succeed

www.robecosam.com/impact

June 2018

# CONTENTS



10 *Rita González*


## INSIDE THIS ISSUE
*Considering the evidence of alpha generation across both active and passive strategies; latest regulatory considerations of alpha generators*



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

Follow us on Twitter
@inveurope

5,895 followers and growing!

INVESTMENT EUROPE
*An Open Door Media publication*

# Croesus' revenge

**Jonathan Boyd, editorial director of *InvestmentEurope***

The kingdom ruled by Croesus in ancient Greece is generally accepted to have issued the first gold coins, some of which still survive in museums today.

This longevity of an asset class stands in stark contrast to the lifespan of even some of the oldest companies whose securities can be found listed on stock markets, or whose debt is measured over a few decades at most.

Like today, however, Croesus' smithies were forced to find ways to attain a purer gold. What they did not have at the time was access to the chemical cocktails used to leach out the pure metal. Which brings us to the issue of externalities. These have been highlighted by the World Gold Council as a key driver of marginal mines being shut in China, the world's biggest producer. The Chinese Communist Party is firm in its view of wanting a more environmentally friendly approach to mining. Looking further into the future, it is likely to become increasingly difficult to run open cast mines, operate tailings that do not meet ESG criteria, or ignore local stakeholders, the Council has warned.

Reduced supply suggests prices could rise as the lead time to open new, more efficient and environmentally friendly mines, is considerable. Meanwhile, the middle classes of China and India keep growing and demanding more gold.

For fund selectors these factors mean that there is an ongoing interest in considering allocation to gold, notwithstanding historic concerns around the income potential – or not – from the asset.

Our cover feature considers also the potential for investments in oil, that great lifeblood of the global economy that is too facing significant volatility in the balance between supply and demand amid a price rise that some say could see it move beyond $100 once more.

## HIGH ALPHA

This issue also includes a supplement looking at the theme of high alpha, the views of players involved in pursing high alpha and by what benchmarks they can be gauged. ■

**Editorial**
**Editorial director:** Jonathan Boyd
Tel +44 (0) 20 3727 9922
Deputy editor, **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 Jagessar
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

**CEO**
Nicholas Rapley
Tel +44 (0) 20 3727 9939
Email: firstname.surname@odmpublishing.com



Distributed by Open Door Media Publishing Ltd.

## UPCOMING EVENTS

*InvestmentEurope*'s events programme will see visits to Norway's capital for the Oslo Roundtable 2018, taking place 7 June, and in the Swiss city of Bern for the Swiss Summit 2018, taking place 7 & 8 June – 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 on 13 September.

Also, that month sees the Lisbon Roundtable ahead of a busy October, which includes the Pan-European Sub-Advisory Summit 2018 (4-5 October), the Pan-European Summit Hamburg 2018, Madrid Forum 2018 and Copenhagen Roundtable.

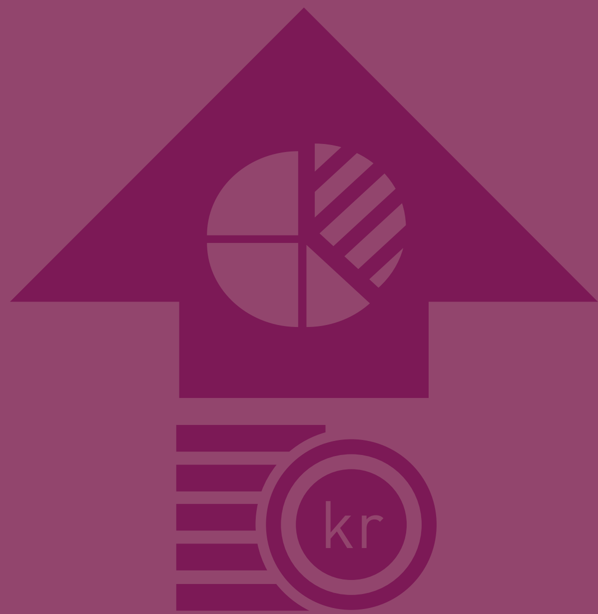
Zurich, Milan and Tel Aviv host events in November, with Stockholm scheduled for December.

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.

# OSLO, 7 JUNE 2018

## BENEFIT FROM THE KNOWLEDGE OF LEADING FUND MANAGERS




**_InvestmentEurope_ is pleased to announce the return of the Oslo Roundtable 2018, taking place on 7 June at The Grand Hotel.**

This exclusive event provides the opportunity for key fund selectors to evaluate the investment opportunities presented and to benefit from the knowledge of leading fund managers.

Five leading asset management companies will present their strategies to top investment professionals in the region.

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

INVESTMENT EUROPE
OSLO ROUNDTABLE 2018

## EVENT INFORMATION

**DATE:** 7 June 2018
**START TIME:** 9:00am
**END TIME:** 1:30pm
**LOCATION:** The Grand Hotel

**For further information visit the event website: investmenteurope.net/events**

Sponsored by:

ACADIAN
AXA Investment Managers
FISCH » Fund Services
GAM Investments
MIRAE ASSET Global Investments
T.RowePrice

Brought to you by:

open door media

# Fund selectors in the news

Investors give their views on private equity, gold/oil hedging and unconstrained funds

**www.bpdg.ch**

Name: Fiorenzo Manganiello
Title: Associate director – Advisory M&A
Company: Banque Profil de Gestion
Base: Geneva

### What makes you consider investing in private equity?

In the current macroeconomic environment, still characterised by a low interest rates environment, investors are struggling to generate returns within the equity and debt capital markets.

Private equity could provide higher expected returns and a lower correlation than the public market.

However, investors should carefully analyse the funds 'metrics performance and take into account the illiquidity risk.

**www.alkimia-capital.com**

Name: Albert Rovira
Title: Financial analyst
Company: Alkimia Capital
Base: Andorra

### Does gold/oil work as a hedge against US Treasury yields rising?

Gold has been historically a hedge against inflation and currency devaluations.

If US interest rates go up faster than the market expects due to an inflation rise, gold should act as a hedge. Conversely, oil's behaviour is not that related to rises in the US interest rates, it is instead more related to economy fundamentals.

**www.lyxor.com**

Name: Philippe Mitaine
Title: Senior fund analyst
Company: Lyxor
Base: Paris

### What is your take on unconstrained bond funds?

Our research shows there has been a very large dispersion in the relative performance of global flexible bond funds in 2017.

We have very large assets invested in unconstrained/flexible bond strategies. They are the only strategies to strongly underweight duration.

Flexible bonds funds can lower their average duration to one or two years and can even have a negative duration.

A benefit of this type of active funds is that it can allow you to put in place strategies that remain more difficult to set up with ETFs.

**www.baluarte-sci.com**

Name: Rita González
Title: CIO
Company: Baluarte SCI
Base: Lisbon

### Does gold/oil work as a hedge against US Treasury yields rising?

Anxiety over anticipating unavoidable changes in monetary policy promotes volatility. Investors are nervous about future restrictive policies from central banks. Potential inflationary pressures exacerbate these risks. In this scenario, commodities present themselves as an inescapable class, reinforcing the importance of investing in real assets.

In spite of the fact that higher interest rates tend, as a rule, to reduce the demand for these assets, the timid tightening of the Fed at this stage of the cycle has allowed their appreciation.

An increase in interest rates beyond expectations would prove to be a headwind. In this scenario, commodities could suffer a severe setback.

**www.morabanc.ad**

Name : Juan Hernando
Title : Head of Fund Selection
Company: Morabanc
Base: Andorra

### What is the best way to play gold: ETFs or actively managed funds?

In order to invest in gold we prefer direct exposure through quoted products backed by physical gold. There are mutual funds, ETPs or futures with these characteristics. It depends on the type of investor.

We have to take into account the prospectus of the vehicles, some of the mutual funds are not Ucits and some of the ETPs are ETCs where there might be different additional risks. Regarding futures, it is important to know leverage or maturities.

In case of investing through gold companies or sector index there would be additional risks than gold by itself like market risk or idiosyncratic company risk (debt, management or regulatory issues…).

It is worth mentioning that MSCI World index gold sector has a significant correlation with physical gold but it is not 100%.

**www.inversis.com**

Name: Alejandro Allona
Title: Senior analyst
Company: Inversis Gestión
Base: Madrid

### What is the best way to play gold and/or oil, eg, physical bullion, ETFs (whether physical or synthetic), or through actively managed funds?

For gold, the answer is clear, an ETF that stores the physical gold because that way you have the perfect tracker. But that is only the case for gold because you can store huge amounts in dollar terms in little space, it is not the same for the rest of commodities.

For oil, probably the best answer is that there is no good answer. It depends a lot on the structure of the futures curve (contango or backwardation) but usually the ETFs are not a good option and buying active funds you would have a second derivative exposure to oil not a direct exposure to the oil price.

**www.union-investment.de**

Name: Jörg Schmidt
Title: Portfolio manager
Company: Union Investment
Base: Frankfurt

### Do you think unconstrained funds will take a growing share of the actively managed funds market?

With regards to funds that fall under our definition: Yes, indeed.

As central banks have only started to normalise policy, global GDP continues to grow and inflation appears to recover, the necessity for adequate solutions within the fixed income bloc is likely to increase.

As we exclude long-biased products from our definition of "unconstrained", we measure the respective funds against the money market. We are likely to use more unconstrained funds in future.

The need for such approaches is high and rising. The year 2018 provides the best example: Yields are rising, and fixed income portfolios face some trouble.

At the same time, the unconstrained absolute return funds we selected according to our guidelines have all fared well and are comfortably in the profit zone.

# People moves around the industry

TOM SARTAIN

## Invesco appoints senior portfolio manager

Invesco Investment Management has appointed Tom Sartain as senior portfolio manager within its London based fixed income team, effective 8 May 2018.

Sartain, who will report to EMEA chief investment officer Gareth Isaac, is responsible for managing the global multi sector offering, including global aggregate strategies.

Previously, Sartain worked at Schroders Investment Management as fixed income portfolio manager in the global multi-sector team for the past 13 years.

Gareth Isaac, EMEA CIO at Invesco Fixed Income, said: "Sartain has a wealth of experience in managing both retail and institutional multi-sector portfolios and a strong track record of delivering returns for clients globally.

"He will be a great addition to our global multi-sector team."

ANTONIO TEDESCO

## Generali makes senior hire for Asset & WM unit

Generali has appointed Antonio Tedesco (pictured) as the head of Group Asset Liability Management & Strategic Asset Allocation within Generali'sInvestments, Asset & Wealth Management unit.

In his new role, Tedesco will report to the head of Group Investment Management Solutions, Bruno Servant.

The new hire, with more than 20 years' experience, joins Generali from PosteVita, where he was the head of Asset Management Project and head of Capital Management, and previously, the head of Finance, with a specific focus on strategic asset allocation and asset liability management. Prior to this, he served in senior positions at JPMorgan Chase Bank in New York and London, with responsibility for client-oriented structured investment products and solutions across all asset classes.

ALESSANDRO ARRIGHI

## Financière de l'Echiquier names Italy manager

Paris-based asset manager La Financière de l'Echiquier (LFDE) has appointed Alessandro Arrighi as country manager Italy.

He will be responsible for strengthening the establishment of the brand and bolstering the firm's inflows in Italy, where LFDE has been present for over 12 years.

The French manager distributes mainly equity and diversified funds in the country but is to propose fixed income strategies following its partnership with Primonial, that has seen the integration of Stamina AM and AltaRocca AM within LFDE.

Arrighi was previously head of Business Development for Italy and the Ticino area at Ethenea.

Formerly, he held roles with Carmignac including sales director and deputy country head Italy. He started his financial career in 2000 as financial adviser within Banca Nazionale del Lavoro, owned by BNP Paribas.

JAN VIEBIG

## Hauck & Aufhäuser appoints head of AM

Private bank Hauck & Aufhäuser has appointed Jan Viebig as head of asset management, effective 1 May 2018.

Viebig succeeds Burkhard Allgeier, who was leading the asset management division of the bank on an interim basis.

Viebig is a graduate in business administration and headed Harcourt Investment Consulting as CEO and also worked as head of alternatives for Vontobel Asset Management in Zurich.

He held other professional positions as head of Emerging Markets at Credit Suisse and as managing director at DWS Investment.

STEPHANE MICHEL & ANDREW LENNOX

## Hermes expands fixed income team

Hermes Investment Management has appointed Stephane Michel and Andrew Lennox within its fixed income team in London. These appointments make it to 26, the number of investment professionals in the unit.

Stephane Michel , who will report to Andrew Jackson, will support the expansion of the asset-based lending platform and multi-asset credit capabilities of the investment manager.

He will be responsible for identifying market opportunities, trends and strong risk-adjusted relative value across illiquid markets as well as making portfolio composition recommendations.

Michel held a number of fixed income roles on the buy-side and sell-side, including five years at UBS.

He has since then consulted on opportunities in the credit space ranging from regulatory capital trades to development of a CLO and direct-lending platform.

Lennox has been appointed as an asset backed securities portfolio manager.

He is charged with making investment recommendations within the European ABS universe and report to Vincent Nobel, head of Asset Based Lending.

His duties also include building and developing systems and infrastructure to analyse, risk manage, report on and monitor European ABS assets.

Lennox was previously at BlackRock where he worked as a senior portfolio manager in the European Asset Backed Securities team, responsible for managing European securitised assets including traditional ABS and corporate style securitisations.

Prior to that, he worked for 11 years at ECM, a Wells Fargo Company and held a number of roles at Goldman Sachs International.

# Fund watch and product launches

## Kempen unveils private markets fund

Dutch investment firm Kempen Capital Management has launched its Private Markets fund.

The strategy invests through a selection of fund managers in four private asset classes: unlisted companies in private equity, infrastructure, land (agricultural land and forestry) and real estate.

In the private equity bucket, the fund will look at a broad spectrum of investments, with venture capital and small and lower mid-market buyouts in Europe as the main subclasses. As for the other asset classes, Kempen's private market strategy will invest on a global scale with a focus on developed markets.

The Private Markets fund is available for professional investors in the United Kingdom, the Netherlands, Belgium and Germany.

www.kempen.com

## Pictet launches Asian corporate bonds fund

Pictet Asset Management has announced the launch of the Pictet Asian Corporate Bonds fund, domiciled in Luxembourg.

The Ucits compliant fund invests in the corporate bond market in Asia, one of the fastest growing regions in the world offering access to high quality credit.

Investments are made in hard-currency Asian investment-grade and high-yield corporate bonds, which offer attractive returns and low volatility. The fund is benchmarked against the JP Morgan Asia Credit Diversified index.

The fund is managed by a team based in London, Singapore and Hong Kong, led by Alain Defise, head of emerging market corporate bonds.

The team uses a proprietary fundamental, valuation and technical selection framework to identify investments.

www.group.pictet

## NN IP launches NN (L) global convertible bond fund

NN Investment Partners (NN IP) has launched the NN (L) global convertible bond fund.

The manager said it addresses demand for exposure to the convertible asset class in a tightening monetary environment with increasing equity volatility.

The fund targets clients seeking a diversified convertible exposure.

It will be managed by NN IP's Global Convertible Strategies Team. It leverages off the team's established security selection and credit processes while keeping a strong focus on liquidity and diversification and it has a target annual return of 1% gross outperformance of its benchmark.

The fund combines a selection of the most liquid securities, with a credit, liquidity and ESG-driven benchmark selection, to achieve a diversified and scalable exposure to the asset class. The fund launched with a significant investment from an existing institutional convertible bond client.

www.nnip.com

## Schroders unveils China A-shares fund

Schroders has launched the Schroder ISF China A-Share fund, currently invested in onshore China A-shares through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

China A-shares represent a universe of over 3,500 stocks with low correlation to other equity markets.

The Schroders' Asian Equities team, with Jack Lee, lead investment manager and head of China A-Share Research, will manage the fund and focus on small to mid-cap stocks with a quality bias and apply an active, bottom-up approach.

www.schroders.com

## Berenberg launches sustainable EMD fund

Berenberg has made its Berenberg Sustainable EM Bonds strategy available to private investors. The fund aims to generate consistent returns from EM fixed income securities, combining them with a clear sustainability dimension.

The strategy is offered in three tranches, including in dollars and currency hedged in euros.

Managed by Frederic Waterstraat, the fund was launched on 31 January 2018 and has recently become available to private investors.

Applying a sustainable approach, the portfolio management team has defined around 40 limit values and exclusion criteria for the investment selection. Thus, for example, bonds issued by authoritarian countries which do not recognise international human rights and environmental agreements, or which are considered particularly belligerent are put aside. Likewise, the manager excludes bonds issued by companies that evade responsible corporate governance or are active in controversial business areas such as landmine production.

Subsequent to the exclusion process, the bonds from the investment universe are valued according to a best-in-class approach, whereby the management considers not only creditworthiness but also dedicated sustainability ratings and thus classifies states and companies according to ecological, ethical and social criteria.

www.berenberg.de

Invesco

# A global search for income

***Lewis Aubrey-Johnson is head of Fixed Income Products at Invesco***

## RISING YIELDS

US Treasury yields have been rising since late summer 2017. As the risk-free rate, US government bonds underpin the pricing of large parts of the financial market and an unexpected re-pricing can quickly lead to volatility in all asset classes. Investors were given a timely reminder of this in early February when higher inflation led to a steep rise in US treasury yields and volatility across other sectors.

## MEETING THE CHALLENGE

We believe that one way for income investors to try to meet the challenge of rising bond yields is to broaden the potential investment universe to include both bonds and equities in a mixed-asset strategy. At Invesco, we have a long track-record of successfully managing such strategies, having launched our first mixed-asset portfolio into the UK market in 1999. The Invesco Global Income Fund builds on the success of this approach delivering first quartile performance since launch in 2014 and over 1 and 3 years (Figure 1). At the same time, the fund has maintained a competitive yield. The fund's gross current yield is 3.36%.

**Figure 1. Strong performance**

| | Invesco Global Income Fund | GIFS EUR Moderate Allocation | Quartile |
|---|---|---|---|
| 1 year | 3.25% | -0.66% | 1 |
| 3 year | 9.61% | -1.63% | 1 |
| Since launch | 18.80% | 6.50% | 1 |
| 2017 calendar yr | 7.91% | 3.98% | 1 |

**Rolling 12-month performance**

| | 1/4/2015 to 31/3/2016 | 1/4/2016 to 31/3/2017 | 1/4/2017 to 31/3/2018 |
|---|---|---|---|
| Invesco Global Income Fund | -3.42% | 9.92% | 3.25% |
| GIFS EUR Moderate Allocation | -7.14% | 6.64% | -0.66% |
| Quartile | 1 | 1 | 1 |

**Past performance is not a guide to future returns.**
*Source:* Morningstar. Performance in stated currency, on a net no entry/no exit charge, inclusive of gross reinvested income and net of ongoing charges. Share class: Class A (accumulation - EUR). There is currently a discretionary cap on the ongoing charge of 1.65% in place. This discretionary cap may positively impact the performance of the Share Class.

## THE KEY THEMES

While some areas of the market look vulnerable to higher government bond yields, namely long duration, low yield bonds, there are still some areas that we believe offer relative value. In fixed income markets these include subordinated financials, high yield and emerging markets. We also think that the equity market continues to offer value.

**Subordinated financials.** An area of the market where we have long found value is subordinated financials, in particular banks where fundamentals remain strong. Capital ratios have improved significantly over the past few years. Those banks that needed to raise capital have mostly been able to do so, while those banks that required winding up were wound up with little market volatility, proving the new resolution mechanisms are working smoothly.

**High yield.** The yield and credit spreads within European high yield bonds are very low, however, there are still some areas of the market where we can find opportunities. This can include new issues that come to market at a premium, or investment grade companies that are downgraded to high yield (so called, fallen angels) that we think are putting the right plans in place to turn their business around. As a global bond fund, we also exploit opportunities within the US high yield market where yields are currently more attractive than in Europe.

**Emerging markets.** Along with strong fundamentals, valuations in many emerging market bonds are broadly supportive. The fund holds exposure to both local and hard currency sovereigns, as well as corporate bonds. This approach gives the fund broad exposure to this important market.

**Equities**. While we can still find relatively attractive yields in the parts of the bond market highlighted above, in many cases at an individual company level the equity yield is higher than the bond yield. As a mixed-asset fund, Invesco Global Income Fund can exploit these opportunities.

## LOOKING AHEAD

A lot has happened in bond markets since the fund's launch in 2014 and the Invesco Global Income Fund has navigated through many of these changes and delivered superior returns in relation to the sector. As we move through this next period of the investment cycle, we stand ready to try and capitalise on investment opportunities wherever and whenever they appear in the fixed income or equity investment universe in order to build on our success to date.

**For Professional Clients only.**

**Risk warnings.** The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested. Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Changes in interest rates will result in fluctuations in the value of the fund. The fund uses derivatives (complex instruments) for investment purposes, which may result in the Fund being significantly leveraged and may result in large fluctuations in the value of the fund. Investments in debt instruments which are of lower credit quality may result in large fluctuations in the value of the Fund. The fund may invest in distressed securities which carry a significant risk of capital loss. The fund may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events.
**Important information.** This marketing document is exclusively for use by Professional Clients. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. This document is not for consumer use, please do not redistribute. Data as at 31.03.2018, unless otherwise stated. This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.
The yield shown is expressed as a % per annum of the current NAV of the fund. It is an estimate for the next 12 months, assuming that the fund's portfolio remains unchanged and there are no defaults or deferrals of coupon payments or capital repayments. Cash income is estimated coupons from bonds. The yield is not guaranteed. Nor does it reflect the fund charges or the entry charge of the fund. Investors may be subject to tax on distributions. The gross current yield is an indication of the expected cash income over the next 12 months.
Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. For more information on our funds, please refer to the most up to date relevant fund and share class-specific Key Investor Information Documents, the latest Annual or Interim Reports and the latest Prospectus. This information is available using the contact details of the issuer and is without charge. This marketing document is not an invitation to subscribe for shares in the fund and is by way of information only, it should not be considered financial advice. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. Persons interested in acquiring the fund should inform themselves as to (i) the legal requirements in the countries of their nationality, residence, ordinary residence or domicile; (ii) any foreign exchange controls and (iii) any relevant tax consequences. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations. The fund is available only in jurisdictions where its promotion and sale is permitted. Not all share classes of this fund may be available for public sale in all jurisdictions and not all share classes are the same nor do they necessarily suit every investor. Fee structure and minimum investment levels may vary dependent on share class chosen. Please check the most recent version of the fund prospectus in relation to the criteria for the individual share classes and contact your local Invesco office for full details of the fund registration status in your jurisdiction. The fund is domiciled in Luxembourg.
Germany and Austria: This document is issued in Germany by Invesco Asset Management Deutschland GmbH, An der Welle 5, D-60322 Frankfurt am Main. This document is issued in Austria by Invesco Asset Management Österreich – Zweigniederlassung der Invesco Asset Management Deutschland GmbH, Rotenturmstrasse 16-18, A-1010 Wien. Subscriptions of shares are only accepted on the basis of the most up to date legal offering documents which are available free of charge at our website and in hardcopy and local language from the issuers. Belgium, Finland, France, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden: This document is issued by Invesco Asset Management S.A., 16-18 rue de Londres, 75009 Paris, France. www.invesco.eu

**47.7 million bl/day** International Energy Agency estimate of OECD oil demand in 2018

# Constructive commodities

Rising commodities prices and their volatility are giving fund selectors opportunities to consider their exposure. Jonathan Boyd, Adrien Paredes-Venheule, Eugenia Jiménez and Ridhima Sharma report

As equity indices head for new highs across the world, and fixed income investors continue to ponder the possibility of normalisation of interest rates, the price of commodities has come into focus.

Global economic recovery means increased demand for energy, for example. Geopolitical shifts, such as the decision by the United States to pull out of a multi-lateral deal involving Iran's nuclear programme, have served to underline the uncertainties between supply and demand. Venezuela's political crisis continues to hamper its output. And Opec has continued to adhere to output limits to provide a price floor.

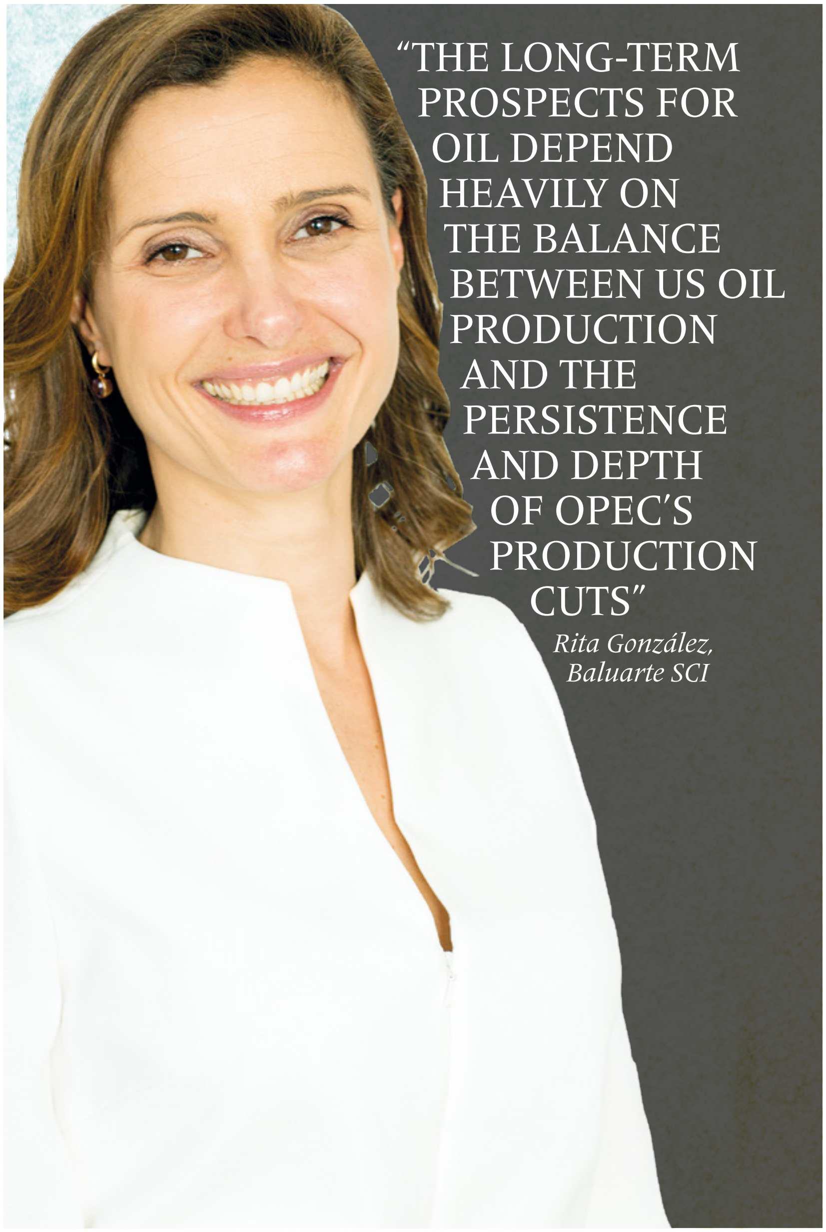
There has been another type of supply side reaction. The number of rigs added in the US went up for six weeks straight to mid-May, according to the Baker Hughes rig count data. But this has not been enough to offset the market reaction.

The spot price of West Texas Intermediate crude went from some $43 in late June 2017 to just under $72 by the third week of May 2018. In the space of about two weeks in May 2018 the price went from around $67 to $71 – up about 6%. The story is broadly similar across other measures of oil, such as Brent crude.

## GLITTERING PRIZE

Gold is another key commodity that has come back into focus. Between December 2017 and mid-April 2018, the price went from around $1,240 to $1,255 per oz.

However, volatility in the €/$ rate means that the price in euros went from around €1,055 to around €1,090,



before spiking further still towards €1,105 by May. That is a 4.7% gain, which may not seem huge, but should be put in context of a downward trend in the price over the preceding 18 months. And bringing gold supply on stream can take considerably longer than drilling a new oil well.

The World Gold Council's recent long-term outlook published in *Gold 2018: The next 30 years for gold* put forward four tests for continued success.

The first is that economic growth is good for gold, and an expanding middle class in China and India in particular will support demand. Secondly, technology is becoming increasingly important for the gold sector as elsewhere. There is a challenge to producing as much gold in the next 30 years as in recent years. Finally, production methods and stakeholder relations will need to evolve if the gold industry is to make any meaningful contribution to society in coming decades.

Writing in the 30-year outlook report, Michelle Ash, chief innovation officer at Barrick Gold Corporation, says that supply will be affected by, for example, increasing local pressures to avoid open pit mining, greater oversight of tailings, and demands to reduce the use of chemicals as part of the production process.

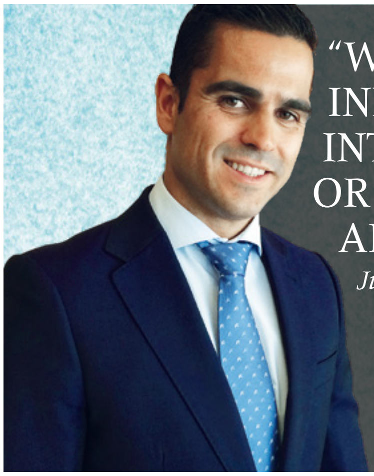
Brent Bergeron, executive vice president of Corporate Affairs and Sustainability at Goldcorp, also notes the ESG trend hitting the sector.

That, however, is for the future. In the present, the industry is facing some uncertainty over supply and demand factors.

The full year 2017 saw global supply of gold fall by some 4%, the WGC's figures indicate, mainly because of a fall in recycled gold – down 10% on the previous year.

Production from mines remained broadly unchanged, but in a reflection of what may yet come to hit supply, the WGC noted that output from China, the world's biggest gold miner, dropped 10% in 2017 in large part because of a clampdown on use of dangerous chemicals used to leach out gold from other ores.

The WGC has noted a decline in ETF purchases over the past year, but the outlook is still bullish according to Benjamin Louvet, fund manager OFI Precious Metals.



"WE THINK THAT A POTENTIAL INFLATION RISE WHILE NOMINAL INTEREST RATES MAINTAINING OR SLIGHTLY INCREASING, COULD AFFECT POSITIVELY GOLD PRICE"
*Juan Hernando, Morabanc*

"Our forecast for gold is $1,450 per oz for end 2018, and for oil, we see a potential for prices to reach $75-80/bl on the WTI and $80-85/bl for the Brent. Prices could even go higher on oil, should the geopolitical situation worsen."

Louvet agrees that the hedging qualities of gold will be useful, should inflation and interest rates rise.

"For gold, definitely the answer is yes. For oil, as the forward curve is costly, even if it is a good protection against inflation, it is better to use oil stocks to get exposure."

Louvet adds that he can see OFI's funds increasing their exposure to oil through the year, while maintaining a stable exposure to gold. ET

"For gold, as the forward curve is almost flat and stable, you can use ETF or physical bullion. In France, the situation is a little bit different. ETFs are not eligible to life insurance contracts. That is the reason why OFI AM launched OFI Precious Metals, a Ucits IV complaint fund, that is eligible to these products. It is invested in gold, silver, platinum and palladium."

"For oil, as the forward curve is a problem, you should avoid ETFs, as your performance could quite differ from the underlying asset. You should prefer oil stocks funds or actively managed funds."

The current price gains of gold are expected to continue, according to the interim statement put out in Q4 2017 by the £1bn AUM BlackRock Gold and General fund managed by Evy Hambro and Tom Holl.

"We expect to see a relatively range-bound gold price environment over the next 12 to 18 months, but with possible risks to the upside. Over the longer term, we expect the general trend of the gold price to be an upwards one, as rising incomes in emerging markets support retail demand and the absence of new, large gold discoveries constrains supply. Gold-related equities have been trading at attractive free cash flow multiples, as strength in the gold price has coincided with the companies making strong progress in terms of improving their balance sheets and reducing costs."

Ned Naylor-Leyland, portfolio manager of the Old Mutual Gold & Silver Fund, meanwhile makes the case for gold being held via collective investments rather than directly.

"Gold is a non-correlated diversifier in normal market conditions and becomes primary money and the most liquid form of asset in times of crisis," he states.

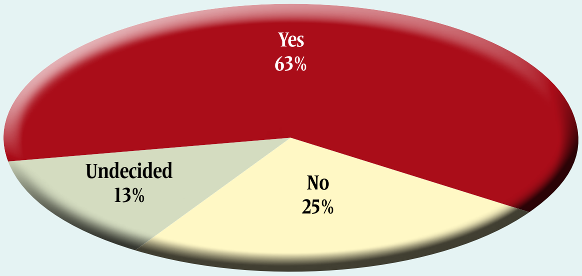
## THE BLACK STUFF

For oil the spread of predictions remains broader.

Pierre Andurand, founder and CIO of Andurand Capital, a privately held hedge fund manager, told Bloomberg in April this year that he did not think it was impossible for $300 oil to become reality in a few years' time because of

4,071.7 tonnes Total global demand for gold in 2017, World Gold Council

## ARE YOU CONSIDERING MORE EXPOSURE TO GOLD/OIL IN LIGHT OF MACRO EVENTS/INFLATION/ INTEREST RATE CONCERNS?




Source InvestmentEurope poll, May 2018

ongoing low investment levels in new production.

According to the most recent monthly note from the Junior Oils Trust - co-founded in 2004 by Angelos Damaskos and the late Jim Slater – which is advised by Sector Investment Mangers there is plenty to come in terms of oil price gains.

"Some influential commentators, such as Bank of America, now call for $100/bl oil sometime next year," the April note said.

"There has been much speculation in the past couple of years about the seemingly inexorable rise of production from North American shale that has propelled US/Canadian exports to over 2 million bl per day. It seems, however, that demand has grown faster than supply and the evidence is the sharp draw-down on US oil inventories, which now lie below the five-year average."

"There is growing evidence that not only production growth from shales (even from the Permian that employs about half of the US drilling rig capacity) is slowing, but infrastructure bottlenecks constrain access to market. New pipelines and other conduits have to be built and re-configured as the production landscape changes and this takes longer than the rate of change in global demand which keeps rising. Oil prices will have to rise considerably and remain at high levels for a long time before exploration and development expenditure has the chance to result in faster supply growth. We are, again, facing tight markets such as those that caused the price spike of 2008."

Damaskos sees oil hitting $90 this year.

## SELECTOR VIEWS

Rita González, CIO, Baluarte SCI in Lisbon looks to commodities generally as part of the search for diversification, which remains the main foundation of the strategies pursued.

"Because of its positive effect on overall risk but also because it allows exposure to different types of risk and value," she says.

"When appropriate, we will consider commodity-related financial instruments, along with shares, bonds and other alternative investments, in the design of investment strategies for or clients. The associated investment strategies will be subject to careful study and selection."

She looks at both gold and oil, but the latter "as the heaviest of all components in most commodity indices, will be the focus of our attention".

"The favorable evolution of these assets results from specific individual factors, related to supply and demand and, to a large extent, from common factors, including positive surprises about economic growth, expectations of rising inflation and geopolitical tensions. If these three supporting factors were to persist, this trend should persist."

On the question of interest ratee changes having an impact on commodities – particularly changes to US Federal Reserve rates – she says: "Anxiety over anticipating unavoidable changes in monetary policy promotes volatility. Investors are nervous about future restrictive policies from central banks. Potential inflationary pressures exacerbate these risks. In this scenario, commodities present themselves as an inescapable class, reinforcing the importance of investing in real assets.

"In spite of the fact that higher interest rates tend, as a rule, to reduce the demand for these assets, the timid tightening of the Fed at this stage of the cycle has allowed their appreciation.

"An increase in interest rates beyond expectations would prove to be a headwind. In this scenario, commodities could suffer a severe setback."

Currently, although commodities are buoyed by what González describes as "great enthusiasm" in commodity markets, there are still reasons to "remain cautious".

"The long-term prospects for oil prices depend heavily on the balance between US oil production and the persistence and depth of Opec's production cuts. Higher prices will benefit the US shale industry, and alternative sources, which could result in faster production growth of energy. As an example, in 2014, when North American production accelerated above expectations, there was clear surplus capacity, and the price suffered a sharp setback.

"From a technical point of view, the fact that the curve is still in backwardation gives investors a positive roll yield. This should give additional support to the market. Over time, stability should be found in the $60-70 range.

"As for gold, its price has been supported by expectations of rising inflation, the sharpening of geopolitical tensions and the fragility of the US dollar."

She continues: "Although we are not particularly positive for gold, given the specific imbalances in this market, on which we project excess supply over time, the worsening of any of these trends could provide a new impetus.

"Given these risks, we believe that increasing current positions would not be prudent."

González agrees with the sentiment of Naylor-Leyland that funds are the way to play these assets, but specifically notes that "actively managed funds dominate our preferences."

Ricardo Líbano, fund selector, IM Gestão de Ativos is another who looks to commodities, albeit more to oil rather than gold.

"We feel that oil has been offering a particular investment story in light of rising prices, consequently benefiting the energy sector as a whole."

He too is seeking the diversification angle. Looking forward he suggests that given current markets and expectations exposure is likely to increase. However, in contrast to González he seeks to play through sector ETFs.

Emmanuel Ferry, CIO at Banque Pâris Bertrand Sturdza simply states that "the investment case for owning gold has rarely been stronger".

"As a decade of extraordinary monetary policy unwinds at the Fed, gold may appear as an attractive option for investors looking to protect themselves from demanding bond and equity asset price valuation, the eroding effects of inflation and the secular dollar down cycle."

There are several reasons supporting the case, he says. Gold is a good hedge against trade war tensions and geopolitical fears. It is a strategic asset that provides stable decorrelation in portfolios – "more specifically, gold appears to be the best Equity diversifier as government bond yields remain too low to offset a stock market correction" – it remains an efficient inflation hedge but also does well in periods of deflation, it is considered a hard currency able to outpace fiat currencies over time and is a hedge to financial systemic risk.

"We assume that a 5% to 10% allocation to gold is relevant in a diversified portfolio."

Ferry waves away the criticism of gold not providing a regular income stream.

"We address this issue with an innovative carry strategy on gold via a systematic sale of options on gold. The strategy tends to generate excess return over the gold price by either selling calls or puts, depending on market conditions. By doing that, we are able to deliver an implied income on gold with a range of 3% to 8% per annum. The index is executed by JP Morgan. The Gold Carry Strategy ticks all the boxes: capital protection, capital appreciation and income stream. It is a good complement to a traditional gold physical passive exposure."

Benoit Derwael, senior portfolio manager at Pentagram Wealth Management, says: "We are looking at oil and gold themes. As for gold, we play it either through physical gold and that includes the delivery to clients or banks' deposit boxes, or through the GAM Precious Metals - Physical Gold and the ZKB Gold ETFs mainly."

"Regarding oil, we rather pick stocks such as Total and Royal Dutch. Commodities are a tough play. In recent years, differences of 10% to 20% in roll costs on a yearly basis made investors have no interest in holding physical oil. On the short term, the UBS CMCI Oil ETF was interesting."

## A 'PERFECT TRACKER'

Alejandro Allona, senior analyst at Inversis Gestión is another who looks at allocation to gold and oil in the fund selection process.

However, he warns that "commodities are really difficult to forecast and, if anything, you should only have a view when you are at the extremes which we don't seem to be for either commodity."

"Historically gold has acted as such in certain inflation regimes, but not in everyone, so you have to be careful because there isn't a contract that says that they have to rise if inflation rises."

His preference for gold is ETFs that store physical gold as they constitute a "perfect tracker".

The type of fund to use for oil is less certain, because of the structure of the futures curve – contango or backwardation: "Usually the ETFs are not a good option and buying active funds you would have a second derivative exposure to oil not a direct exposure to the oil price."

Juan Hernando, head of fund selection at Morabanc in Andorra points to evidence of the benefits of exposure to gold.

"COMMODITIES ARE REALLY DIFFICULT TO FORECAST AND, IF ANYTHING, YOU SHOULD ONLY HAVE A VIEW WHEN YOU ARE AT THE EXTREMES"

*Alejandro Allona, Inversis Gestión*

"In our opinion gold has been traditionally a safehaven. For example, there are studies that show that if we run a back test since the 90s, a portfolio composed by 45% equities, 45% bonds and 10% gold would have had less drawdown, less kurtosis and a higher Sharpe ratio than a portfolio that had included 50% equities and 50% bonds."

Regarding oil, it comes down to supply/demand and price cycles. Currently he sees a 'bullish' period with demand up and supply constrained by factors such as Opec's output quotas.

"In spite of this, our target price for Brent in 2018 was 75$/bl and according to our supply/demand model we do not find fundamental reasons to change it.

"From a tactical point of view, we are positive on gold and our target price would be around $1,450/oz. We think that a potential inflation rise while nominal interest rates maintaining or slightly increasing could affect positively gold price."

Albert Rovira, financial analyst at Alkimia Capital, highlights that he prefers to invest through "ETFs or investment funds because they offer us greater flexibility and transparency. We always try not to have a synthetic replica since we believe it is better to have a real asset than a score.

"We consider investing in commodities producers if the differential between their value price and the commodities' price is opened, which would lead us to take advantage of the leverage."

Jon Gumpel, co-founder of Brooks Macdonald and fund manager of the Defensive Capital Fund sum up the current reasons for looking at the key commodities by noting "oil is a shorter term more cyclical story while gold is a longer term structural story."

"Physical ETFs and actively managed funds both provide good means of exposure. Our preferred means of gaining exposure for the Defensive Capital Fund are through structured notes and convertible bonds linked to the share prices of undervalued gold miners and E&P oil companies. These give us defensive positions that also have scope for high returns" ■

**1.8%** March 2018 YoY decline in German exports

Background image: Shutterstock.com

## JENS HERDACK

Jens Herdack is the portfolio-management director of Berlin-based Weberbank responsible for the manager selection of equity long-only and absolute return funds.

He has a fund selection track record of 15 years. Prior to joining Weberbank, he worked at Deutsche Bank Private Banking division in Berlin.

15,910 Institutions preserving Germany's cultural heritage



Weberbank implements fund selection on the basis of seeking to avoid losses in the first place. Ridhima Sharma reports

# Avoiding the downside

As a private bank based in Germany's capital, Weberbank feels closely connected to Berlin and its people.

Since 1949, it has offered private and institutional investors nationwide comprehensive advice, focused on the interests of individual customers, while seeking to target sustainable earnings.

While not disclosing exactly what proportion of its asset management is in funds, there is a substantial asset allocation programme ongoing for approximately €6bn in AUM, explains Jens Herdack, the firm's portfolio-management director.

The widespread use of funds and the breadth of areas invested in collectively means that there is a steady stream of candidates for replacing existing investments "in case they lose their ability to generate additional alpha", as well as react on an ad hoc basis to sudden market developments, he notes.

"When investing into an actively managed fund, we always check the probability of generating alpha. We find regions/sectors in which this is more likely and others where it seems to be more difficult to generate a persistent outperformance. In the latter case we prefer passive strategies. For example, this is the case in the standard fixed income markets like European investment grade corporates, because the managers cannot earn the additional fees of active vehicles.

"We prefer managers with a repeatable track record. Which means that we tend to invest in managers who constantly generate additional alpha instead of trying to find the best manager of the year."

## QUANTITATIVE MEASURES

The quantitative part of the selection process relies on databases supplied by Morningstar and Bloomberg, but also on Weberbank's own network built over the past 20 years to find new funds for potential investments.

"In the first step of selection process, we use quantitative measures to filter the investment universe for alpha continuity in comparison to historic drawdown behaviour," explains Herdack.

"This gives us a first overview of which fund manager or strategy generates a preferably regular outperformance compared with their peer group and/or benchmark while not taking too much risk. Risk is a very important point in our selection process because Weberbank's philosophy is that avoiding losses is much more important than to be the star in upside markets. Following the idea that you need to earn 100% when you have lost 50% of your assets to have your originally invested money back.

"After having generated a list of possible candidates that meet these requirements we start an intense qualitative analysis with RFPs, manager meetings/conference calls and simulations of portfolio behaviours in case of an additional investment."

## KEY ATTRIBUTES

The process is designed to seek out a set of attributes that Weberbank sees as key to its philosophy.

"Continuity is very important: You don't buy the past performance of a fund, you buy the experience of the manager and his ability to act successful in future environments," Herdack notes.

> "WEBERBANK'S PHILOSOPHY IS THAT AVOIDING LOSSES IS MUCH MORE IMPORTANT THAN TO BE THE STAR IN UPSIDE MARKETS"

"Today it seems to me that everyone is thinking about investments as a simple mathematical calculation. Take the past performance of a fund, put it into an optimiser and you will get a good future performance. Let me tell you from my 15-year experience in the fund space: This isn't the way to success. And this is the reason why simple optimising fintech robo-portfolios will fail in the next big market stress."

As for red flags: "We don't have automatic red flags. In case the alpha continuity starts to fade we analyse the possible reasons. Sometimes it is because of an intended defensive or offensive behaviour within the portfolio and not because of a management weakness.

"Our clients tend to be sceptical about absolute return investments. And to be honest it even seems to us that it is harder to find an absolute return manager who delivers a positive performance constantly. But we integrate useful absolute return strategies to protect our fixed income portfolio in the current low-interest environment.

"We expect our managers to manage their draw down behaviour. The way they reach this target is open to the manager. Of course, we check the plausibility of the risk-control approach, but we find it interesting to have managers with different risk management sets in our portfolios." ■

17.1 million $km^2$ Land mass of the Russian Federation (ahead of Canada, US, China)

# Russian intentions

Russia is often in the news for all the wrong reasons, but UK-based ITI Funds is betting on the long-term potential. Jonathan Boyd reports

The future for Russia's oligarchs in the UK could be placed under more strain in coming months. The country's Foreign Affairs Committee published a report on 21 May called *Moscow's Gold: Russian Corruption in the UK*, and stated that London has been used as "a base for the corrupt assets of Kremlin-connected individuals".

This, the Committee added, "is now linked to a wider Russia Strategy with implications for the UK's national security."

Such statements seem to suggest that the sanctions that have been placed on Russia and individuals linked to the current government there are warranted, from the Western perspective.

## RISK FACTORS

Over in Sweden, a country that has had a particular investment relationship with Russia for over two centuries, the 11 "Russia" funds listed by Morningstar's Swedish database show an average standard deviation of 17.25, while over 10 years the Sharpe ratio stands at 0.1. Over three years the average return has been 10.4% in SEK terms.

To summarise, there are geopolitical pressures that suggest risk factors beyond company fundamentals. And those who are invested there over the longer term face volatility while potentially struggling to explain what value is added through their active management.

But the market overall does not seem to have suffered as such. The Moex index (previously the Micex) stood at some 1,200 points in March 2015. As of 21 May 2018 it was up over 2,339.

And even when the UK was pushing a diplomatic chill on Russia following the poisoning of a former Russian spy in the UK using a nerve agent, international investors piled into a Gazprom international bond offer.


## ETF APPROACH

It is into this environment that ITI Funds has introduced its Russia Equity Ucits and Russia Bond Ucits ETFs.

The Russia Equity strategy physically replicates the market capitalisation weighted RTS index. The Russia Bond Ucits strategy uses the ITIEURBD fixed income index designed by German index manufacturer Solactive and holds a portfolio of 23 dollar denominated Eurobonds of Russian issuer, the bonds being excluded from sanctions.

Elio Manca, managing director, explains that there are several reasons to consider an ETF approach to Russia via London listed vehicles.

"We saw a gap in the market. There are not many ETFs offering this type of exposure, especially on the fixed income side. We wanted to bring both equity and fixed income access to the market," he says.

ITI Funds found the existing MSCI indices limited which is why they went for a different index of 46 stocks.

There are a number of reasons to consider investing in Russia. For one, it is cheap, with a P/E of 7.2x for the RTS index, according to ITI Funds figures. It has a diversified economy. Government debt/GDP is at 17%, the lowest in Europe. And it stands to benefit from rising oil and gas prices.

"Russian companies are underleveraged because they already dealt with capital controls," he adds.

However, Manca says that while it is true that the country could be described as a commodity play, the indices used for the ETFs offer exposure to the local economy, to local consumption. And despite the reliance on oil, there is an inbuilt hedge in that when bad things happen the price of oil goes up.

The ETF structures used meanwhile offer sufficient flexibility to get around challenges posed by sanctions, Manca adds. For investors these have actually contributed to putting the country into a different cycle, which adds a diversification argument.

In Russia itself there are pension reforms happening, which along with poor deposit rates at the retail end of banking mean that there are expectations of more domestic investments in the local market.

He says that an estimated RBL3trn will come to market in the next few years as, for example, pension funds increase their local equity allocation. This comes as dependence on Western capital is decreasing.

ITI Funds ETFs are targeting institutional investors first, but as ETFs they will benefit from retail interest as this helps liquidity. Luxembourg, Ireland, the UK, Russia, Italy, Germany Switzerland, the Nordics and Austria are markets where he sees interest is likely to lie in the opportunities in Russia. For example, Switzerland has private banking ties to Russia, while the Nordic neighbours know it well. ■

53.8% Proportion of wealth in Spain accounted for by the richest 10%

The Spanish National Securities Market Commission (CNMV) has warned of 32 unauthorised firms so far this year, offering investors unregulated or even non-existent financial products. Eugenia Jiménez reports

# "For sale: boiler, €200 or nearest offer"

Investors in Spain have been subject to a ramping up in the activities of so-called boiler rooms in recent years. These are unauthorised entities that have not been registered with either the CNMV or the Bank of Spain, hence are not allowed to provide financial services.

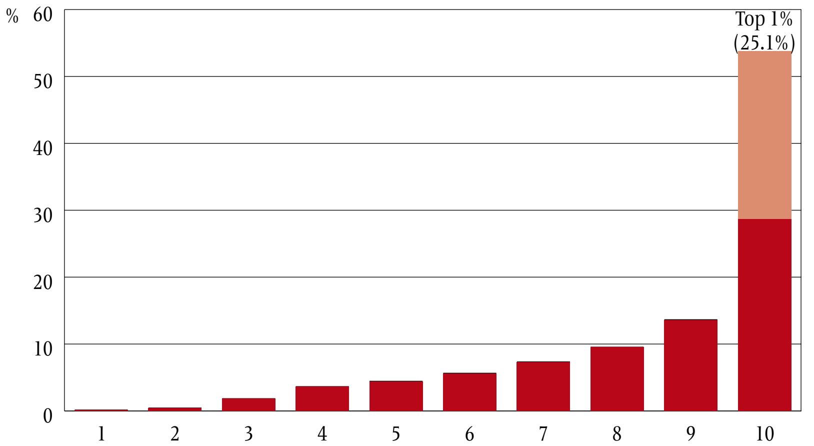
That is, if they have even bothered to seek authorisation in the first place. Some may, but are turned down because of failure to show sufficient capital backing or adequate organisation. Either way, the boiler room operators are not attached to the investment or Deposit Guarantee Fund, meaning investors are not protected in the event of insolvency (authorised entities contribute to this Fund).

"We offer you high returns with low risk" or "you did not earn money with your bank, you will with us" are some of the promises scammers use to hook investors, says the CNMV.

In 2017 alone, the Spanish regulator warned of 53 unauthorised entities operating in Spain, a significant rise compared with the 35 warnings issued in 2016, and 38 in 2015.

The CNMV also warned of 476 unauthorised entities globally in 2017, 441 in 2016, and 217 in 2015.

**WEALTH DISTRIBUTION IN SPAIN BY DECILE**




Q2 2017 Source Credit Suisse, Oxfam

## SCAM TECHNIQUES

The scammers usually cold call investors after obtaining phone numbers from publicly available shareholder lists. They are also increasingly using social media channels to lure people to invest in scams involving complex financial products, the CNMV warns.

High-pressure sales techniques are implemented by email or post, and once investors are lured, they can receive calls several times a day, in which they are urged to invest under the threat of missing out on a unique investment opportunity.

The scammers might also try to sell investors shares or bonds in companies that do not exist. They also target those owning shares in a company and call them offering to buy those shares at a higher price than their market value.

"The scam will request the money upfront as a bond or other form of security, which they say they will pay back if the sale doesn't go ahead – but you'll never hear from them again," warns the CNMV.

In this type of fraud, the investor is asked to pay a commission before receiving the offered financial asset. Fraudsters also use the technique of inflating the share prices of small companies, announcing it as good news. Once the price skyrockets, scammers sell those shares leaving investors trapped.

The scams can be advertised in newspapers, magazines or online, as genuine investment opportunities. They may even offer free company research, free gifts or discounts on dealing charges.

## OFFICIAL WARNINGS

Since 2006, European regulators have warned of some 4,500 unauthorised entities, while the Spanish CNMV alone has warned of some 300 boiler room operations.

According to the Spanish watchdog, investment through unauthorised entities involves high risk of loss of capital, since they act outside the scope of the control of supervisory bodies.

Together with other regulators outside Spain, it disseminates monthly warnings about those entities.

"Only registered companies have obtained authorisa-

## TOP TIPS TO PREVENT FRAUD

The CNMV, fulfilling its investors' protector role, offers a guide with ten tips aimed at preventing investors of potential scams, available on its website.

1. If you receive one of those calls promising you a dream deal, you should verify that the entity is authorised and that the company has not been subject to warning by any financial regulator.

2. Have an active attitude by asking information if you feel suspicious about the offer. Ask always for written information.

3. Unexpected calls/emails, urgency to invest, entry bonuses, psychological pressure forcing an immediate decision, or mention or use of the CNMV logo, should make you distrust the other party.

4. Stay alert to unsolicited offers through your social network profiles.

5. Be aware of complex products and high returns with low risk – distrust those offers.

6. Pay attention to commission.

7. Make sure the products offered to you exist and contrast the information they give you about the price of the securities they want to sell.

8. Authorised financial intermediaries who offer you a product should assess your suitability and eligibility through questionnaires.

9. If you cannot get your money back, stop making investments.

10. Report to the CNMV/the corresponding regulator what happened and later to the police or the corresponding court.

tion since they have provided proof that they meet certain requirements: enough capital, organisation and adequate resources, etc. And they are subject to supervisory body controls," the CNMV states.

However, CNMV's powers are confined to the administrative sphere, meaning it must approach the courts to pursue action against unregistered entities.

As a member of the European Securities and Markets Authority (Esma) and of the International Organisation of Securities Commissions (Iosco), the CNMV also publishes alerts issued by foreign securities regulators on general topics of interest to investors.

By its part, the UK's Financial Conduct Authority (FCA) has spotted an online trend and is warning investors.

"As people have become more sceptical of investment-related cold-calls and consumer habits have changed, we have seen investment fraud moving online and to social media. While their websites and profiles appear to be professional, they are all too often run by fraudsters who fix prices and pay-outs, or in some instances do not really place trades at all, before disappearing with innocent investors' money."

## UK WATCHDOG

So far this year, the UK's FCA has warned of some 160 boiler rooms operating in the UK, of more than 300 in 2017, and of some 327 unauthorised entities a year earlier.

Last year, the FCA said that more than half of scam-related enquiries were made by consumers aged 55 or over.

The regulator has also warned about the use of unauthorised pension introducer firms, which often pass a client over to a regulated adviser to sign off a pension transfer or investment in a high-risk product.

"We are also receiving an increased number of contacts about non-regulated bonds, where the investment is directly in the company, and there is no third party involved. Consumers have been asking if there is Financial Ombudsman Service/Financial Services Compensation Scheme protection, and what responsibilities the firm who approves the financial promotion has," the FCA added. ■

## SCAM VICTIM PROFILES

The board of Iosco published a report last year in March surveying the growing vulnerability of ageing investors to financial fraud.

The report "Senior Investor Vulnerability" reveals that seniors are at a higher risk than other investors of losing money to fraud or of being misled by others. It also indicates that the biggest risks to senior investors are unsuitable investments, financial fraud and their diminished cognitive capabilities, which affects their financial decision-making. Complex products, deficient financial literacy, and social isolation pose additional risks to senior investors.

However, recent surveys conducted by the 38 watchdogs forming the Iosco Committee on Retail Investors – including the CNMV – underlined that the usual victim of boiler rooms scams is far from being an investor with low financial knowledge, isolated and fragile.

"He is usually a middle-aged man, married, with a good academic background," says Iosco.

Another of its surveys from 2015, reported that according to US regulator Finra: "Boiler rooms scams target often men aged from 55 to 65, with financial knowledge above the average, with a university degree and independent in the decision making."

**10.5%** February 2018 YoY rise in German construction industry output

# Demand for Bunds remains strong even as yields rise

Government bond investors concerned about security of returns may continue to buy German Bunds even in a phase of shifting yields, as Ridhima Sharma finds out

German government bond yields reached historical lows in the past two years, with 10-year yields dropping below zero in early 2016 and two-year yields trading at -0.9% in early 2017.

This market rally was driven by the outright scarcity of government bonds following the European Central Bank's large-scale asset purchases.

As ECB executive board member Benoît Cœuré says, the ECB's purchases have reduced the share of the outstanding stock of German Bunds in the hands of private investors from close to 50% to less than 10%.

The extremely low level of yields was also due to expectations that the ECB would keep its deposit rate at the current level of -0.4% for a very long time.

Yields on German government bonds have already started rising over the past couple of months: two-year notes edging up to a yield of -0.5%, up 40 basis points from the lows, and 10-year bonds achieving a yield around 0.5%, up 0.6% from the lows, by early May.

## END OF THE 'SAFE HAVEN' EFFECT

While Bunds do remain scarce, there are several reasons why yields

**CHRISTIAN KOPF**

Kopf is managing director and head of Fixed Income at Frankfurt-based Union Investment Group, a German fund management company with € 324bn in assets under management.

Prior to joining in 2017, he was a partner at Spinnaker Capital in London, worked as a senior portfolio manager at DWS Investments in Frankfurt, and conducted sustainability research at the Wuppertal Institute for Climate, Environment and Energy.

Kopf has 18 years of investment experience and holds a master's degree in economics from Witten/Herdecke University and the Chartered Financial Analyst designation.

"WE DON'T SEE A COMPELLING REASON TO BUILD HOLDINGS IN GERMAN GOVERNMENT BONDS AT CURRENT YIELD LEVELS – BUT WE DON'T SEE A VERY GOOD CALL FOR SHORT POSITIONS IN THIS MARKET EITHER, SINCE ANY GEOPOLITICAL SHOCK WOULD CAUSE ANOTHER MARKET RALLY"

*Background image: Jörg Zägel/Wikimedia Commons*

1,624 Insolvencies filed with German local courts in February 2018

should continue to rise moderately in the coming months.

The most important reason for somewhat higher Bund yields is that fears about a breakup of European Monetary Union are subsiding, reducing the "safe haven bid" for German government bonds, explains Christian Kopf, managing director and head of Fixed Income at Frankfurt-based Union Investment Group.

"Government bond investors that are concerned about the return of their money will buy German Bunds even at negative interest rates," he says.

"But once the crisis goes away, they will start thinking about the return on their money and shift their wealth into other financial assets. In addition to this, it now seems likely that the ECB will start raising its deposit rate in early 2019, and this should also put upward pressure on Bund yields.

"In summary, we don't see a compelling reason to build holdings in German government bonds at current yield levels – but we don't see a very good call for short positions in this market either, since any geopolitical shock would cause another market rally.

"This is why we concentrate on opportunities in other segments of global bond markets."

The relative yields on 10-year US Treasuries versus German Bunds suggests that US debt is more attractive. But investors based in the eurozone also must consider currency hedging costs when comparing the markets.

Kopf estimates that a euro-based investor will face annual hedging costs of 2.54% for holdings of US Treasuries.

That means the investor could hedge US Treasuries holdings back into euros – which would leave a net yield of 0.41% on recent pricing, which is less than the return on Bunds.

Alternatively, the investor could keep the currency exposure open, risking large losses should the euro appreciate. On a currency-hedged basis, Bunds are cheaper than US Treasuries for US investors, and than Japanese government bonds for Japanese investors, Kopf suggests.

**GOVERNMENT BOND SPREADS**

| Country | Yield | Spread |
|---|---|---|
| Germany (0.5% 15 Feb 2028) | 0.63 | 0 |
| France (0.75% 25 May 2028) | 0.87 | 24 |
| Belgium (0.8% 22 Jun 2028) | 0.90 | 27 |
| Italy (2% 1 Feb 2028) | 2.20 | 157 |
| Spain (1.4% 30 Apr 2028) | 1.43 | 80 |
| Denmark (0.5% 15 Nov 2027) | 0.64 | 1 |
| Finland (0.5% 15 Sep 2027) | 0.74 | 12 |
| Netherlands (0.75% 15 Jul 2028) | 0.77 | 14 |
| Austria (0.75% 20 Feb 2028) | 0.84 | 21 |
| Czech Republic (2.5% 25 Aug 2028) | 1.88 | 125 |
| Ireland (0.9% 15 May 2028) | 1.05 | 42 |
| Slovenia (1% 06 Mar 2028) | 1.14 | 51 |
| Hungary (3% 27 Oct 2027) | 3.12 | 249 |
| Portugal (2% 17 Oct 2028) | 1.89 | 126 |

As at 18 May 2018 Source FTSE MTS

## DIVERSITY

Thus, the global bond markets offer vast opportunities for euro-based investors, because of the diversity of the asset class.

There will always be a central bank that is hiking rates while another central bank is cutting rates. There will always be a currency with an appreciation trend while another currency is facing depreciation pressure. And there will always be a corporate issuer with improving prospects and potential for spread tightening, while another company is facing repayment problems, Kopf says.

"I see global bond markets as a fascinating asset class – it requires a large and experienced team to play these markets well, and this is exactly what we have at Union Investment."

Most central banks bordering the euro area will need to hike interest rates before the ECB starts its tightening cycle, because of relatively strong economic growth and the risk of inflationary pressures in their economies, Kopf predicts.

This applies to Norway, but also to the Czech Republic and to other countries where there is good potential for appreciation against the euro, but also opportunity for short positions in domestic bond markets via interest rate swaps or futures.

In contrast, long-term government bonds in certain Latin American countries could decline further, as inflation and growth remain week, Kopf notes.

"In European credit markets, I see the biggest opportunities in segments where the ECB has been absent, eg, in subordinated bank debt or in CDO tranches."

## HIGHER RATES

"The immediate reaction to higher policy rates will of course be an increase in rates all along the yield curve," Kopf comments.

"So, price losses are inevitable, at least initially. However, I see a good chance that the US yield curve will invert around 2020, when short-term rates have risen to close to 3%. This yield curve inversion could be the start of a serious slowdown in the US economy, maybe even of a recession.

"In this scenario of an economic downturn, the Fed would have to react by cutting rates again and the long end of the US yield curve would actually rally, offering investors very handsome returns on long-term government bonds."

"Political developments are always hard to judge, but it seems to us that the remaining geopolitical risks could actually be associated with a rise in inflation – through trade sanctions or through a risk in oil prices.

"After an initial snap-back in yields, those geopolitical risks shouldn't affect Union Investment's cautious view on core government bond markets," Kopf adds.

Another area of development impacting on the demand for Bunds, including within Germany itself, is that investors are increasingly demanding investment solutions that meet sustainability requirements.

Kopf sees this as a big growth area for Union Investment itself. ■

4.4% YoY increase in Finnish wages in the January-March period

JUKKA UKKONEN

Jukka Ukkonen is a portfolio manager at EAB Asset Management, which is part of the EAB Group Plc headquartered in Helsinki, Finland. Ukkonen is managing a risk parity portfolio, that invests to equities, fixed income, commodities and alternative investments. He is also involved with managing equity portfolios. Prior to joining EAB Asset Management Ukkonen was a portfolio manager at OP Asset Management.

Background image: Shutterstock.com

0.8% Finland's annualised CPI inflation rate in April



Fund selection makes up part of the activities in the recently expanded EAB group in Finland, explains portfolio manager Jukka Ukkonen. Jonathan Boyd reports

# Growing opportunities

EAB Group Plc is a Finnish investment services company offering specialised asset management and fund investment services to private investors, institutions and investment professionals.

The business serves customers via 15 offices spread across the country. Since being established in 2000, it has grown to include 150 investment professionals and managing some €3bn of AUM for about 10,000 clients.

In 2017 the group completed the acquisition of Alfred Berg's wealth management operations in Finland (Alfred Berg is the Nordic asset manager within BNP Paribas Asset Management) and started to use the name Elite Alfred Berg. Besides EAB Asset Management, the Group includes Elite Assurance Services, Elite Law, EPL Funds and EAB Fund Management (see box, below right).

The integration of Alfred Berg's Finnish assets into the Group over the past year saw the business report comparable net sales up 18% year-on-year. The acquisition made Elite Alfred Berg the sole provider of BNP Paribas Asset Management products in Finland. Also, as a result of the deal, BNPP AM owns 19% of the shares in EAB Group.

The deal is expected to increase earnings before interest, tax, depreciation and amortisation through 2018, although second half results were "burdened by preparations for Mifid II regulation entering into force in January 2018, the integration and takeover of Alfred Berg as well as investments in new product development".

## DIVERSE OFFERINGS

Jukka Ukkonen, portfolio manager at EAB Asset Management, is part of a team working across fixed income, equities and multi-asset

Elite Alfred Berg offers equity funds, fixed income funds, multi-asset funds, property funds, alternative funds, discretionary mandates and consultative mandates. Clients can buy individual funds through EAB, which may be their own or third-party funds, Ukkonen explains.

Elite Alfred Berg's team uses various investment instruments in its portfolios: equities, bonds, derivatives, active funds and ETFs. External funds are used across asset classes. When it comes to third party managers, Elite Alfred Berg uses a diversified set, from smaller to larger ones. External funds are sourced from meetings with portfolio managers, quantitative screenings, industry publications, conferences and research providers, Ukkonen notes.

ELITE ALFRED BERG'S TEAM BELIEVES THAT THE COMBINATION OF QUANTITATIVE AND QUALITATIVE IS BEST WHEN SELECTING THIRD-PARTY MANAGERS

He adds that Elite Alfred Berg's team believes that the combination of quantitative and qualitative is best when selecting third-party managers. For example, quantitative analysis is useful when screening a big universe of funds, but it is also useful when seeking to validate the information that the manager has provided.

Lately, the team has been searching for managers in the liquid alternatives space, Ukkonen says.

Last year saw a couple of new managers selected, for example, in equity L/S, macro, multi-asset and flexible fixed income categories. ■

## STRUCTURE

The EAB Group constitutes companies across the value chain of asset management and other financial services.

**Investment Services**
EAB Group Plc
EAB Asset Management Ltd
**Fund Administration**
EAB Fund Management Ltd
**Capital Fund Services**
EPL Funds Ltd
**Insurance Agent Services**
Elite Assurance Services Ltd
Elite Life Ltd
**Legal Family Office Services**
Elite Law Ltd

Alfred Berg, which lends its name to the EAB group and its businesses, was founded in Sweden in 1863, the same year that the local stock exchange was founded in the Swedish capital.

$28.8m Average litigation claim of funded cases in US (2017, Burford Capital survey)

# Exploring niches

French boutique IVO Capital Partners launched a pair of alternative investment funds on litigation finance in January 2018. Adrien Paredes-Vanheule finds out more

Asset managers focusing on third-party funding of litigation and arbitration cases are a rarity in France. Litigants are used to funding cases at their own expense, whereas this alternative asset class tends to be fostered in Anglo-Saxon jurisdictions.

And it is a growing area.

A survey conducted by Burford Capital, involved in litigation finance, found that in 2017, 36% of US law firms surveyed reported using litigation finance against just 7% in 2013.

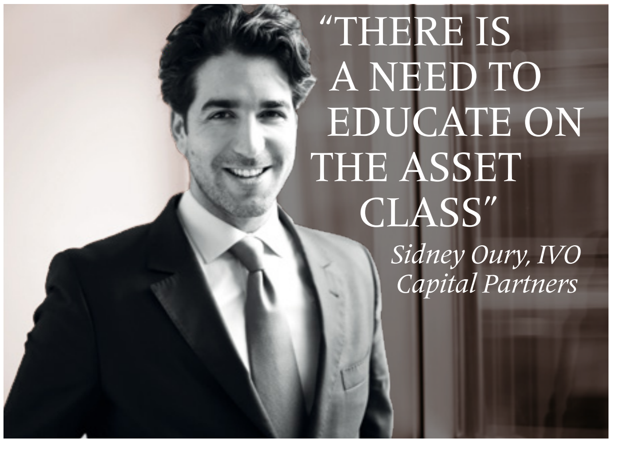
IVO Capital Partners is the second investment firm to venture this territory after Française, after receiving approval from French financial markets regulator AMF to market two Luxembourg-domiciled AIFM vehicles, launched in January.

The first of these is invested in US-based plaintiffs and the other in non-US based plaintiffs. The French boutique has set a target of raising €50m per fund to finance around 30 litigation cases.

## DISINTERMEDIATION OPPORTUNITY

"We wanted to be positioned in niche markets and observed litigation finance was totally decorrelated from other asset classes and central banks' monetary policies. Also, the disintermediation of the banking sector provided an opportunity for us in that field as banks do not finance expenses related to litigation proceedings. As asset managers, we bring the funding needed by plaintiffs," says Sidney Oury, member of the founding trio that established IVO Capital Partners in 2012.

The firm claims a four-year track record on the asset class, having financed 23 procedures since inception.



"THERE IS A NEED TO EDUCATE ON THE ASSET CLASS"
*Sidney Oury, IVO Capital Partners*

"We have started to obtain attractive results on cases moving to resolution," Oury points out.

IVO Capital Partners is specialised in commercial disputes. Half of the procedures it has invested in take place in the United States while the other half remains international but mainly limited to Canada and the United Kingdom.

Investment tickets range from €1m to €5m with an average investment of €3m.

"US-based consultants, lawyers by background, have worked with us since the beginning, especially in sourcing litigation procedures worth the investment and assessing the potential length of the case. That encompasses a variety of claims including breaches of contract, breaches of duty and intellectual property infringement," Oury highlights.

An example case that IVO's founding partner Michael Israel puts forward saw €2m invested less than two years ago. The plaintiff backed by IVO won in the first instance before the decision was later confirmed on appeal. Discussion around the valuation of the case suggested it was higher than €30m, although it is not fully resolved.

Regarding clients targeted, Oury says: "Family offices have been our first investors in litigation finance, now we are trying to reach institutional clients. But there is a need to educate on the asset class as well as on the product structure, given it is illiquid and niche. It remains somehow an alternative to private equity with a shorter time horizon once capital is raised and invested."

## CONTRARIAN BOND MANAGERS

Also being targeted by the boutique are institutional investors that may be looking for a contrarian high yield corporate bond exposure.

The "bad countries/good companies" strategy was developed previously by IVO Capital Partners' founders at Merrill Lynch and offered in a Ucits format in 2015.

"The 'bad countries good companies' strategy is run in a global and unconstrained way but its opportunistic style associates it with emerging market debt hard currency funds. However, 'bad' countries always change from one period to another hence a rebalancing of geographical areas invested can happen in the fund. Being contrarian managers, we invest where we see investors' outflows, negative news flows and economic, political, or sector stress," explains Charlotte Vermer, institutional sales manager.

The firm first addressed qualified investors (family offices, private banks, asset managers) as they were most likely to invest in its fixed income fund at an early stage. Following Vermer's hiring, the business has extended its focus beyond France to the Benelux region and Switzerland. ■

# World Cup: Germany to win again?

UBS Global Wealth Management predicts Germany has the best odds to win football's FIFA World Cup 2018, taking place in Russia this summer. Adrien Paredes-Vanheule reports

Germany is on course to win the World Cup this year, after being crowned World Cup winner last time round in 2014, according to UBS Global Wealth Management – which suggests the country has a 24% chance of success of lifting the trophy on 15 July in Moscow.

In the Swiss financial group's simulations, slightly after German team manager Joachim Low's squad, likely winners include Brazil (19.8%) and Spain (16.1%). England and France complete the top five with success rates respectively 8.5% and 7.3%.

Michael Bolliger, head of Emerging Market Asset Allocation at UBS, says Germany, Brazil and Spain remain the teams with most strength, having successfully qualified (one loss only for Brazil, no loss for either Germany or Spain) and ranking above most others when tallying previous participations in the event.

"Controlling for these factors, plus the advantage of the home nation in the case of Russia, we calibrate a statistical model using the results from the previous five tournaments. With this model, we estimate the most likely outcome of the upcoming matches. In this context, also in football a common disclaimer applies: Past performance is no guarantee of future results," explains Bolliger.

## WILD CARDS

UBS Global Wealth Management's simulations pinpoint England, France, Belgium and Argentina can surprise.

"Argentina's fate will strongly depend on the form of its star players in our view, which is an element of uncertainty and hard to capture with our quantitative model. France should be able to advance to the semi-final, but after the possible elimination of Portugal, it might face Brazil, another top team.

"Similarly to Belgium, England has a balanced team, but its way to the semi-final leads through Brazil," assesses Bolliger, for whom the likelihood of a champion coming from another continent than Europe or Latin America is "almost nil".

Some 20 out of the 32 teams, mostly from emerging and frontier markets, competing at the World Cup have less than a 1% chance to win it. Five of which have no hope of lifting the trophy: Panama, Saudi Arabia, Costa Rica, Tunisia, Egypt.

## RUSSIA

As host nation, Russia is thought unlikely to either become football world champions or even qualify for the final.

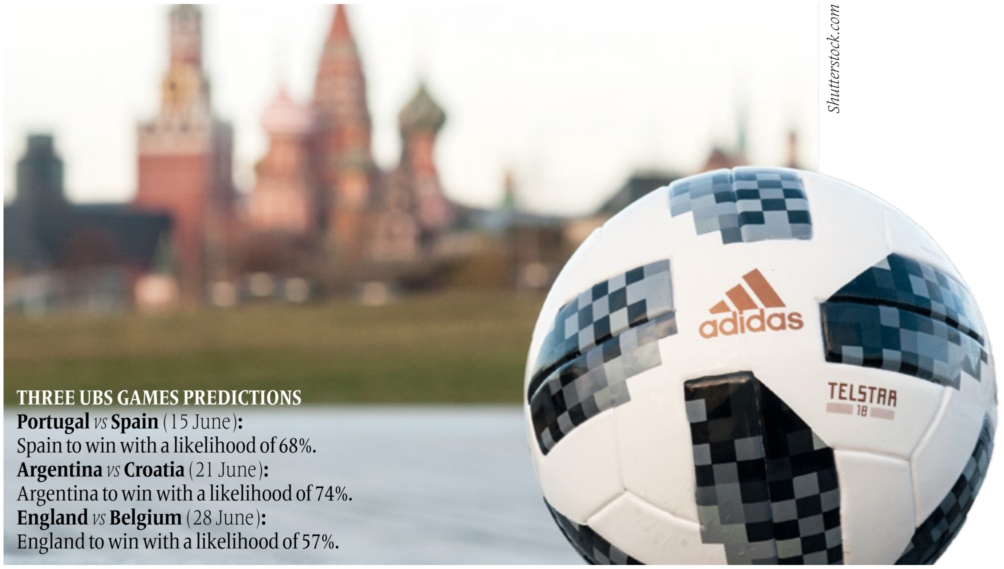
The model highlighted Uruguay might be set to secure the top spot in Russia's group, meaning the Russian squad would cross the path of a major team such as Spain in the round of 16. The likelihood of Russia lifting the trophy on 15 July is less than 2% according to the Swiss group.

Looking at the broader impact of the World Cup on the Russian economy, UBS GWM analyst Tilmann Kolb says the local tourism sector will obviously benefit from the event, as the country should welcome around 1.6 million international tourists throughout the tournament.

Kolb notes: "A final assessment of the economic benefits for Russia will only be known some years later.

"We doubt that the tournament will boost the Russian economy in a significant way.

"A longer lasting effect could be hoped for by raising Russia's brand value with a welcoming, peaceful, and fun sporting event. Unfortunately, years of efforts and funds can be lost in a heartbeat when it comes to reputation, as recent geopolitical tensions show." ■




Shutterstock.com

**THREE UBS GAMES PREDICTIONS**

**Portugal** *vs* **Spain** (15 June)**:**
Spain to win with a likelihood of 68%.
**Argentina** *vs* **Croatia** (21 June)**:**
Argentina to win with a likelihood of 74%.
**England** *vs* **Belgium** (28 June)**:**
England to win with a likelihood of 57%.

**1,702** Companies under direct or indirect control of the French state at end 2016

A study by Paris-based Lyxor AM has revealed that less than half of 6,000 monitored active funds outperformed their benchmarks over 2017. Adrien Paredes-Vanheule reports

# Finding the optimal balance between active and passive

Lyxor, the asset management arm of Société Générale, has conducted its fifth set of research analysing the performance of active strategies against their benchmarks.

Some 6,000 active funds were scrutinised accounting for €1.8trn in assets under management.

Dispersion in relative performance was low and alpha generation concentrated to a few funds and universes in 2017 rendering fund picking even more difficult, the study found.

It highlighted 44% of the active funds monitored – encompassing 23 universes of European domiciled active funds across both equity and fixed income – outperformed their respective benchmarks in 2017, against 28% a year before.

Over a 10-year period, from 2007 to 2017, only 25% of the funds outperformed their benchmarks.

Marlène Hassine, head of ETF Research at Lyxor, stressed the low volatility and low correlation environment seen in 2017 enabled more managers to outperform their benchmarks.

Some 47% of the active equity funds analysed outperformed in 2017 (versus 26% in 2016 and 53% in 2015) while 39% of the fixed income fund of funds beat the benchmark in 2017 (versus 32% in 2016 and 33% in 2015).

Active equity funds mostly found to outperform their benchmarks in 2017 including Italian large cap (81%), European small cap (72%) and German large cap (61%) followed by US small cap (57%) and eurozone large cap (55%).

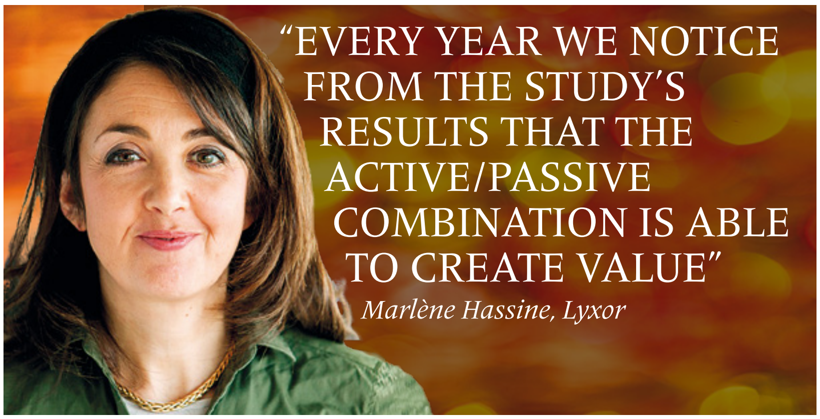
Worse performing funds were found in French large cap, Swiss large cap (37%), Spanish large cap (32%), US large cap (32%), UK all cap (30%) and Chinese large cap (24%).

Regarding fixed income universes, "more extreme results" were observed. Fixed income segments, in which Lyxor saw active managers outperforming their benchmarks the most in 2017, included global bonds (67%), US corporate (57%), US high yield (56%,) while the ratio of active Euro inflation-linked and Euro high yield bond managers that beat their benchmarks were just 6% and 16% respectively.

Lyxor's study suggested that a reason for the outperformance of global bond active managers dwells in their greater flexibility compared to their underlying benchmarks.

How did the best managers perform in equity and fixed income?

Lyxor's research pointed out that the best equity active managers outperformed their benchmarks on average by 6% in 2017 whereas this figure dropped to 3% for the best active fixed income managers analysed.




## ADD PASSIVE

From its study, Lyxor modelled a suggested optimal portfolio.

Given it revealed 34% of the 6,000 active funds analysed outperformed their benchmarks in any one year over the last decade, the firm estimates an efficient portfolio would therefore be composed 30%-40% of alpha generating active funds, alternative managers and niche stockpickers in segments where risk premia are inaccessible to ETFs.

This would be combined with a 60%-70% exposure to passive funds – whether pure passive strategies or active/smart beta ETFs – to capture risk factors and market premium in a more efficient way.

This model is the opposite of the trend seen in the current fund industry globally, with an estimated 74% of assets managed actively against 26% passively, Hassine said.

"Every year we notice from the study's results that the active/passive combination is able to create value. We thought proposing to the market the idea of an optimal portfolio will foster more interest on the passive/active blend, that for us is key to generate performance. For the time being, it remains a theoretical portfolio," she argued.

According to Hassine, picking the right ETF could become as important as picking the right fund. ■

17 Number of Sustainable Development Goals adopted by the UN's 2030 Agenda

# Outlining trends

The recent Morningstar Investment Conference London saw an agenda tackling may of the key challenges and opportunities facing the asset management industry. Jonathan Boyd reports

Morningstar does a number of country specific events across various European markets. Its Investment Conference London is one of the larger by number of delegates and scope of content.

On the agenda this year was a plethora of key topics, which cut to the heart of many discussions ongoing in the asset management industry.

These included: emerging markets, passive investing, tackling financial inequality, political volatility in the West and the impact on investors and investments, ESG, carbon and climate change, finding sources of sustainable alpha, diversified income, European equities, and AI and blockchain.

Reporting from the event, *InvestmentEurope* picked out certain thematic areas for particular coverage.

The first of these was around ESG, carbon and climate change.

One key metric put forward at the conference illustrated the impact that the shift towards sustainable investments – driven by ESG considerations – is having. Figures put up on screen based on the Global Sustainable Investment Review for 2012, 2014 and 2016 indicate a sharp rise in total sustainable investment assets, which grew from some \$3.78trn in 2006 to almost \$22.9trn a decade later.

But commitments to sustainable investments or ESG factors require ongoing and improving access to analytics and data to support relevant investment decisions. Here the conference was used to announce the launch of Carbon Risk Ratings (CRR), developed by Sustainalytics, and which form the core of a new ratings system that is being rolled out by Morningstar.

The quantitative assessment of CRR is intended to support investment analysis, decision making and reporting. The Rating seeks to provide insights relating to investment risk that cannot be calculated through traditional carbon footprinting. As such the CRR support the Morningstar Portfolio Carbon Risk Score measure, which enables investors to evaluate a portfolio's exposure to carbon risk. At launch it was noted that the CRR data covers more than 4,000 listed companies across 147 subindustries.

From Morningstar's perspective, the CRR helps investors identify funds that are designated Low Carbon – funds that have a Carbon Risk Score below 10, and fossil fuel exposure off less than 7%. Some 6,500 funds out of 30,000 initially receive the designation.

## CLIMATE CHANGE

Further insight into the challenges and opportunities were brought by John Gummer (pictured below), former government minister and member of the House of Lords in the UK Parliament, chairman of the Personal Investment Management & Financial Advice Association, and chairman of the The Committee on Climate Change, which provides advice to UK government.

He suggested that many US companies are forging ahead with developments to meet global carbon limits, despite the current administration environment. However, he suggested that China is probably the place advancing fastest on this front.

Unlike some other former UK government ministers, Gummer stresses that the science on climate change "is safe and sound, which means carbon risk is real for investors".

## AI

Artificial intelligence (AI) is rarely out of the news currently when it comes to discussing the future of asset management, and Jeremy White, product editor, *WIRED* Magazine, highlighted the advances that are being made in this area.

He said that AI has reached the level whereby computers can turn a winder video into summer on-the-fly. And AI is set to become more prevalent in mobile in the near future, with Samsung launching its competitor to Apple's intelligent personal assistant software Siri, which will be called 'Viv'.

Another key development is blockchain. While it is not yet certain how blockchain will be used in asset management, White pointed to another industry, travel, where the company TUI is using blockchain to run inventory at its hotels, aiming to cut out online intermediaries. ■

*Further information on the Morningstar Investment Conference London 2018 can be found by following the hashtag* #MICUK.

75.6% UK employment rate January-March 2018

Alfi's recent London Cocktail & Conference considered topics relating to diversity in the asset management industry, sustainability and technology developments. Jonathan Boyd reports

# Industry changes outlined

The Association of the Luxembourg Fund Industry may be seen in the current Brexit debate as somewhat of a competitor to London.

However, it is clear from comments made by Luxembourg minister of Finance Pierre Gramegna in his opening keynote that, more importantly, what his and other jurisdictions are seeking above all is completion of an agreement with the UK to set the stage for a post-Brexit landscape.

There are no templates for implementing a full free trade agreement on services. Thus, an unfettered passport for financial services post Brexit does not look likely, he noted, but added that one day Brexit will be finished, and the the digital economy is a bigger issue over the longer term.

## OTHER IDEAS

Denise Voss, chairman of Alfi, pointed out that amidst the discussion of the digital challenge to the asset management industry and fintech responses, it is also important to remember the wealth transfer that will be taking place in coming years along with a greater need to encourage younger generations to save for the long term.

Helena Morrissey, head of Personal Investing at Legal & General Investment Management, likewise stressed the education need required across the UK population to ensure broader and deeper understanding of the need to save and how funds fit into such objectives.

Morrissey also touched on the gender pay gap in the UK. She warned that the gender pay gap could get worse before it gets better, according to the methodology used, because if there is an increase in employment of younger female staff in the industry, their entry-level salaries will skew the data.

Joining Morrissey on a panel considering the structural shifts affecting the industry was Maxime Carmignac, managing director Carmignac Gestion Luxembourg, UK Branch, who said not only is retaining talent a challenge, but that ETFs, artificial intelligence and regulations mean the 'easy times' are over for the industry.

## CULTURAL NORMS

Also noted during the presentations was culture, and its impact on firms and expectations among customers.

Nasir Zubairi, CEO Luxembourg House of Fintech, said that narcissism and the generation of 'me' is influencing behaviours and that the financial services sector needs to respond to this type of behaviour.

A way forward may be found in adoption of technology such as blockchain. Lawrence Wintermeyer, co-founder & principal at Elipses said he agrees with those who believe that "everything that can be tokenised will be", with implications for securitisation of asset classes.

AI will help drive such developments, and Chida Khatua, CEO Equbot, presented figures suggesting that the past three years have seen 90% of AI related data ever used, with the next 90% expected to be generated in the next three years. AI will be supported by the implementation of so called 5G networks, which he said will influence not only AI strategies, but also impact the way AI teaches itself to make faster, smarter decisions.

Customers will expect more than just smarter and faster 5G based services, however. Mobile payments services around funds must be considered as secure as, say, shopping with brands such as Amazon, suggested Martin Dobbins, independent director at Trinova.

Here, there is a role for regulators. Anna Wallace, head of Innovate at the UK Financial Conduct Authority, said it was recognised by her organisation that there is a need to foster innovation, but that this has to be weighed against the need to control new solutions for risk before a wider rollout/adoption – hence the "sandbox" approach of the FCA.

Wallace noted that "the risk of technology also needs to be weighed against the risk of technology not getting to market". ■

*For further details on the London Cocktail & Conference event follow the hashtag* #ALFILONDON18.

# Spreading opportunity

Against the backdrop of superb blue skies and a warm breeze, the Pan-European Summit Lausanne 2018 saw selectors treated to a plethora of key ideas to take away. Jonathan Boyd, Adrien Paredes-Vanheule and Eugenia Jiménez report


The latest edition of *InvestmentEurope*'s ubiquitous spring Summit saw some 72 fund selectors engage with 12 asset management groups, a plenary session, keynote and multiple networking opportunities.

Taking place at the stunning Beau Rivage Palace in the Swiss town on the shores of Lake Geneva, the three-day event engaged Acadian Asset Management, Baillie Gifford, Brandes Investment Partners, Candriam Investors Group, Eurizon Capital, Fiera Capital, Invesco PowerShares, Investec Asset Management, Old Mutual Global Investors, Principal Global Investors' boutique Origin Asset Management, Tokio Marine Asset Management and Wellington Management.

Collectively they covered various equity and fixed income asset classes, as well as traditional and more systematic strategies.

## SYSTEMISING EQUITIES

Acadian Asset Management vice president and portfolio manager Mark Webster explained how Acadian has built a framework aimed at tackling the psychological influence affecting investors' decisions.

In this regard, he outlined Acadian AM's multi-factor approach, which applies fundamental insights in a systematic manner, and aims at removing

2.7% YoY increase in prices across domestic and imported products in Switzerland

those emotions and uncovering attractive stock opportunities.

"Acadian is able to deliver a cutting-edge investment analysis to over 40,500 securities globally, including approximately 6,000 European equity securities, which are divided into 24 groups. Software is used to maximise information ratios, while looking at factors such as liquidity," Webster noted.

The approach is applied to the firm's European Equity Ucits fund, which looks to three areas of opportunity: market inefficiencies caused by behavioural errors can be exploited, fundamental insights about mispricing can be best captured employing quantitative methods, and investment process must be adaptive to account for changing market dynamics.

Another spotlight on the systematic approach came from Nigel Dutson, managing partner and co-founder of Origin Asset Management, and investment boutique of Principal Global Investors.

Dutson noted that some three million reports are published on listed companies annually. On the assumption that investors everywhere are unable to digest this amount of information, then a systematic approach may be to look for four key points of data, he explained: capital management, valuations, share price trends and earnings revisions.

## THE DIGITAL REVOLUTION IN QUESTION

Swedish futurist and commentator on the ongoing digital revolution Andreas Ekström (pictured) commented on the increasing influence of Google and Facebook, when he presented the Summit keynote.

Ekström said that although search engines have become the most trusted sources of information and even arbiters of truth, they should be questioned in terms of to what extent the results are unbiased. He noted that behind every algorithm, there is a set of personal beliefs that no code can ever completely eradicate.

"Search engines are stupid because their lack of poetry," Ekström said, pointing to the example of a Swedish food magazine that had to change the names of its recipes from dreamy names to more classic ones just because search engines only recognises those names containing the ingredients which are part of the recipes.

The digital revolution overall can be described as: "Getting organised got easier, that is the digital revolution."

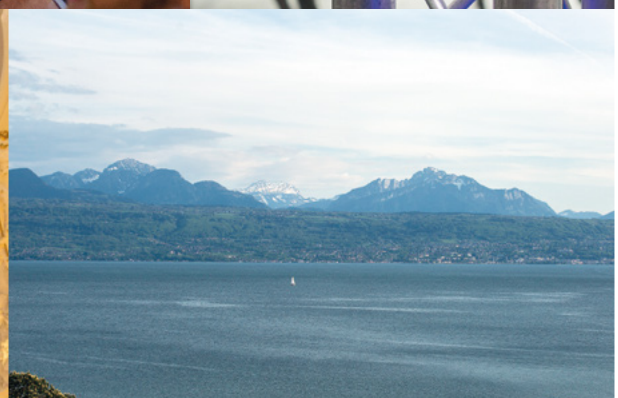
Applications such as Facebook or Uber are increasingly organising people's lives. But this requires another response. To make money on money, to decide what is seen, to be the link between people and to avoid the demise of net neutrality – these are all ways to own the world.

Personal contact is valued by Ekström, who nonetheless said that people should not be too stressed about robots taking their jobs, as long as humans can keep answering questions and solving problems.

Ekström is a senior staff writer at the Swedish daily newspaper *Sydsvenskan*, covering the online world, media, culture and digital equality. He is the author of several books, and in his acclaimed volume *The Google Code* he has turned his journalistic curiosity towards the increasing influence of the internet search giant.

1.2% March 2018 YoY decrease in nominal turnover in Switzerland's retail sector

INVESTMENT EUROPE PAN-EUROPEAN SUMMIT LAUSANNE 2018

**55,577** Businesses set up in April 2018 in France - INSEE


Origin Asset Management's systematic bottom-up approach to the global small cap universe has facilitated focus on some 120 stocks out of a universe of some 5,000. Macro research is not done by the London-based manager, nor company visits, but rather a core focus on underlying data.

"We look at the direction of travel of earnings revisions, we don't buy low, we don't sell high, we sell when trends reverse," explained Dutson, adding the portfolio was rebalanced every three months.

## EUROPEAN EQUITIES

Introducing a European equity view was Ken Hsia, portfolio manager at Investec Asset Management.

He said that there are four reasons why investors should invest in European equities: the region is home to many world-leading companies, company earnings recovery is ongoing in, balance sheets are improving, and valuations remain compelling.

Hsia argued European companies can benefit from two drivers of profit growth. One is a clear competitive edge, meaning superior growth potential globally, while the other deals with falling competition in Europe, which means an unusual situation of better risk/reward for strong companies.

Investec plays this environment using its 4Factor investment philosophy, which looks to company strategy, value, earnings and technical.

Value in European equities was the topic of the presentation of Brandes Investment Partners' institutional client portfolio manager Adam Mac Nulty. Brandes assesses six characteristics make value managers successful. One is emphasis on valuation: getting the price right before investing is key, summed up Mac Nulty, who said finding value stocks with a 30% discount in Europe was quite tough.

Having convictions (88% of Brandes' European Value fund differed from its benchmark as of end 2017) and being benchmark agnostic form two other criteria to succeed as value managers according to Brandes, in addition to long-term focus (3-5 years holdings), performance and alignment of interest with clients.

3.6% YoY increase in Italian industrial turnover index – Istat



The European Value fund had increased its positioning into consumer discretionary, consumer staples and energy between March 2017 and March 2018 while trimming positions in financials, industrials and materials, Mac Nulty added.

## GLOBAL EQUITIES

Roberto Berzero, head of equity developed at Eurizon Capital, explained Eurizon's Smart Volatility algorithm, designed to solve some of the technical inefficiencies resulting from the process of volatility minimisation, and which supports its approach to generating returns with lower volatility in the last stages of a long economic cycle.

For example, the volatility targeted by the Eurizon Fund Equity World Smart Volatilty portfolio is lower than the international equity market as measured by the MSCI World Index.

Quantitative tools are an important facet in the approach, he noted. "Using quantitative optimisation tools, each stock is weighted according to volatility and correlation criteria, with no assumptions on expected returns."

Also discussing global opportunities was Douglas Brodie, investment manager and partner at Baillie Gifford, who outlined the broader opportunities among the small cap/growth areas of the market, and who highlighted the importance of fundamentals in the face of seemingly overwhelming macro factors ongoing – such as the US-North Korea relationship and security in Northeast Asia, or the Brexit question.

Sales, earnings and cashflow remain key to understanding the possible future growth of any business, he suggested. Also, there are areas of technology and innovation that looks set to provide all of these looking forward, in areas such as connectivity, new energy and new materials.

The broader context currently also is that according to past trends of development, the so-called 'silicon age' of semiconductors and computers has been ongoing for some 60 years, which suggests that another cycle will soon start, probably involving aspects of artificial intelligence, sensors and connectivity, which will kickstart the next great economic development globally. Previous cycles included the early-mid 20th Century developments involving oil, chemicals, aviation and the combustion engine, and before that a cycle involving steam and steel.

## PLENARY SESSIONS

The programme for this year's Summit in Lausanne included a series of plenary sessions. Included in this were the keynote presented by Andreas Ekström (see boxout on page 30), but also presentations on the SharingAlpha platform and an update on the work of the Association of Professional Fund Investors.

Oren Kaplan, CEO and co-founder of SharingAlpha introduced the platform for selectors who may not yet be members of the community being built around it. The platform enables fund selectors to rate funds on the basis of people, price and portfolio. However, by engaging they can also develop their own track record based on their ratings applied to active funds – the ratings act as an indicator of expectations of future performance that can be measured against ETF equivalents of the funds. Selectors are measured for a 'Hit Score' which can be compared against other selectors to generate rankings of peers.

Also taking to the stage were three board members of the Association of Professional Fund Investors. Mussie Kidane, head of fund selection at Banque Pictet & Cie (Apfi director), Jon Beckett, author of #NEWFUNDORDER (Apfi director and UK representative) and Jauri Häkkä, managing director at Widhaby Advisors (Apfi director and Nordic representative), collectively outlined the objectives and ongoing work of the Association, which is seeking to instill standards for buy side professionals and influence regulatory developments, which historically have paid less attention to the needs of this community.

Delegates were also invited to take part in a real-time survey of attitudes towards events of the type represented by the summit. Using their smartphones, delegates were able to provide answers in real time to questions such as: How long do you think the ideal event should last? Do you prefer Boardroom sessions, Plenary sessions, Panel sessions or a combination? How long are you prepared to travel to get to a local event?

The results of the survey form part of the ongoing research being conducted by market research firm Bdifferent on behalf of InvestmentEurope to gauge the attitude of Europe's fund selector community not only towards events, but also use of media, and the influence that brands have in the market.

For further information on SharingAlpha visit www.sharingalpha.com, and for information on Apfi visit www.profundinvestors.com.

## JAPANESE EQUITIES

Watts Itoh, chief product specialist at Tokio Marine Asset Management, outlined the ongoing structural changes in Japan, seen as leading to secular growth opportunities and investment opportunities.

For example, Japanese delivery firms have struggled with wage costs as the available workforce has been shrinking, hitting margins. The response has included increasing prices, reducing volume, and increasing automation. The demographic profile of the country has also led to increasing reliance on contract workers, in turn spurring developments at employee benefits providers, for example.

M&A and restructuring have also become a driver of investor returns, as businesses have sought to grow into new segments, or diversify their sales geographically at the global level.

Other key areas of investment ideas include the ongoing shake-up of the car industry and growing consumer demands across Asia in areas such as automated payments solutions; and healthcare innovation.

## EM EQUITIES

Emerging market equities were the focus of Fiera Capital's European division - formerly known as Charlemagne Capital. Julian Mayo, director, outlined the way inefficient emerging markets present opportunity for active managers able to take advantage of a knowledge gap.

**157,047** Properties entered into the Spanish land register in March 2018

This does rely on having a deep understanding of individual companies and their prospects, to build up a picture of what Fiera Capital's managers believe they are worth compared to what the market thinks they are worth.

Trimming down from a universe of some 3,000 stocks to some 500, the research element results in more than 1,000 company visits annually and a constant analysis on some 250 companies, Mayo explained, noting that ESG considerations have historically been integrated into the research process. Ultimately, the manager ends up with a concentrated portfolio in something like its Magna Emerging Markets fund.

## IMPACT INVESTING

Equity opportunities from an impact investing perspective were unveiled by Oliver Schneider, vice president and portfolio advisor at Wellington Management.

Schneider discussed the process and team of the Wellington Global Impact Fund which includes ESG, human empowerment, environment, geopolitical, risk analysis teams.

Impact investing has opportunity to benefit from companies filling gaps left by states/public sector in providing solutions for meeting social and environmental problems, he said.

Themes covered by the Wellington fund encompass alternative energy, resource efficiency, affordable housing, health, clean water, education/job

# Speakers

**Mark Webster** is vice president and portfolio manager at **Acadian Asset Management**, where he contributes to the investment process, manages portfolios, and supports marketing and client service efforts. He worked previously as investment director at the CCLA and at State Street Global Advisors.

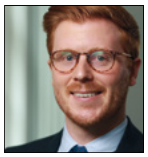
**Douglas Brodie** is investment manager, partner at **Baillie Gifford & Co**. He joined the firm in 2001 and is head of the Global Discovery Team. Made a partner in 2015, he is a CFA charterholder.

**Adam Mac Nulty** is an institutional client portfolio manager at **Brandes Investment Partners** (Europe). Previously, he worked at Pioneer Investments, Davy AM and as head of EAFE Equity Product at Bank of Ireland AM.

**Charudatta Shende** is a senior client portfolio manager at **Candriam Investors Group**, which he joined in 2016. He is responsible for the communication and messaging regarding all FI strategies, with a focus on EMD and credit. He joined Candriam from Carmignac Gestion.

**Roberto Berzero** is head of Equity Developed at **Eurizon Capital**. Appointed portfolio manager for the Asia Equity Developed desk at Eurizon in Luxembourg in 2003, he became senior equity portfolio manager in 2016. He joined the Sanpaolo Group in 2002 in an analyst position on the quantitative desk.

**Julian Mayo** is a director at **Fiera Capital** (formerly Charlemagne Capital), which he joined in 2003. A member of the Portfolio Management Team, he has over 30 years' experience, and has worked a Schroders, Thornton Management (now Allianz GI Asia Pacific) and Regent Pacific Group.



**Michael Stewart** is a product development analyst at **Invesco PowerShares** where he is responsible for new product development, product maintenance and research for PowerShares EMEA. Previously at the Royal Bank of Canada, he is a CFA charterholder and member of the CFA Society of the UK.

**Ken Hsia** is a portfolio manager for European strategies at **Investec Asset Management**. He joined the firm in 2004 from hedge fund MoVa Investment Partners. Previously, he was at Fidelity Investments for eight years. He is associate member of the UK Society of Investment Professionals.

**Mark Nash** is head of fixed income at **Old Mutual Global Investors** and lead manager of the Old Mutual Strategic Absolute Return fund. He joined in 2016 from Invesco Asset Management, where he was head of global multi-sector portfolio management and head of European fixed income strategy.

**Nigel Dutson** is managing partner and founder of **Origin Asset Management**. He heads a team of five long-only equity portfolio managers. Prior to launching Origin in 2004, he managed money for Investec, Schroders and Hill Samuel.

**Watts Itoh** is chief product specialist at **Tokio Marine Asset Management**. He has over 25 years' experience in Japanese and international markets across fixed income, equity and derivatives. He has previous experience at Morgan Stanley, Credit Suisse, UBS and OakHill Platinum Partners among others.

**Oliver Schneider** is a portfolio advisor at **Wellington Management**. He previously spent some six years at Julius Baer, heading the fund investment specialists team. He has also worked for Deutsche Bank and at Union Investment and Ifsam.

training, sustainable agriculture, financial inclusion, resource stewardship, digital divide.

Schneider highlighted Safaricom and Grameenphone as examples of how mobile phone and network providers are leveraging value out of adding financial services in countries such as Kenya and Bangladesh, and leading to impact, hence making both stocks suitable for the firm's impact investment fund.

Impact is not limited geographically to frontier/emerging markets in the fund since it also holds Teladoc, a US based telehealth company which could engender costs savings for the US system and patients.

"By 2025, around 35,000 general practitioners will be lacking in the US, so telehealth is a solution," Schneider said.

## FIXED INCOME

Mark Nash, Old Mutual Global Investors' head of fixed income and lead manager of the Old Mutual Strategic Absolute Return Bond fund, signalled that the new regime of QE unwinding and FX manipulation are impacting the bond supply side, leading to significant implications for yields, hence values of other assets.

However, governments that are spending even as economies are doing relatively well, increasing the chances of pushing up inflation, he added.

In terms of investment ideas, he suggested CoCos remained an area of interest, but investment grade less so.

"US, Germany, Italy, Japan are being shorted but Spain is good for a long position on its performance versus Germany, while Italy is set to suffer when the ECB's withdrawal occurs and borrowing costs rise. The UK needs foreigners to tackle its deficit.

"In an environment in which inflation is resurrecting, central banks are set to withdraw extraordinary stimulus measures, and interest rates are set to rise, a broad multi-sector and long/short approach to fixed income seems to be an appropriate way to improve returns."

He also noted that: "Managers with complex processes may find the pending investment environment more challenging amid frothy equity markets but equally uncertainty around bond prices. "

## EM DEBT

Further in the area of fixed income, but with a focus on emerging markets, Charudatta Shende, senior client portfolio manager at Candriam Investors Group, discussed some of the investment opportunities emerging markets bonds present.

He pointed to an asset class benefiting from improving fundamentals and relatively attractive yields, while warning of the challenges the asset class may face arising from external factors and EM specific risks – such as political instability.

"Within Emerging Markets there are some intrinsic problems in Latin America, for instance, Brazil and Mexico are going to the polls this year. Hence selectivity is going to play a key role."

## US HIGH YIELD

Michael Stewart, product development analyst at Invesco PowerShares outlined the opportunities in the US preferred securities market as a way to tick off several boxes on the part of investors: exposure to the US, exposure to equity, but also exposure to equity behaving like fixed income at a time when there is significant debate about the pace of equity and fixed income returns given prices in stock markets and inflation and interest rates.

With yields from preferred securities above investment grade bonds, and in line with US high yield currently, it also makes sense to consider the asset class, Stewart argued.

PowerShares as an ETF provider also offers access to a different way of thinking about US IG/HY bonds; by looking for those securities that have been downgraded to high yield status, and those that have been upgraded to investment grade. Apart from highlighting the way prices tend to move on such securities following a re-rating – which can be taken advantage of – Steward also noted that default rates for the so-called 'fallen angels' tends to be lower than the typical average for high yield rated bonds. ■

# Approaching events

*InvestmentEurope* rounds off the first half of 2018 with events in Oslo and Bern

**NEXT EVENTS**

INVESTMENT EUROPE OSLO ROUNDTABLE 2018

## OSLO, 7 JUNE

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

The summit will host some 20 fund selectors, who will listen to best ideas put forward by groups including Acadian Asset Management, AXA Investment Managers, Fisch Fund Services, GAM Investments, Mirae Asset Global Investments, and T. Rowe Price.

Through a series of briefer 25-minute sessions, they will collectively address areas such as multi-factor investing in European equities as well as enhanced factor investing, the role of fixed income in the current environment, global emerging markets equities and opportunities spotted in convertible bonds.

As is normal at *InvestmentEurope*'s events, networking is encouraged through a programme that includes a coffee break and lunch.

To register your interest in attending this event 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 Swiss Summit 2018 will be held 7-8 June at the stunning Hotel Bellevue Palace in Bern.

Targeting some 45 fund selector delegates, the two-day event features boardroom sessions, networking breaks and dinner with a dinner speech set to be delivered by 'Freaky-clown', an ethical hacker and security expert, who has worked on behalf of different Swiss institutions on various security requirements.

Groups taking part include AllianceBernstein, Danske Invest, First Trust Global Portfolios, Investec Asset Management, Kames Capital, Neptune Investment Management, Smith & Williamson and Wisdomtree.

Collectively their boardroom presentations will cover areas such as US mortgage backed securities, hard currency emerging market debt, eurozone value and growth stocks, dividend income and dividend growth as drivers of total returns, Japanese equities, opportunities in artificial intelligence, and a broader overview of investment strategy.

To register your interest in attending this event contact Arzu Qaderi at arzu.qaderi@odmpublishing.com or +44 (0) 203 727 9936.

## TAKE PART IN THE DISCUSSION

Delegates to the Oslo Roundtable 2018 and the Swiss Summit 2018 are encouraged to connect ahead of the event by tweeting using the hashtags #IEOSLO and #IEBERN respectively.

*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.

And there are LinkedIn pages dedicated to events and other news. Visit https://www.linkedin.com/showcase/6403794 for further information.

## LOOKING AHEAD

The second half of 2018 will see *InvestmentEurope* host events in its most northerly and easterly locations: the Reykjavik Roundtable 2018 takes place 13 September, while the Tel Aviv Forum is set for 27 November.

Other locations for events include Lisbon (27 September), Milan (4-5 October), Hamburg (17-19 October), Copenhagen (30 October), Zurich (13 November), Madrid (25 October), Milan (20 November) and Stockholm (4 December).

INVESTMENT EUROPE
PAN-EUROPEAN SUB-ADVISORY SUMMIT MILAN 2018

## MILAN, 4-5 OCTOBER

*InvestmentEurope*'s inaugural Pan-European Sub-Advisory Summit takes place 4-5 October at the Palazzo Parigi in Milan.

Groups taking part in this two-day event include Columbia Threadneedle Investments, Goldman Sachs Asset Management, Invesco, Janus Henderson Investors, Jennison Associates, Lord Abbett, Pictet Asset Management, Pimco and Wellington Management. Also taking part is sub-advisory market data and analysis consultant instiHub.

The event aims to consider the market forces affecting distribution and sub-advisory demand, amid predictions €200bn of net flows could migrate to sub-advised funds in the next five years.

To register your interest in attending this event contact Elvira Hunte at elvira.hunte@odmpublishing.com or +44 (0)20 3289 3809.

➤ The full calendar of *InvestmentEurope*'s remaining 2018 events is presented overleaf. For information on sponsoring any of these events, please contact Eliot Morton on +44 (0) 203 727 9945 or e-mail eliot.morton@odm-publishing.com.

# EVENTS CALENDAR 2018

**7 June** | **Oslo** | **Roundtable**

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

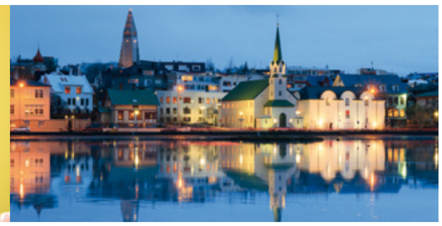



| | | |
|---|---|---|
| 7-8 June | Bern | Swiss Summit |

**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 |
| 4 December | Stockholm | Forum |

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

40 Number of Schroders funds rated on SharingAlpha

SharingAlpha

Membership has grown again over the past month, with new funds joining different lists, and an additional facility for members of the SharingAlpha platform

# Changes a go-go

The past month has seen additional changes come to the SharingAlpha platform, which enables its users to rate funds while generating a rating of their own as fund selectors.

The number of vetted members has risen to some 1,600 according to co-founder and CEO Oren Kaplan.

He notes that this has coincided with changes to the lists of highly rated funds, rated funds by category, rated providers, and popular categories and funds.

And the service offering to members has developed further also.

"We have added a new feature which enables members to ask other community members to provide insights in regards to specific funds," Kaplan says. Making more tools available to members to facilitate interaction has been a core function of the ongoing platform development, he adds.

## RATINGS CHANGES

As noted, there has been an interesting level of movement in the tables showing the likes of most highly rated and popular funds.

The Liontrust European Income, Valentum and Charlemagne Oaks Emerging and Frontier Opportunity funds have all seen gains in their overall rating.

In the list of most popular providers, Robeco has held onto top spot on the previous month. MainFirst, Legg Mason and M&G have moved up. Fundsmith, Deutsche AM and GAM have moved down.

Liontrust is a non-mover, while the list has seen one new entrant in the form of Franklin Templeton.

The Fundsmith Equity fund and Old Mutual Global Equity Absolute Return funds have maintained their positions as most popular funds, joined on the top 10 list (as of publication) by the Morgan Stanley Global Opportunity fund. ■

## HIGHLY RATED PROVIDER

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.

| Provider | Funds rated | Ratings | Rating | Position |
|---|---|---|---|---|
| Robeco | 25 | 73 | 4.57 | ▲ |
| MainFirst | 9 | 54 | 4.56 | ▲ |
| Fundsmith | 3 | 64 | 4.53 | ▼ |
| Legg Mason | 13 | 54 | 4.38 | ▲ |
| Schroders | 40 | 148 | 4.37 | ◆ |
| Deutsche | 32 | 75 | 4.36 | ▼ |
| Liontrust | 7 | 121 | 4.36 | ◆ |
| M&G | 19 | 116 | 4.33 | ▲ |
| GAM | 29 | 110 | 4.32 | ▼ |
| Franklin Templeton | 32 | 74 | 4.29 | New |

## POPULAR FUNDS

| Category | Domicile | Allocation | Position |
|---|---|---|---|
| Fundsmith Equity | UK | 23 | ◆ |
| Old Mutual Global Equity Absolute Ret Fd | Ireland | 19 | ◆ |
| M&G Optimal Income Fund | UK | 15 | ▲ |
| Nordea 1 - Stable Return Fund | Luxembourg | 14 | ▼ |
| Magallanes European Equity FI | Spain | 13 | ▲ |
| BSF European Opportunities Extension Fd | Luxembourg | 13 | ▲ |
| Allianz Europe Equity Growth | Luxembourg | 11 | ▼ |
| Hermes Global Emerging Mkts | Ireland | 11 | ▲ |
| Robeco BP Global Premium Equities | Luxembourg | 10 | ▼ |
| Morgan Stanley INVF Gbl Opp Fund | Luxembourg | 10 | New |

As at April 2018 Source www.SharingAlpha.com

**€26,338** Italian GDP per capita as at end 2017

# Scoping for sub-advisory opportunities

The *InvestmentEurope* Pan-European Sub-Advisory Summit 2018 takes place in Milan in October. Jonathan Boyd outlines elements of this key event

The sub-advisory market across Europe is on a significant roll.

Among the projections are that at least €200bn in net flows could migrate to sub-advised funds in the next five years. The sub-advisory market could grow by 60% over the period.

In a LinkedIn post made in February this year, Andreas Pfunder, founder and CEO of instiHub (also taking part in the event; see boxout, bottom right on next page), suggested that full-year 2017 flows pointed to 10% year-on-year growth on a euro basis, while on a dollar basis the rate of growth seen was 25%.

The UK, Italy, Ireland and France were key markets over the past year – Italian sponsors' assets were up 23% in 2017, Pfunder estimates.

Also noted, rather ironically perhaps, is that the imposition of Mifid II on the asset management industry in January 2018 was expected to drive a focus towards sales of in-house and sub-advised funds, because of the new challenges posed to third party distribution. The implication is that distributors will be looking to do more business with fewer providers to deal with issues such as increased transparency regarding fee structures – the result of requirements in the Directive.

This, then, makes an event dedicated to aspects of sub-advisory all the more important for those people involved in the value chain. Asset management is still a people business – developments in AI, roboadvice and fintech notwithstanding. Sharing best ideas on how to understand the opportunities in sub-advisory developments and networking with peers to share experiences to best manage a transition in business mix towards sub-advisory will prove invaluable for those whose responsibilities lie within this area.

Hence, on 4-5 October this year, groups including Columbia Threadneedle Investments, Goldman Sachs Asset Management, Invesco, Janus Henderson Investors, Jennison Associates, Lord Abbett, Pictet Asset Management, Pimco and Wellington Management will take part in a two-day Summit event to discuss the state of the sub-advisory market and share best ideas. ■

REGISTER

**To register your interest in attending this event contact Elvira Hunte on +44 (0)20 3289 3809 or email** elvira.hunte@odmpublishing.com**.**

## EVENT AGENDA

Among the highlights of the *InvestmentEurope* Sub-Advisory Summit 2018 include:

### Thursday 4 October

**Opening keynote: Tracking the growth of sub-advisory worldwide.** How the sub-advisory business model has adapted and grown to follow regulatory changes including Mifid II – **Nick Phillips**, head of International Retail Distribution, **Goldman Sachs Asset Management**.

**Setting the scene: Key trends in the European sub-advised funds industry.** Actionable insights from the current sub-advisory landscape and resulting near-term opportunities – **Andreas Pfunder**, founder & CEO, **instiHub Analytics**.

**Designing a sub-advisory solution: How to link investment experience and client needs.** Unique insight into how to design a best-in-class product – **Sergio Trezzi**, head of Retail Distribution, Europe (ex UK), Middle East & Latam, **Invesco**.

**Fund case study: Fund design, due diligence and benchmarking.** A sophisticated walk through the intricacies of contemporary fund design and shifting due diligence parameters as commentary on how to benchmark fund success –**Lord Abbett** (speaker tbc)

**Panel discussion.** A review of the day's topics with Day 1 speakers.

**Networking dinner.**

### Friday 5 October

**Facilitating product range completion including illiquid and liquid assets.** New thinking on when to use the sub-advised model to ensure product range completion and the role of accessing asset management capabilities in both the illiquid and liquid space – associate partner session.

**Operational and strategic considerations for sponsors scaling-up in house distribution.** Key points around vertical integration –associate partner session.

**Due diligence and manager selection: Finding the right strategic and operational fit.** Identifying the best-in-case sub-adviser, the golden standard for due dilligence, and identifying technical, digital and management capabilities –sponsor profile speaker(s).

**The future of the sub-advised market in the next five Years and beyond.** Different perspectives from the day's speakers on their predictions for the development of the sub-advised market in Europe – panel.

# The instiHub story

Andreas Pfunder (pictured), CEO & Founder of instiHub Analytics Limited has explained his company's raison d'être and how it is helping asset managers capture business in the growing sub-advisory space.

## Why create instiHub?

I spent nine years building Strategic Insight's business providing market intelligence on locally-domiciled and cross-border funds to the asset management industry across Europe & Asia.

I acquired a deep knowledge of the sector, developed a large network of relationships with decision-makers and Heads of Business and knew how to assemble and mine a mountain of data.

By 2015, I sensed a new groundswell – a growth in sub-advised business as asset managers sought 'low friction / high value' business separate from the increasingly crowded funds marketplace.

Asset managers were screaming for intelligence on pricing in this space – and no one was responding.

The market was entirely sales-driven as reaching scale was baked into the business DNA. The data was there but it was opaque, diffuse and difficult to decipher.

The challenge was big, but I knew it was solvable. I had the backing, I knew the talent and so I put instiHub together in 2015 to 'intelligise' sub-advisory data.

## How would you describe your success to-date?

Timing was our advantage and our growth matched perfectly the expansion of many asset management houses into sub-advisory business. The key thing was our identification of the early movers and our monitoring of the groundswell in demand from investment managers who were joining the marketplace.

That was our uniqueness – and it differentiated us from 'me too' data services suppliers as a leading provider of actionable information.

## What's next for instiHub?

The instiHub iPsa (public sub-advisory insights) tool is now embedded in new business development at over 15 asset management companies across Europe. It is has become a genuine sales catalyst helping senior salespeople negotiate deals confident in their pricing points for each investment strategy and sector.

Our mission is to take that to a wider audience as more asset managers grasp the attractiveness of sub-advisory as a new revenue stream.

Every new entrant needs to able to have 'informed' negotiations with distributors – ignorance is not an option.

*Andreas Pfunder will be speaking at the inaugural Pan-European Sub-Advisory Summit in Milan on 4-5 October 2018 at a time when sub-advisory business is becoming one of the most rewarding, multi-year opportunities for all market participants. He will be sharing insights with conference attendees and discussing some of the complexities inherent in the sub-advisory model.*

$3.2trn Assets covered by members of the Thirty Percent Coalition

US high yield credit boutique SKY Harbor Capital Management is pushing deeper into ESG as well as southern Europe and the UK, as Adrien Paredes-Vanheule finds out

# Merging ESG with US high yield

It is in Greenwich, Connecticut that SKY Harbor Capital Management anchored itself in 2011. SKY stands for the initials of the surnames of founding trio Hannah Strasser, Thomas Kelleher, and Anne Yobage.

All three were fellow colleagues at AXA Investment Managers where Strasser was US fixed income chief and senior portfolio manager from 2001 to 2011 while Yobage held roles of co-head of US High Yield and senior portfolio manager, and Kelleher was a former senior high yield portfolio manager.

Backed by US private equity firm Stone Point Capital, the company runs two high yield credit strategies, including short duration high yield – developed in 1992 by the founding trio – and broader high yield, in addition to customised mandates for insurance companies and pension funds.

In Europe, the $5.8bn (€4.9bn) AUM boutique has marketed two Ucits funds since 2012 through the SKY Harbor Global Funds Sicav domiciled in Luxembourg: the US Short Duration High Yield and US High Yield funds.

Despite its US roots, some two-thirds of AUM derives from European investors, while institutional mandates and relationships account for about 80% of AUM.

"Flows in our high yield strategies have been pretty stable as relative performance in our strategies has been strong," explains Hannah Strasser, co-founder and managing director.

"Our portfolios are positioned away from the part of the high yield market that is the most sensitive to rising rates and bond repricing."

The US high yield market has faced consistent outflows throughout 2017 and into this year, Strasser observes. However, she says the market has proven stable on technical factors because it has shrunk in size as new issuance has fallen short of retirements.

"More companies have been upgraded to investment grade than downgraded to high yield, which along with the cash generated from coupon income, has created a support for the market despite mutual fund outflows. That has allowed investors and managers to experience less selling pressure despite outflows. That is a key point when we look at the markets overall," Strasser explains.

## TIGHTER SPREADS

SKY Harbor Capital Management has been generally overweight shorter duration debt, benefiting from credit picking in low single 'B' and triple 'C'-rated bonds depicted by Strasser as "neither the most speculative bucket of the high yield market nor the part trading at equity-like levels."

The firm generally avoids the highest yielding part of the market because many issuers here face significant secular pressures, for instance at a sectorial level – in sectors such as pharmaceuticals, retail or energy, Strasser explains.

Returns are generated through credit picking among bonds of companies the firm expects to be able to live within their existing capital structures and that do not require restructuring their debt due to poor financial results.

"We are invested in companies benefiting from tax reform, from a rollback of regulation or generally stable commodity markets. Synchronised global growth is also supporting very strong underlying corporate earnings in the US. We are buying bonds of companies that are well positioned on these trends and not those which face large secular headwinds," she states.

As the pace of US Federal Reserve rates hikes may accelerate, tighter spreads could be on the way in the US high yield space.

However, Strasser explains that historically, high yield credit has been less correlated to rate rises than the broader bond market and the asset class rather benefits from the underlying strength of economic activity that is behind tighter monetary policy.

"Investors are questioning how much spread compression high yield can experience in this hiking cycle given the tightness of current spreads. We think the path to tighter spreads will be volatile but strong fundamentals and low default-related loses will result in tighter spreads as rates rise."

## INITIATIVES

One market belief is that high yield credit and environmental, social and governance criteria remain difficult

**3,588,184** Estimated number of inhabitants of Connecticut in 2017

to conciliate within a strategy. Yet ESG issues are definitely considered by SKY Harbour Capital Management in its investment process, Strasser explains.

The high yield market is challenged by the fact most issuers are non-public companies, meaning disclosure of information tends to be lower.

"Because the current US administration is rolling back certain filing requirements, transparency is unfortunately going down not up, in the short term at least. We believe initiatives that demand more transparency around certain ESG issues can put pressure on these companies."

As an asset manager, the business has joined several initiatives, including the United Nations Principles for Responsible Investment, the UN Women's Empowerment Principles and the Thirty Percent Coalition, all reflecting the firm's values about environment, social, governance, female leadership, pay equality and diversity in the workforce, Strasser says.

The UN PRI is a respected standard, especially for non-US investors, she argues.

"We have a large presence of Nordics-based investors in our funds for instance, and we want to be aligned with the values our investors want to uphold as capital owners.

"We are very focused on the concept of ESG-related risks. If you look back at the history of the high yield market, in its earlier guises, it was almost a dumping ground for companies that had disclosed or undisclosed ESG issues. Identifying and assessing ESG-related risks is embedded in our investment process. And we continue to work to deepen our analysis and knowledge as capital owners increase their emphasis in this area," she underlines.

The approach means that some industries, such as coal, have been put aside as investment areas. And it is the case that increasing numbers of capital owners demand management of customised mandates with carbon restrictions, which means the company is carefully considering the long-term financial flexibility of a number of industries.

"The coal industry has been largely bankrupted as capital owners restrict their investments in the industry. The same thing might happen in the ammunition/firearms industries, two sectors that we also avoid. The debate on the impact of fossil fuel is ongoing, but it will still be financeable in the public market to some extent in our view," she says.

The investment manager also believes gender diversity is a topic that resonates with investors that are aligned with the UN Sustainable Development Goals given that gender equality is number five on the list.

"It's also a concept that is more tangible, with the ability for outcomes-focused measurement. As a result, we are increasingly integrating an assessment of gender-based diversity into our opinion of an issuer's fundamental strengths and weaknesses."

## EUROPE

Asked about the perception of European investors towards US high yield, Strasser says that currently, the cost to hedge US dollar asset allocations back into euros is high enough that allocations to US high yield have slowed – and that despite the positive view that investors might have on the fundamental strength of the asset class.

SKY Harbor Capital Management has a German subsidiary in Frankfurt. Strasser says France, Switzerland, Luxembourg and Spain are key markets for the boutique.

"We are moving more aggressively into the UK. In the Nordics, we have had a notable presence given that we run mandates for some large investors there.

"Switzerland is a priority for us, Germany too. We see a nice market share opportunity in Spain where our funds are well positioned already. Furthermore, we have new distribution relationships to help develop the business in Portugal, Italy and the UK," she adds.

A concept SKY Harbor Capital Management "would be eager to explore" and in which potential investors have expressed interest in, Strasser pinpoints, remains that of a sustainability-focused short maturity high yield strategy that would be aligned with the constraints and values of European and US sustainable investment forums. ■

"WE ARE VERY FOCUSED ON THE CONCEPT OF ESG-RELATED RISKS"

HANNAH STRASSER

Hannah Strasser is a founder and the managing director of US leveraged credit boutique SKY Harbor Capital Management, based in Greenwich, Connecticut. She oversees all aspects of business and investment strategy and has specific responsibility for the firm's Broad High Yield Market strategy, having managed high yield portfolios since 1988.

Prior to founding SKY Harbor, Strasser was head of US Fixed Income at AXA Investment Managers and senior portfolio manager for the core high yield strategy.

*InvestmentEurope*'s Editorial Board members give their views on commodities, Mifid II, and value in fixed income

# Ideas generation

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

**EMMANUEL FERRY**

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

**BERNARD AYBRAN**

**CIO Multi Management**
**Invesco**
**Paris**
**www.invesco.com**

## Should investors ignore predictions about commodities prices rising higher?

Commodities should continue to lead other asset classes. The fundamental case is combining late-cycle demand with tighter supply and depleted inventories.

The global economy is now operating above capacity. A mature business cycle and a lack of long-cycle investment are supportive for commodities prices. Demand for commodities as an inflation hedge should start to exacerbate the fundamental case.

From a cross asset point of view, the gradual inflation normalisation process is a game changer, pointing to a broad unwinding of the QE trades, including higher volatility and major late cycle rotations and as an illustration, a derating of the tech space could be triggered by stronger inflation pressures.

No doubt that the next big macro call is long energy/short tech.

Every now and then, commodities come back to the forefront of investors' agenda, usually in fear of too much of a rise or a fall.

These days, oil prices have more than doubled in a few quarters; predictions about even higher prices are seen at many Wall Street firms.

While impressive figures can be thrown about, investors should focus on the consequences for their portfolios, whether directly through the energy equity sector, or indirectly as higher inflation expectations are pushing USD rates higher.

While trying to foresee the future is both hopeless and useless, balancing the consequences of several scenarios is what fund management is about.

**THOMAS ROMIG**

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

## Mifid II – Success or failure, or does it not really matter?

On the one hand the Mifid II regulatory environment leads to higher costs and an enormous rise in paperwork for fund managers.

On the other hand, it is not able to compensate these efforts and costs with real benefits for customers.

The rise of bureaucracy could especially discourage legal entities with fewer assets to invest in stocks or funds. Furthermore, a higher standardisation of products and services due to the new regulations could contradict the interests of investors in more individual products.

**JON BECKETT**

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

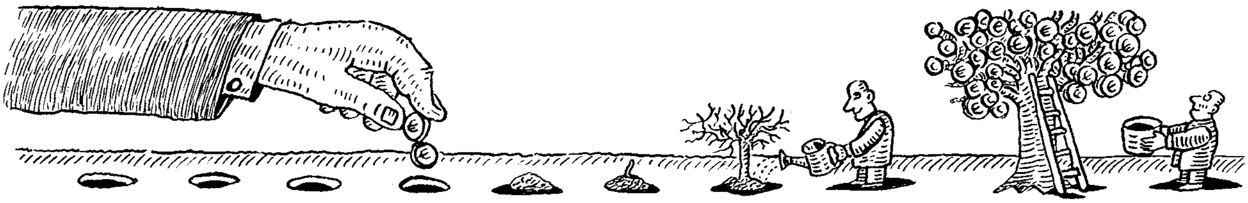
## Market expectations around rates seem to have changed yet again; do you feel that there are still pockets of value in fixed income?

The asset class looks challenging. The risk is that we over-estimate the decline in future cash flows. However, we have seen the inflection in the thirty-year bond bubble.

Before, buying long duration was an easy strategy and tripped up many active managers who had gone short. This was a boom for broad index fixed income.

Now that inflation and global rates are slowly normalising then value versus duration in the shorts and mids looks to be the right strategy.

Active managers are then best placed to find those pockets and manage default spreads.



# RDR, Mifid II and the regulatory glare of 'value for money'

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

Later this month I will be heading to South Africa, working as author of *New Fund Order*, guest speaker courtesy of RMI Investment Managers and speaking to advisers as part of their 'Leading Insights' club series.

I will also be taking the opportunity to catch up with Association of Professional Fund Investors colleagues at our South Africa chapter, led by Riad Daniels, and building relationships with local bodies as they too head into a new regulatory era.

And what has this to do with Europe? Simply that South Africa is readying itself for its own Retail Distribution Review transformation, just as Europe adjusts to Mifid II, which has (mostly) enshrined RDR across the EU passport.

My fellow fund buyers should be ready that inducement rules, cost transparency, competition and value for money will quickly follow. Professional fund investors, whether in Cape Town or Copenhagen, must be ready to evidence value-add and value for money for the fund managers they select. That may drive a shift to higher conviction boutiques or conversely towards more scalable giants; consolidation, passives and supertankers alas are all symptoms of RDR to date.

## SURPRISES AHEAD

RDR, as experienced in the UK, arguably the most progressed RDR market to date, suggests that whether South Africa or anywhere else, those undergoing such regime change will be in for a big surprise.

Morningstar reported in 2017 that: "Prior to the implementation of the RDR in January 2013, the majority of investors dealt with an adviser. Around 50% of the UK advisers used trail commission to help meet their annual review costs. Trail commission was a percentage fee paid to advisers and to fund platforms by fund providers. It was taken out of the annual management charge, and so to many investors it was as if they were receiving a free service, or at least it made it very difficult to determine how much you were actually paying for the service."

Commission was once commonplace for our industry but not for much longer.

Pre-RDR there were around 40,000 UK advisers in 2011; today less than 30,000. Morningstar notes investors have opted for DIY, fueling popularity of ETFs, more focus on fees, both in terms of individual investors, DIY investing and professional investors investing on their behalf. There's also been a commensurate rise in the number of multi-manager, fund-of-funds and risk-rated launches to meet investor demand post-RDR. Many of these are funds of ETFs or low-cost index-based offerings.

Disintermediation of packaged products and compressing value chains actually led to reintermediation and unbundling into complex value chains. Overall costs are coming down but only very slowly. Fee refraction rather than compression. Transparent perhaps but not immediately better or easier for fund investors.

The biggest outcome of RDR has been the shift towards cost transparency, something I personally support. Yet along the way cost did become confused with value and perhaps explains the last tact taken by the UK regulator, the FCA.

The FCA board announced in May this year that it had accepted proposals to ditch the term 'value for money' from the final rules relating to the Asset Management Market Study.

"PRE-RDR THERE WERE AROUND 40,000 UK ADVISERS IN 2011; TODAY LESS THAN 30,000"

## WHAT'S VALUE?

Professional fund investors are all too aware of the challenges of securing value for their investors, a culmination of selecting the right fund and accessing it at the right price. That's a balance rather than binary question, which comes down to knowledge of the fund, the marketplace and investor needs.

Investment consultants came under criticism on just this point; in the UK now subject to a fairly intrusive Competition and Markets Authority investigation, whilst many fund buyers feel a broader pressure to race to the bottom to buy index funds rather than the more arduous task of arguing for value further up the fee scale to their investment committees.

All the while independent governance types are challenging cost on a level never previously seen. Academics and SPIVA reports sledgehammer the industry that 'outperformance persists but not continuously so' and this drives a friction between activist groups like the Transparency Task Force (I am a member), pro index evidence-based investors, pro active professional fund investors, unregulated consultants, research agencies, scheme trustees and fund managers alike. Messy.

Brexit could change things, but for now all RDR eyes remain on this first mover market to gauge the impact on fund selectors. ■

## SWITZERLAND ALPHA 3-YEAR

| Fund | Alpha over 36 months v. sector |
|---|---|
| Natixis H2O Allegro H R C USD in EU | 34.70 |
| LLB Swiss Precious Capital Gbl Min & Metals 1 CHF GTR in EU | 34.62 |
| Baker Steel Precious Metals A2 EUR in EU | 29.52 |
| Multipartner SICAV Konwave Gold Equity B USD in EU | 19.47 |
| Polar Capital UK Absolute Equity R GBP in EU | 18.79 |
| iShares STOXX Europe 600 Basic Res UCITS ETF (DE) TR in EU | 18.78 |
| Old Mutual UK Smaller Companies Focus A Inc GBP TR in EU | 18.14 |
| Dolefin Rare Earth Elements CHF in EU | 18.08 |
| VanEck Vectors Junior Gold Miners UCITS ETF A in EU | 17.74 |

## SWITZERLAND BETA 3-YEAR

| Fund | Beta over 36 months v. sector |
|---|---|
| ComStage Commerzbank Bund-Fut Dbl Sht TR UCITS ETF | -2.55 |
| Lyxor UCITS ETF DAILY SHORTDAX X2 C EUR in EU | -2.23 |
| Amundi ETF Short Govt Bond EuroMTS Broad Inv Gr 10-15 | -1.95 |
| Lyxor UCITS ETF Daily Double Short SMI C CHF in EU | -1.79 |
| ComStage Commerzbank Bund-Fut Short TR UCITS ETF | -1.27 |
| Amundi ETF Short Govt Bond EuroMTS Broad Inv Gr | -1.25 |
| Xtrackers II Eurozone Gov Bd Sht Dly Swap UCITS ETF 1C | -1.23 |
| Xtrackers ShortDAX Daily Swap UCITS ETF 1C EUR in EU | -1.11 |
| Xtrackers EURO Stoxx 50 Short Daily Swap UCITS ETF 1C | -1.07 |

## SWITZERLAND CROWN + PERFORMANCE

| Fund | Crown rating | 36 months |
|---|---|---|
| LLB Swiss Precious Capital Gbl Min & Metals 1 CHF GTR | x5 | 85.93 |
| Baker Steel Precious Metals A2 EUR in EU | x5 | 79.85 |
| Polar Capital Global Technology USD in EU | x5 | 78.20 |
| Parvest Equity Japan Small Cap Classic Cap JPY in EU | x5 | 66.44 |
| UBS (Lux) Investment SICAV China A Opp P Acc in EU | x5 | 65.71 |
| PineBridge Japan Small Cap Equity Cl Y USD in EU | x5 | 65.50 |
| Old Mutual UK Sm Cos Focus A Inc GBP TR in EU | x5 | 63.38 |
| Morg Stnly Global Opportunity C USD in EU | x5 | 59.57 |
| Sarasin SaraSelect P Dist CHF GTR in EU | x5 | 57.80 |

## SWITZERLAND PERF/TER 3-YEAR

| Fund | Cumulative | TER |
|---|---|---|
| BlackRock SF Eur Opps Ext E2 EUR in EU | 37.84 | 8.38 |
| IFM AG Cat Gryphon USD in EU | 8.97 | 7.59 |
| Edmond de Rothschild EDRF Global Value R | 3.06 | 6.85 |
| Edmond de Rothschild EDRF Prem Brands R | 8.69 | 6.73 |
| IFM AG Steadfast Investment in EU | -3.45 | 6.39 |
| Man AHL Trend Alternative DNY Acc USD in EU | -4.85 | 6.07 |
| BlackRock SF European Diversified Eq AR E2 | -11.74 | 5.86 |
| Swisscanto (CH) Alt Divsfd B USD GTR in EU | -15.87 | 5.61 |
| IFM AG CATAM Alternative Investment | -4.17 | 5.28 |

## SWITZERLAND SHARPE 3-YEAR

| Fund | Sharpe |
|---|---|
| CS GALLUS Aktien Schweiz Small & Mid Cap IB GTR in EU | 1.17 |
| Sarasin SaraSelect P Dist CHF GTR in EU | 1.15 |
| Charlemagne Magna New Frontiers N EUR in EU | 0.96 |
| AXA Swiss Institutional Eq SwitzSmall & Mid Caps C2 | 0.93 |
| Old Mutual UK Sm Cos Focus A Inc GBP TR in EU | 0.92 |
| Polar Capital UK Absolute Equity R GBP in EU | 0.91 |
| Parvest Equity Japan Small Cap Classic Cap JPY in EU | 0.90 |
| Polar Capital Global Technology USD in EU | 0.89 |
| H&A Aktien Small Cap EMU B in EU | 0.87 |

## SWITZERLAND INFORMATION RATIO 3-YEAR

| Fund | Ratio rel vs sector |
|---|---|
| Old Mutual UK Smaller Companies Focus A Inc GBP TR in EU | 1.89 |
| SEB 2 Eastern Europe Small Cap C EUR in EU | 1.83 |
| LFIS Vision Premia Opportunities IS in EU | 1.75 |
| Nomura India Equity A EUR in EU | 1.72 |
| Barings European High Yield Bond Tranche E Acc EUR in EU | 1.65 |
| Deka Wandelanleihen CF NAV TR in EU | 1.47 |
| Morg Stnly Global Opportunity C USD in EU | 1.46 |
| Schroder ISF Asian Opportunities A Acc NAV USD in EU | 1.45 |
| Polar Capital UK Absolute Equity R GBP in EU | 1.43 |

Source for all charts FE Analytics, bid-bid, to 11/5/2018.
All figures in % and are gross return rebased in euros

## SWITZERLAND PERF/VOLATILITY 3-YEAR

| Fund | Cumulative | Annualised |
|---|---|---|
| Fidelity FAST Europe E Acc EUR in EU | -4.72 | 43.56 |
| LLB Swiss Precious Capital Gbl Min & Metals 1 | 85.93 | 38.37 |
| Multipartner SICAV Konwave Gold Eq B USD | 31.79 | 37.35 |
| ETFS Swiss Franc Dly Hedged Nat Gas in EU | -66.45 | 37.33 |
| Universal Invt Earth Gold UI R EUR TR in EU | 23.37 | 37.18 |
| ComStage NYSE Arca Gold BUGS UCITS ETF | -4.11 | 37.15 |
| VanEck Vectors Jr Gold Miners UCITS ETF A | 28.61 | 37.12 |
| Dolefin Metals Exploration CHF in EU | 11.46 | 36.76 |
| Lyxor Ucits ETF Dly SHORTDAX X2 C EUR in EU | -44.78 | 36.24 |

## SWITZERLAND FIXED INTEREST 3-YEAR

| Fund | 36 months cumulative |
|---|---|
| CPR Credixx Global High Yield P EUR in EU | 23.47 |
| BlueBay Financial Capital Bond R USD in EU | 23.37 |
| Edmond de Rothschild EDRF Emerging Credit A USD in EU | 20.11 |
| HSBC GIF Brazil Bond AD NAV USD TR in EU | 18.53 |
| Value Partners Gtr China HYI P MDisUSD TR in EU | 18.37 |
| ComStage Commerzbank Bund-Fut Lvgd TR UCITS ETF | 17.98 |
| Algebris Financial Credit R Acc EUR in EU | 17.83 |
| Aberdeen Global Frontier Markets Bd X Acc USD TR in EU | 17.63 |
| Deka Wandelanleihen CF NAV TR in EU | 16.86 |

## GROSS RETURNS ON FUNDS FOR SALE IN SWITZERLAND REBASED IN EUROS

| Fund | 1m | 3m | 6m | 1yr | 3yr | 5yr | 10yr |
|---|---|---|---|---|---|---|---|
| LLB Swiss Precious Capital Global Mining & Metals 1 CHF GTR in EU | 5.59 | 11.61 | 4.03 | -6.10 | 85.93 | 64.10 | 1.78 |
| Baker Steel Precious Metals A2 EUR in EU | 6.43 | 8.01 | 0.10 | -5.71 | 79.85 | 77.70 | |
| Polar Capital Global Technology USD in EU | 11.50 | 17.06 | 10.68 | 23.47 | 78.20 | 187.75 | 384.92 |
| Natixis H2O Allegro H R C USD in EU | 13.22 | 21.49 | 17.64 | 27.94 | 72.21 | | |
| BlackRock GF World Technology A2 USD in EU | 9.37 | 17.11 | 11.74 | 28.96 | 69.57 | 164.95 | 264.27 |
| Invesco Nippon Small/Mid Cap Equity A JPY in EU | 2.60 | 7.60 | 7.05 | 27.63 | 68.90 | 92.39 | 162.35 |
| JPM US Technology A Dis USD TR in EU | 10.01 | 17.77 | 13.04 | 28.61 | 68.08 | 173.55 | 315.29 |
| Parvest Equity Japan Small Cap Classic Cap JPY in EU | 3.94 | 7.22 | 3.98 | 17.99 | 66.44 | 114.30 | 259.81 |
| UBS (Lux) Investment SICAV China A Opportunity P Acc in EU | 3.91 | 2.77 | 3.98 | 38.59 | 65.71 | | |
| CS GALLUS Aktien Schweiz Small & Mid Cap IB GTR in EU | 5.91 | 5.02 | 6.66 | 7.94 | 65.61 | 205.60 | |
| PineBridge Japan Small Cap Equity Cl Y USD in EU | 3.90 | 6.33 | 9.96 | 27.15 | 65.50 | 142.65 | 287.96 |
| iShares TecDAX UCITS ETF (DE) in EU | 8.43 | 13.78 | 11.28 | 28.88 | 64.08 | 184.51 | 215.69 |
| Old Mutual UK Smaller Companies Focus A Inc GBP TR in EU | 3.22 | 5.93 | 1.40 | 10.76 | 63.38 | 163.95 | 344.55 |
| Franklin Technology A Acc USD in EU | 10.27 | 15.99 | 10.38 | 22.26 | 62.43 | 167.62 | 347.20 |
| UBS (Lux) Equity Global Multi Tech (USD) P Acc in EU | 8.28 | 12.25 | 6.47 | 17.75 | 61.56 | 143.52 | 224.34 |
| Janus Henderson Global Technology A Acc USD in EU | 8.77 | 14.64 | 8.96 | 20.10 | 61.28 | 148.87 | 294.29 |
| AXA Framlington Global Technology R Acc in EU | 11.25 | 19.12 | 11.83 | 21.89 | 61.26 | 171.41 | 374.98 |
| SPARX Japan Smaller Companies A Inst JPY in EU | 4.61 | 8.82 | 14.13 | 34.81 | 60.98 | 126.38 | 267.68 |
| Morg Stnly Global Opportunity C USD in EU | 9.56 | 13.82 | 11.75 | 22.25 | 59.57 | 187.79 | |
| Source Technology S&P US Select USD in EU | 10.97 | 13.69 | 8.71 | 16.68 | 58.73 | 155.84 | |

## All that shines

Switzerland has long been known for a connection to gold as an investment, and it is therefore interesting to note the ability of funds available to local investors to not only take advantage of rising precious metals prices, but also add value as active managers – as noted by alpha and Crown Ratings scores, which provide an indication of the ability over time to add to risk adjusted returns.

Of course, exposure to commodities, including precious metals, has not been without volatility over the period, as the data also suggests.

Other asset classes of note include Japanese and UK smaller companies, which have performed positively over three, five and 10 years. Technology is another important sector that has provided stronger returns over both the shorter and longer periods.

In the area of fixed income, the data lends support to those who argue for global and/or emerging market exposure. Funds focused on assets such as Brazilian and Chinese bonds are visible in the performance list.

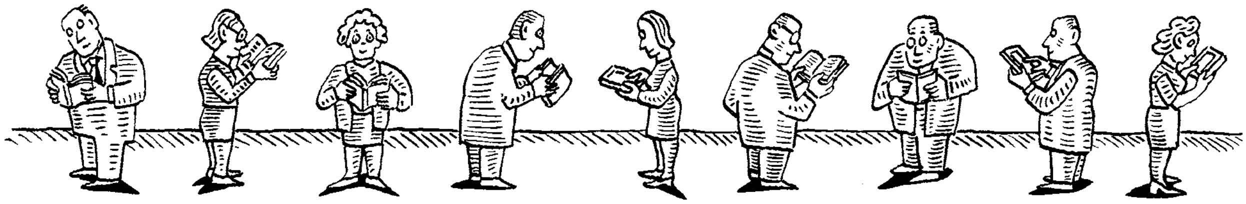
Swiss exposure works too, as illustrated by the Sharpe scores, which also highlight that investors would have benefitted by looking to boutiques and bigger managers alike. ■

# World 50 funds

## Having been on a strong run since September 2017, there would be expectations of stronger returns from a leveraged approach to Korea's Kosdaq index; rising oil prices support the long approach of commodities funds

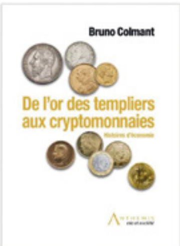
| NAME | LIPPER GLOBAL SECTOR | % GR 1YR 30/04/17 TO 30/04/18 | SHARPE RATIO 1YR 30/04/17 TO 30/04/18 | FUND VALUE (€M) | FUND MGT CO | DOMICILE |
|---|---|---|---|---|---|---|
| 1. iPath Exchange Traded Notes Gbl Carbon;A | Commodity Energy | 206.99 | 1.21 | 15.73 | Barclays Bank PLC | USA |
| 2. Vestas Investment Specialist Prv Real Est11 | Undisclosed | 153.58 | 0.42 | 22.04 | Vestas Investment Mgmt | RoK |
| 3. Samsung KODEX KOSDAQ150 Leverage ETF | Unclassified | 139.07 | 0.52 | 1189.06 | Samsung AMC | RoK |
| 4. Mirae Asset TIGER KOSDAQ150 Lvg ETF | Unclassified | 137.26 | 0.52 | 112.6 | Mirae Asset Global Inv | RoK |
| 5. Samsung KOSDAQ150 1.5 Lvg Deriv Cls A | Unclassified | 93.86 | 0.53 | 105.74 | Samsung AMC | RoK |
| 6. UBS E-TRACS ProShares Dly 3x L Crude ETN | Unclassified | 88.2 | 0.37 | 11.42 | UBS Asset Management (Americas) Inc | USA |
| 7. ProShares UltraPro 3x Crude Oil ETF | Alternative Other | 86.54 | 0.37 | 13.49 | ProShare Advisors LLC | USA |
| 8. AfricaRhodium ETF | Commodity Precious Metals | 83.28 | 0.46 | 32.26 | Africa ETF Issuer RF Ltd | RSA |
| 9. Mirae Asset Korea Health Care Eq1 Class A | Equity Korea | 80.71 | 0.67 | 20.86 | Mirae Asset Global Inv | RoK |
| 10. VelocityShares 3x Lng Crude Oil ETN | Unclassified | 80.21 | 0.34 | 101.47 | Credit Suisse AG | USA |
| 11. VelocityShares 3x Long Crude Oil ETN | Unclassified | 79.94 | 0.33 | 137.48 | Citigroup Global Markets Inc | USA |
| 12. db Physical Rhodium ETC USD | Commodity Precious Metals | 79.85 | 0.64 | 41.4 | Deutsche Bank AG (London) | Jer |
| 13. Boost WTI Oil 3x Leverage Daily GBP | Unclassified | 79.78 | 0.34 | 81.48 | Boost Mgmnt (Jer) Ltd | Ire |
| 14. Mirae Asset TIGER Health Care ETF | Equity Korea | 78.79 | 0.61 | 137.4 | Mirae Asset Global Inv | RoK |
| 15. Mirae Asset TIGER KOSDAQ150 Biotech ETF | Equity Korea | 78.03 | 0.53 | 11.65 | Mirae Asset Global Inv | RoK |
| 16. ETFS Daily Leveraged Cocoa | Unclassified | 77.73 | 0.37 | 9.72 | ETFS Commodities Sec Ltd | Jer |
| 17. ETFS Leveraged Brent Crude | Unclassified | 76.29 | 0.52 | 6.08 | ETFS Mgt Co (Jy) Ltd | Jer |
| 18. Commodity Capital - Global Mining Fund P | Eq Sector Gold&Prec Metals | 76.09 | 0.57 | 14.92 | von der Heydt | Lux |
| 19. SAMSUNG KODEX Healthcare ETF | Equity Korea | 74.78 | 0.58 | 13.46 | Samsung AMC | RoK |
| 20. Five Star Focus Fund | Mixed Asset EUR Flex - Gbl | 74.16 | 0.43 | 12.77 | Ahead Wealth Solutions | Lie |
| 21. IGIS Asset Private Placement Real Estate 59 | Undisclosed | 70.43 | 0.31 | 39.77 | IGIS Asset Management | RoK |
| 22. Samsung KODEX BIO ETF | Equity Korea | 69.32 | 0.58 | 9.53 | Samsung AMC | RoK |
| 23. Horizons Marijuana Life Sciences Index ETF | Equity Sector Healthcare | 65.93 | 0.3 | 441.58 | Horizons ETFs Mgt Inc. | Can |
| 24. Rakuten Japanese Equity 4.3x Bull | Unclassified | 65.45 | 0.32 | 262.64 | Rakuten Investment | Jap |
| 25. ETFS Leveraged Petroleum | Unclassified | 65.19 | 0.51 | 6.09 | ETFS Commodities Sec Ltd | Jer |
| 26. MYAM Small Equity Fund | Equity Japan Sm&Mid Cap | 62.63 | 0.7 | 208.69 | MYAM | Jap |
| 27. ETFS Leveraged Nickel | Unclassified | 61.68 | 0.25 | 8.07 | ETFS Commodities Sec Ltd | Jer |
| 28. Nikko Growing Venture Fund | Equity Japan Sm&Mid Cap | 61.18 | 0.69 | 273.63 | Nikko AM | Jap |
| 29. SBI Small Capital Growth Equity Fund | Equity Japan Sm&Mid Cap | 59 | 0.72 | 206.5 | SBI AM | Jap |
| 30. Boost FTSE MIB 3x Leverage Daily | Unclassified | 56.67 | 0.34 | 41.49 | Boost Mgmnt (Jer) Ltd | Ire |
| 31. Mirae Asset TIGER Kosdag 150 ETF | Equity Korea | 56.63 | 0.55 | 441.03 | Mirae Asset Global Inv | RoK |
| 32. Samsung KODEX Kosdag 150 ETF | Equity Korea | 56.56 | 0.55 | 789.74 | Samsung AMC | RoK |
| 33. ProShares Ultra Bloomberg Crude Oil | Commodity Other | 56.46 | 0.42 | 354.58 | ProShare Advisors LLC | USA |
| 34. SBI Japan Equity 3.7 Bull | Unclassified | 56.06 | 0.34 | 89.69 | SBI AM | Jap |
| 35. ETFS 3x Daily Long FTSE MIB | Unclassified | 55.88 | 0.33 | 13.3 | ETFS Mgt Co (Jy) Ltd | Jer |
| 36. KB KBSTAR Healthcare ETF | Equity Korea | 55 | 0.53 | 9.11 | KB AM | RoK |
| 37. ETFS Leveraged WTI Crude Oil | Unclassified | 54.89 | 0.41 | 57.57 | ETFS Commodities Sec Ltd | Jer |
| 38. KB Star KOSDAQ150 Index DerivClass A | Alternative Other | 54.05 | 0.56 | 161.03 | KB AM | RoK |
| 39. ARK Web x.0 ETF | Equity Sector IT | 53.36 | 0.79 | 384.29 | ARK Investment Management LLC | USA |
| 40. Allan Gray Africa Equity Limited A | Equity South Africa | 51.52 | 0.93 | 254.43 | Allan Gray Inter Ltd | Ber |
| 41. Daiwa Women Activity Support Fund | Equity Japan | 49.84 | 1.21 | 212.11 | Daiwa AM | Jap |
| 42. Direxion Daily FTSE China Bull 3x Shares | Unclassified | 49.73 | 0.23 | 260.72 | Rafferty Asset Management LLC | USA |
| 43. Direxion Daily MSCI South Korea Bull 3X Sh | Unclassified | 49.06 | 0.29 | 16.88 | Rafferty Asset Management LLC | USA |
| 44. Allan Gray Africa ex-SA Equity Limited A | Equity EM Other | 48.83 | 0.82 | 47.84 | Allan Gray Inter Ltd | Ber |
| 45. VanEck Vectors Rare Earth/Strat Met ETF | Equity Sector Materials | 47.63 | 0.57 | 182.5 | Van Eck Associates Corporation | USA |
| 46. XIE Shares Chimerica FTSE N ShDly (2x) Lvg | Unclassified | 46.53 | 0.39 | 8.97 | EIP Limited | HK |
| 47. SMP VolCtrGbEq I GBP | Alternative Multi Strategies | 44.85 | 0.36 | 266.15 | Schroder Invstmt Mgt Lts | Lux |
| 48. Rakuten Japan Equity Triple Bull | Unclassified | 44.57 | 0.37 | 118.93 | Rakuten Investment | Jap |
| 49. Daiwa Bull 3x Japanese Equity Portfolio IV | Unclassified | 44.18 | 0.36 | 622.7 | Daiwa AM | Jap |
| 50. Direxion Semiconductor Bull 3X Shares | Unclassified | 43.84 | 0.23 | 630.36 | Rafferty Asset Management LLC | USA |

**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.**



Bruno Colmant, head of Macro Research at Belgian firm Degroof Petercam, has published *De l'or des templiers aux cryptomonnaies*, a history of the global economy through the prism of money. Adrien Paredes-Vanheule has perused the book

# Gods, ancient and modern: A brief history of money




***Title:*** *De l'or des templiers aux cryptomonnaies, histoires d'économie*
***Publisher:*** *Anthemis*
***Language:*** *French*
***ISBN:*** *978-2-8072-0392-1*
***Price:*** *€29*

A prolific author, Bruno Colmant has written or co-written some 70 books. Degroof Petercam's macro research chief, who is also a member of the Royal Academy of Belgium, has chosen in his latest tome released in March 2018 – *De l'or des templiers aux cryptomonnaies* – to explore the history of money, a field he excels at, to question a larger one, that of the global economy.

It is not the first time Colmant has broached the subject as he has focused on the origins of money in previous works such as *Voyage au bout d'une nuit monétaire*.

Colmant's latest work constitutes a voyage through a series of anecdotes blending money and macroeconomics through the centuries, split across some 50 brief chapters.

*De l'or des templiers aux cryptomonnaies* describes how states, organisations, religion, economic crises and historical events have shaped money.

Throughout the book, Colmant emphasises the idea that convention is key to the history of money. This is particularly true when it comes to the value users consent to give to coins and notes, as well as the trust put in governments and institutions to achieve the creation of money and manage the flows deriving from it.

As money by itself is not worth anything, it has to find a referent that can enable a high trust relationship in its valuation. That explains why states, being a superior moral authority, have cornered the creation of money. Sometimes even gods were used to add an extra layer of trust, pinpoints Colmant.

"Currencies resemble gods. They only exist as long as they have followers," he postulates, further recalling in the book the difficult relationship between money-related activities (taxes, loan interest rates, etc) and the religious sphere.

## DAYS NUMBERED FOR THE EURO?

The number of followers of the euro may shrink over time. Discussing the currency, Colmant points out monetary harmonisation policies have been numerous in Europe over recent centuries. However, said monetary unions have failed plenty of times because of the heterogeneity of their components, he observes, referring to the Latin Monetary Union of 1865 and to the 1933 Gold Bloc. In contrast to the euro, both were pegged to the value of precious metals.

In Colmant's view, the euro carries an even bigger danger than the two previous unions as it has become a gold standard system but without the gold. The euro stands as a standard by itself and cannot be devalued as was possible in the former unique currency mechanisms.

Hence the euro is not appropriate to southern European countries, which are stuck with it; Colmant notes that devaluation can now only come from countries internally, through a drop in consumption leading to recession.

"The euro has perhaps become a political headlong rush against an economic heterogeneity", underlines Colmant for whom "only money creation and quantitative easing policies will save the euro, at least on a temporary basis."

Degroof Petercam's macro research chief suggests that days are numbered for the euro and that another attempt to form a monetary union may occur in 2069, as he notes the last three attempts were separated from each other by a period of 68 years.

COLMANT VIEWS BITCOIN AS A COLLECTIVE HYSTERIA LINKED TO A SPECULATIVE BUBBLE

## ELECTRONICA

The last part of his book gives a Colmant's reflections on the advent of electronic money. Cryptocurrencies mark a digital revolution that must be considered seriously, he says.

Colmant views bitcoin as a collective hysteria linked to a speculative bubble. But he suggests that if nation states cannot act on bitcoin trading it could lead to an Orwellian scenario in which banks are taken over to facilitate the handling and pacing of money flows – by creating their own state cryptocurrencies, which would be trackable and the stock of which would be directly controlled.

Despite one or two anecdotes that seem of minor interest with regards to the history of money and that of the global economy, Colmant's book provides keys to understanding the mechanisms of money and its place in society through centuries.

Worth the money. ■

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

# Congratulations

PICTET
Asset Management

1805

HIGHLY RATED PROVIDER

SharingAlpha

**Awarded by SharingAlpha's community of professional fund buyers**

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