INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

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THE RIGHT STUFF?

Madalena Teixeira of ASK Wealth Management on commodities and the 'Supercycle'

Servicing evolution

CEO Fiona Frick outlines Unigestion's client servicing focus

Into the void

Carmignac's next steps as founder steps back

Access all areas

Malta's positioning as a gateway to the EU

A time of consolidation

Spain's great bank cull

Business development

Legg Mason going deeper and broader in Europe

Breaking Brexit

Some latest views

SharingAlpha

Exclusive podcast

Travel diary

Milan, Paris, Brussels & Luxembourg

EVENT REPORTS

- MILAN FORUM
- TEL AVIV FORUM
- STOCKHOLM FORUM

CONTENTS

COVER STORY

10 The right stuff?

COUNTRY FOCUS

16 Germany Stuttgart leads property charge

17 Malta Financial gateway to the European Union

18 Spain Banking sector braced for wave of consolidation

19 France Edouard Carmignac steps back

22 Switzerland Unigestion outlines its future

EVENTS

26 Milan Forum

28 Tel Aviv Forum

30 Stockholm Forum

10 *Madalena Teixeira*

19 *Edouard Carmignac*

24 *Justin Eede*

REGULARS

2 Leader
The stuff that dreams are made of

20 Brexit analysis
On the precipice

24 Business development
Legg Mason's broader and deeper European presence

35 SharingAlpha
Speaking out

37 Observations
Introducing the new breed of fund selector

38 Data
Italy and the World 50

40 Research
Report: Challenges affecting asset managers' communications

COMMUNITY

4 Fund selectors in the news
Mia Söderberg, Nykredit Asset Management; Thomas Metzger, Bankhaus Bauer; Beatriz Hernández, atl Capital; Patrick Wittek, Fonds Laden; César Ozaeta, Abante Asesores; Stefan Ferstl, Ariqon Asset Management; Rui Castro Pacheco, Banco Best

6 People & Funds
Bright ideas coming to market

14 Allocator profile
ASK's **Madalena Teixeira** warns that interest rate dispersion might affect emerging markets and developed economies alike

23 Travel diary

32 Upcoming events

36 Editorial board
Downside risks, liquid alternatives and China

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INVESTMENT EUROPE

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The stuff that dreams are made of

Jonathan Boyd, editorial director of *InvestmentEurope*

Commodities, like other asset classes, are not homogeneous. Considering the range of 'stuff' that gets dug, drilled or grown out of the ground, there is an equally diverse range of uses for these, which has a bearing on the demand side.

Of course, key commodities indices have fallen over the past year, and are under additional pressure because of factors linked to macro developments. Concerns about global growth and a possible recession by 2020 is one.

The trade conflict between China and the US is another, as is China's own domestic growth rate, while the price of the dollar itself is hostage to speculation about what the US Federal Reserve may do next – critical given the dollar's role in pricing commodities.

It is easy to understand why investors may want to follow an index like the Baltic Dry for a proxy indication of supply and demand for commodities being shipped globally.

However, as noted in this issue's cover feature, at the micro level, and for those taking a bottom up view, there may still be opportunity available amidst what is seen as value created by fallen commodity equities: people still need to eat and heat their homes, for example.

And even at the macro level, there are views that prices may find support. The US move to limit exports of Iranian oil coupled with US shale producers focusing on profit margins rather than hiking output are cited as reasons why the oil price may be stable or increase this year.

Another question in this is the degree to which the so-called supercycle has disappeared. This is generally accepted as being the case, particularly as it is not clear from where demand may arise to replace that being shed from China.

That said, those looking at commodities still see reasons to consider the diversification and hedging opportunities available, including if the expectations of recession tip into actual recession by next year. ■

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UPCOMING EVENTS

InvestmentEurope will host the Pan-European Sub-Advisory Summit in London on 27-28 February, as the first of its Pan-European events this year, to highlight opportunities in the sub-advised market. It is a programme bursting with ideas and if you are already in or thinking about doing more in the sub-advised space, this is the event for you.

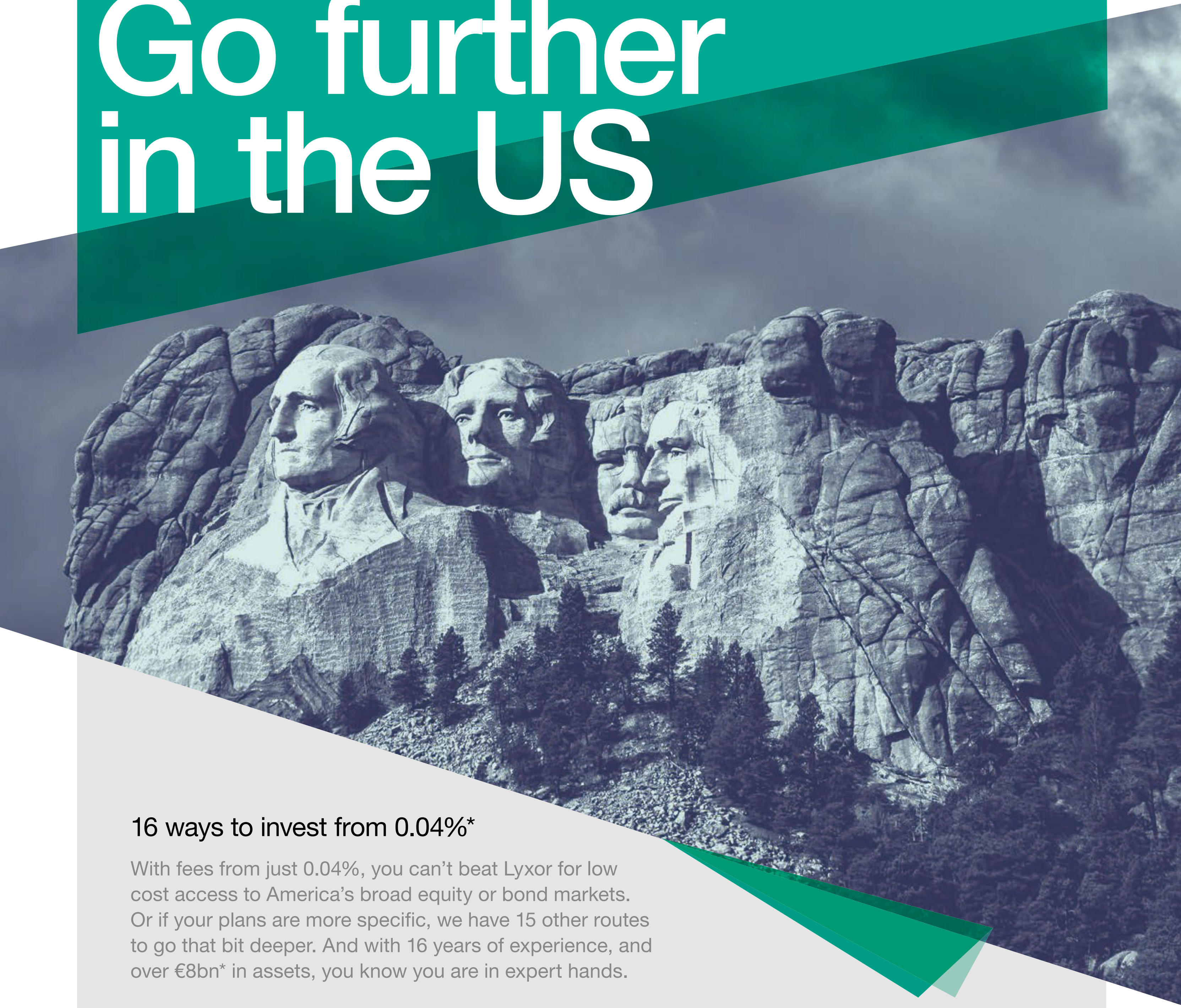
March sees a return to Italy for the Milan Forum 2019 (8th), before the Nordic Summit Stockholm 2019 (12th-13th) in the Swedish capital.

Also taking place in March is the Frabelux Forum 2019 (20th) in Paris – see our Travel Diary page for updates around the visits made to Milan, Paris, Brussels and Luxembourg recently.

Later in the spring we will host fund selectors at the Iberia Summit Barcelona 2019, taking place 30-31 May, for fund selectors operating in both Spain and Portugal.

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

Go further in the US



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Source: Lyxor International Asset Management. Data as of August, 2018.

Fund selectors in the news

Investors give their views on global growth, Brexit, commodities and other issues

www.nykredit.dk

Name: Mia Söderberg
Title: Senior portfolio manager, Alternative Investments and Manager Selection
Company: Nykredit Asset Management
Location: Copenhagen

Are IMF predictions of slower global growth factoring into your selection decisions?

At Nykredit we have a long term view on our selections and searches. The strategies we select are managed to work in various market conditions over a long horizon. Within AIMS (Alternative Investments and Manager Selection), we do not take any allocation considerations. We have a dedicated and talented asset allocation team who cover all the allocation decisions within Nykredit Asset Management.

The IMF predictions of slower global growth do not factor directly into our selection decisions but various market conditions can technically result in requests of specific strategies in corporation with the asset allocation team to tackle new uncovered market conditions.

www.bankhausbauer.de

Name: Thomas Metzger
Title: Head of Asset Management
Company: Bankhaus Bauer
Location: Stuttgart

Do you see investment opportunities arising from Brexit?

The UK economy has not plummeted into recession, contrary to forecasts made during the referendum campaign. The devaluation of the pound, low interest rates and a well-performing global economy have eased the Brexit burden. However, the UK has not been able to compete with the growth of many developed countries in recent years.

Overall, the UK economy, with its long-lasting upswing and record-high employment, is currently in good shape. However, the full effects of a loss of momentum due to the impending Brexit have yet to be felt.

www.atlcapital.es

Name: Beatriz Hernández
Title: Funds analyst
Company: atl Capital
Location: Madrid

Do you feel that the supercycle in commodities is coming to an end?

The fact is that every type of commodity finds itself at a different stage of the economic cycle. Some like aluminium or platinum were recently under some stress, but on the other hand, palladium and rhodium are at their maximum levels.

It is clear that most of them are fundamentally undervalued.

At atl Capital we have a fairly constructive outlook with regards to this asset class but we are aware that although some commodities like oil or copper were waking up to a recovery, they are more sensitive to an economic backdrop of global markets.

www.fonds-laden.de

Name: Patrick Wittek
Title: Branch manager
Company: Fonds Laden
Location: Munich

What type of funds do you allocate to your portfolios?

Very often, we allocate absolute return funds in the portfolios from our clients. In comparison to traditional asset classes, absolute return funds have good characteristics for diversification and correlation and they are good stabilisers.

We use exclusively Ucits funds with daily or weekly liquidity.

Most offshore funds are problematic when it comes to implementing shares in the accounts from our partner banks in Germany and we cannot integrate these funds in our client reports.

www.abanteasesores.com

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

Why do you think investors' appetite for AR strategies remains high despite poor performance?

We normally favour long short strategies over CTAs, even more if these are sectorial.

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

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

www.ariqon.com

Name: Stefan Ferstl
Title: Member of board
Company: Ariqon Asset Management
Location: Vienna

What is your selector process for finding new funds for potential investments?

Overall the selection process at the asset manager starts with screenings of peer groups in the Morningstar database according to an in-house model, which looks also at shorter periods such as two, three, six and 12 months. The model also considers returns and volatility.

From there, Ariqon AM moves to qualitative screening of people, process, positioning and other elements. Telephone calls and meetings with fund managers and product specialists form part of this approach.

Following the quantitative and qualitative screenings, the selection process then moves on to further checks on eligibility within Austria, Ucits status, liquidity and tax status among other factors. Funds are also checked for suitability within the Fofs. Thereafter, the candidate funds are looked at in context of existing portfolios.

www.bancobest.pt

Name: Rui Castro Pacheco
Title: Deputy head of Investment and head of Asset Allocation
Company: Banco Best
Location: Lisbon

What type of strategies are you looking at now?

During the past years, investors have particularly struggled when looking for conservative investment solutions given the lack of returns offered by fixed income.

Investors who used to have fixed income products in their portfolios, are the ones struggling more now. As they are not used to having capital at risk, we need to continue looking for solutions that can protect capital from heavy drawdowns while providing some income.

People moves around the industry

MAXIMILIAN MOLDASCHL

BNPP AM appoints senior multi asset strategist

BNP Paribas Asset Management (BNPP AM) has appointed Maximilian Moldaschl as senior multi asset strategist to the Research & Strategy team within its Multi Asset, Quantitative & Solutions (MAQS) investment group.

Based in London, Moldaschl reports to Guillermo Felices, head of Research & Strategy within MAQS. He joined in September 2018 and is responsible for overseeing multi asset publications and communications, as well as for contributing to enhance the quality of cross-asset strategy and thematic research, and integrating fundamental, technical and quantitative research into the decision making process.

He joined BNPP AM from Citigroup Global Markets in London, where he worked for nine years, most recently as director, Global Macro Strategy & Asset Allocation, where some of his responsibilities included cross-asset market research, identifying trade ideas, asset allocation and portfolio modelling.

EDITH SIERMANN

NNIP appoints head of Fixed Income Solutions & Responsible Investing

NN Investment Partners (NNIP) has appointed Edith Siermann (pictured) as head of Fixed Income Solutions & Responsible Investing, as of 14 January 2019.

She joined the management team investments and added additional focus on responsible investing within Fixed Income. She drives Responsible Investment (RI) developments in the Fixed Income domain, whereas Jeroen Bos, head of Specialised Equity & RI, will continue this activity within the Equity domain.

Based in The Hague, she reports to Valentijn van Nieuwenhuijzen, chief investment officer. She has more than 25 years of asset management industry experience and joins from De Nederlandsche Bank, the

Dutch central bank, where she was chief investment officer.

In that role, she was responsible for managing the central bank reserves, invested in both fixed income and equities and was member of DNB's Corporate Social Responsibility committee, responsible for the integration of sustainability within the central bank's core activities.

MERRICK STYLES

Barings PM joins Schroders

Schroders has strengthened its multi-asset team with the appointment of Merrick Styles as senior portfolio manager.

Styles brings over a decade of investment expertise to the division. He will focus on Schroders' suite of Diversified Growth funds, which aim to deliver stable returns across market conditions for clients.

He will report to Johanna Kyrklund, Schroders' global head of multi-asset investments.

Stylesjoins from Barings, where he was a portfolio manager on the multi-asset team and chair of the Asset Allocation group.

Prior to Barings he spent ten years at Amundi, latterly as its co-head of Investments.

CARINA SPITZKOPF

Hermes expands global fixed income team

Hermes Investment Management has expanded its global fixed income team, with the appointment of Carina Spitzkopf as director for Private Debt.

Spitzkopf will be based in London and work across the private debt platform. The fixed income team, which covers the liquid credit, private debt and real estate debt markets, is now 27 members strong.

In her new role, Spitzkopf will help to develop Hermes' business globally within the private debt market, providing in-depth company analysis, industry due diligence reports and comprehensive financial modelling.

Before joining Hermes, Spitzkopf was a director for UBS, where she covered leverage finance risk and portfolio management of the firm's leveraged loan book in EMEA.

Prior to this, she worked across leveraged finance, credit and risk roles at Barclays, Commerzbank and Dresdner, where she developed strong experience in both execution and structuring deals.

MARCUS STORR

Feri Trust appoints head of Alternative Investments

Feri Trust GmbH has appointed Marcus Storr as head of Alternative Investments.

Since the beginning of the year, he has been responsible for the alternative investment positioning and further development of the Feri Group's range of services on the market.

Storr has been working in investment management at Feri Trust since 2005. Previously, he held a senior position in equity research for major investment banks in London.

INGO SPEICH

Union Investment fund manager joins Deka

Union Investment fund manager Ingo Speich will join Deka Investment as head of sustainability and corporate governance, effective 1 April 2019.

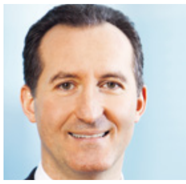
Speich will report directly to Stefan Keitel, chairman of the board management of Deka Investment.

Deka has expanded its corporate governance activities in the last two years. Speich will be responsible for expanding all of Deka Investment's sustainability activities.

Speich has worked for Union Investment for the last 14 years, where he leads the sustainability and engagement team in portfolio management.

Union Investment

A year for stock-pickers



Wassili Papas joined Union Investment in April 1996 as equity portfolio manager responsible for the European techonology sector and Mid and Small Caps

For some months now, the economic data has been hinting at a weakening of leading indicators and a gradual slowdown in economic growth. The cycle is drawing to a close and, at the same time, the trade dispute, Brexit and Italy's debt woes are adding to the risks. Moreover, a growing number of companies are lowering their forecasts for 2019. All in all, you do not need a crystal ball to know that the equity markets face a host of challenges in the year ahead.

It is just as clear that 2019 will also offer plenty of opportunities and that prices on the major stock exchanges are highly unlikely to fall through the floor. After all, most companies are still earning well and profit margins are high. However, at this late stage in the economic cycle and with interest rates going up, it is obvious that valuations will not continue to climb. Instead, share price rises will have to be backed up by profits. And there is no shortage of potential profits to be made. At a global level, profit growth of around 6% is perfectly realistic. In short, equities remain an attractive investment opportunity even in a more difficult environment.

REGIONAL AND SECTORAL DIFFERENTIATION

Nevertheless, a nuanced approach is required. Companies in Europe are capable of healthy profit increases, but the risk factors – Brexit and Italy – are particularly significant. Moreover, many European firms are very export-focused, which could weigh down their share prices. US companies are better positioned in this respect because they earn a larger share of their revenue in the domestic market and the US economy is growing at a faster rate than the European economy. The S&P 500, for example, may well break through the threshold of 2,900 points.

Even in the emerging markets, current valuation levels are attractive to long-term investors. Although China's latest quarterly reporting season was poor and the economies of the emerging markets have a difficult year behind them, there are growing signs that the worst is over. A softer US dollar and the first glimmers of economic hope will at least make investors sit up and take notice. Hence my advice to them: Do not write off the emerging markets too quickly in 2019.

In terms of the individual sectors, those that are sensitive to interest rates look particularly vulnerable. The US real estate industry, for example, seems to already be feeling the effects of the rise in yields over the past 12 months. Furthermore, the worldwide slowdown and the weakness of global trade are weighing particularly heavily on cyclical sectors. Investors need to be very vigilant in this regard.

OPPORTUNITIES FOR ACTIVE MANAGEMENT

In this complex situation, selection is crucial to active investors' success. A concentrated portfolio of carefully selected single securities can be invaluable to investors in this challenging market environment. After all, there are always individual companies that can buck the trend, even when stock markets are going through a rough patch. This plays to the strengths of stock-pickers. When selecting securities, it is essential to look at the quality of the business model, the capabilities of senior management and the valuation.

As a rule, experienced stock-pickers look for undervalued stocks, i.e. shares that are cheaper than those of similar companies in the same sector. They then analyse these companies in order to find a trigger that might push the share price higher and eliminate the undervaluation. Such triggers include faster revenue growth resulting from an innovative product, a change of management or a shift in the line of business that wins over investors.

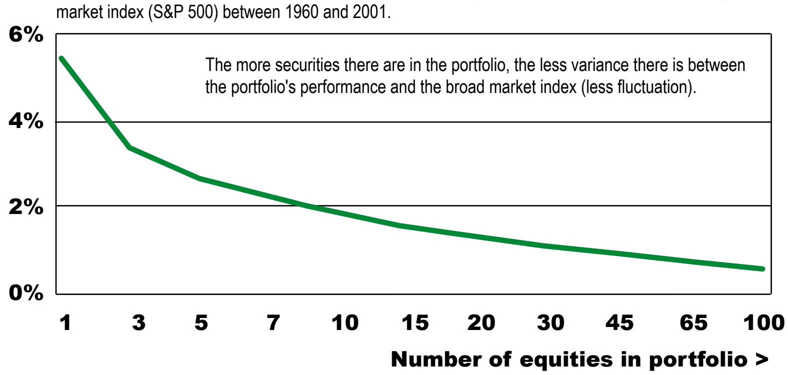
DISCIPLINED SELLING ALSO VITAL

Companies that satisfy all three investment criteria are of course rare but are much more likely to outperform the market as a whole. In any case, investors must be highly disciplined both when they are seeking out the right shares and when they come to sell them again.

Once the price of a share exceeds a predefined threshold, it must be removed from the portfolio (provided the other parameters remain unchanged). This is also an important part of successful stock-picking, even though it can sometimes be hard to do.

Dwindling advantage of diversification

Monthly difference (+/-) between the performance of the equity portfolio and that of the broad equity market index (S&P 500) between 1960 and 2001.



- The acceptance of unsystematic risk does not make any long-term contribution to the performance of a portfolio.
- Investors should therefore seek to reduce unsystematic risk by adding securities from multiple companies to the portfolio.
- A steep drop in the diversification curve: A roughly 84% reduction in unsystematic risk can be achieved from as few as 45 equities in the portfolio (compared with an investment in a single security). By way of comparison, the reduction when 100 securities are included is around 89%.

Fund watch and product launches

Bond firm SKY Harbor launches short maturity US HY fund with ESG focus

SKY Harbor Capital Management has unveiled its short maturity ESG US high yield strategy with the aim to meet the growing demand for sustainability-focused fixed income, values-based investment opportunities.

SKY Harbor Global Funds – Short Maturity Sustainable High Yield Bond fund has been constructed with a focus on current income, preservation of principal and low volatility, as well as attention to values-based ESG factors aimed at minimising environmental degradation and controversial activities, while promoting diversity, transparency and sustainability leadership. Aligned with European Sustainable Investment Forum aspirations, it excludes fossil fuels as well as munitions, tobacco, alcohol, adult entertainment and gambling sectors.

The fund is managed by SKY Harbor's head of Investing, David Kinsley, and holdings will be weighted towards companies that exhibit the highest levels of relative sustainability reporting, community engagement and disclosure of ESG indicators. Engagement will be an important theme, and SKY Harbor will seek to improve transparency and ESG-related reporting by working with high yield companies that score lower against its bespoke sustainability KPIs, explains the firm.

SKY Harbor believes this strategy also affords investors the opportunity to benefit from its long history of investing in the short end of the high yield credit curve.

The team has more than 30 years'experience in the US high yield bond market and is led by founders Hannah Strasser and Anne Yobage, who pioneered short duration investing in 1992 and became recognised leaders in the asset class while at AXA Investment Managers.

The new fund is a natural extension of SKY Harbor's short duration strategy which has been managed by Anne Yobage since 1992.

www.skyhcm.com

Investec AM targets Italian institutional investors with new fund

Investec Asset Management has launched a multi-asset credit defensive strategy for institutional investors in Italy.

Investec Multi-Asset Credit Defensive aims at meeting institutional investors' demand for benchmark and performing independent credit solutions in the current context of low interest rates.

According to Investec AM: "Our multi-asset credit approach can offer higher yield while controlling risk by diversifying across different credit segments while it can also have low interest rate risk through the use of loans and high yield bonds with low duration.

"In addition, with volatility within financial markets becoming ever more common, we believe a flexible and reactive investment strategy will be far better placed to navigate through different market conditions."

Investec Multi-Asset Credit strategy takes an unconstrained approach to investing, targeting the most efficient allocation of capital across the global credit universe.

www.investecassetmanagement.com

Vontobel launches alternative risk premia fund

Vontobel has launched an innovative alternative risk premia fund. Vontobel's Alternative Risk Premia fund targets mid-single digit compound returns over the investment cycle, with little correlation to traditional equity and bond markets.

It is the first Luxembourg domiciled multi manager fund providing easy access to alternative risk premia strategies, Vontobel says.

In the current environment, many investors struggle to generate positive returns from traditional strategies. To address this challenge, the fund invests in market-neutral strategies enjoying strong academic backing such as 'carry', 'defensive', 'momentum' and 'value'. Having preferential access to best-in-class single managers, the Vontobel team builds a portfolio to gain optimal exposure to various strategies while controlling downside risks.

"Vontobel's multi-manager approach enables our clients to gain access to a wide range of single-manager strategies at a similar cost to a single direct investment," commented Daniel Irion, portfolio manager at Vontobel Hedge Fund Solutions.

www.vontobel.com

Private Alpha launches AI funds with Universal

Swiss boutique Private Alpha AG has launched its first artificial intelligence (AI) based fund with Universal Investment.

Private Alpha AI Global Opportunity fund is a mixed fund that uses an AI algorithm to manage risk in stock picking. It is led by an algorithmic screening system that monitors 5,000 listed stocks. It also focuses on the global stock markets to identify regional market trends and to maximise equity exposure in the fund. This is achieved by using a short overlay control for negative signal constellations of the AI monitoring to reduce the market risk of the equities.

This type of combination of proven equity analysis algorithms with the latest artificial intelligence systems is the next evolutionary step in portfolio management. Alpha says.

The fund will be offered in addition to the existing Private Alpha Algorithmic Robo fund, which was launched in March 2018.

www.privatealpha.de

Goldman Sachs Asset Management

Time to partner for success

The sub-advised funds market has taken off in Europe. Fewer funds are managing more of the asset pool. We expect this growth story to continue in the future with outsourced assets forecast to surpass €1trn by 2023[1]. Here we explore some of the important points

POPULARITY IS GROWING

Sub-advisory has been around for a while but it's only in recent years that its popularity has really taken off. In the 12 months to September 2018, there was a 9.4% YoY increase in sub-advsied assets across Europe to over €550bn. We expect fewer funds to run even more money going forward.

Outsourced assets are set to grow by 16% in 2019 and 13% in 2020[2]. Over a five-year period, €300bn of new outsourced assets could be raised, or between 15% and 25% of total expected active fund inflows across the region[3].

WHERE'S DEMAND COMING FROM?

We have found that businesses that don't consider asset management a core competency are driving demand. With increased pressure to bring down costs, while generating higher returns, many insurers have sold, or are looking to sell, their asset management units and outsource these responsibilities. Global banks are deciding to focus on their core capabilities and lean into specialists to generate better investment performance. Regional banks, faced with increasing local demand but unable to meet supply for high quality investment solutions, are also following this trend.

European interest is high. The UK is the largest market in Europe and we see interesting opportunities there. We have seen impressive growth across the continent as well. Spain had a standout year in 2018 with a 25% increase in outsourced assets year-on-year (YoY). The UK, Ireland and Switzerland followed with year-on-year growth of 17%, 16.5% and 10%, respectively[4]. Other countries where we see potential opportunities include France, Denmark, Sweden and the Netherlands, as they have sizeable sub-advisory markets and we have been working with clients in these regions for some time.

CATALYSTS FOR CHANGE

We see three key catalysts: a changing regulatory backdrop, broader economic factors and the macro environment. The Markets in Financial Instruments Directive (MiFID II) is playing a leading role. MiFID II includes the banning of inducements on advice and portfolio management; higher standards on disclosure and product suitability; and better aligning portfolio management solutions to clients' needs. With it come higher costs of implementation. Getting the implementation wrong also risks reputational damage and even regulatory enforcement. As a result, businesses have been coming to us for cost-effective alternatives that could mitigate the risks of reputational and regulatory repercussions.

Economic and market dynamics are providing additional tailwinds for sub-advisory growth. Increasingly, banks, wealth managers and investment platforms are looking at their business models and asking us: "How can we get better products to clients and have the best fund managers by consolidating them?"

We believe that businesses are re-evaluating their value proposition and turning to strategic partnerships with asset managers like GSAM to meet client demand for a broader selection of solutions that have performed well and at a reasonable price.

PARTNERING FOR SUCCESS

We identify three important factors to consider as businesses look to get the most out of sub-advisory:

Focus on the business. Is the partner committed for the long-term? Are their goals aligned with yours? Client service plays a critical role in raising assets. Your partner should appreciate the importance of the client experience and support your wholesaling and marketing efforts with training and conferences. In the European market, it is important that your partner has dedicated client relationship managers with the ability to support your efforts in local languages.

Understand their offering. Markets are unpredictable. You should feel at ease with your partner's ability to generate returns and manage risk. Performance is an important selection criterion, but we are seeing more and more businesses look beyond that and assess philosophy, process and risk management frameworks to find the right fit. Consider what particular expertise you are looking for and whether your partner has the infrastructure, expertise and experience to meet your needs.

Compliance is critical. Understand that where the product being sub-advised is a fund in the business' name, the business retains responsibility as if they were managing the fund themselves. Complete a thorough risk assessment so you can rest assured your firm has a well-resourced compliance team; processes to ensure mandates are being adhered to; and policies for managing operational risk. And finally, make sure your partner's legal and compliance teams understand the regulations relevant to the product and market.

GSAM has been partnering with businesses through sub-advisory agreements since 1999 and manages over $75bn in outsourced assets[5]. Contact us at: gsam-subadv-emea@gs.com for more information.

Sources: 1. instiHub, as of January 2019; 2. instiHub, as of January 2019; 3. Impactvesting, as of September 2017; 4. instiHub, as of September 2018; 5. GSAM, as of September, 2018.

$1,311/oz Price of gold on 29 January 2019

The right stuff?

Commodities are all around, yet their ability to provide beneficial diversification to portfolios is debated, not least given performances over the past 1-3 years. Jonathan Boyd, Ridhima Sharma, Eugenia Jiménez and Elisabeth Reyes consider the arguments for a rethink by investors

Initial signs are that commodities constitute an overall asset class that has taken a beating that started well before the general market volatility seen from December 2018 on.

The Bloomberg Commodity index was down over 11% in the year to 29 January 2019. The Dow Jones Commodity index shed about 8.5% over the same period. Over five years the two indices have shed much more than that proportionately.

The question then may be whether investors are trying to "catch a falling knife" by considering commodities, or whether it should be left on the table of possible alternatives to equities and bonds.

SPYING OPPORTUNITY

NN Investment Partners is one group that sees opportunity in the latter view; stating recently that it sees investor sentiment towards commodities as set to improve – provided there is a breakthrough in the US-China trade conflict, that the dollar weakens and China increases stimulus measures.

Koen Straetmans, senior strategist Multi-Asset, says: "Provided that macro-economic data stabilise at the current level and no outright trade war develops, we project a continued recovery in sentiment towards commodities.

"This recovery is likely to be supportive of commodity prices as investor positioning towards commodities on a broad scale is still low. A sentiment reversal for the better is therefore likely to build on itself, supporting commodity prices."

Geopolitics is also cited by Fabien Weber, portfolio manager, Currencies and Commodities, GAM Investments in his view on commodities other than oil.

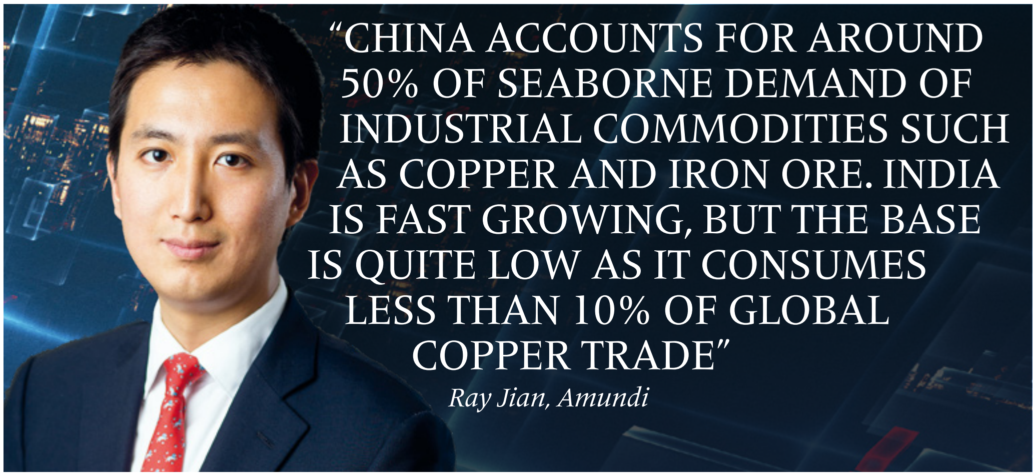
"Outside the energy sector, commodities are currently being driven by geopolitics and macro factors like the ongoing trade war between China and the US. This particularly impacts industrial and agricultural products.

"If they can resolve the situation, we believe it would be very positive for commodities and the focus would turn again to fundamentals, which for industrial metals are far less negative than what is currently priced in, especially in light of generally low inventories. Precious metals and gold in particular should also start to benefit from the perception that the US Federal Reserve is not so far from a neutral monetary policy.

"Finally," Weber adds, "the agricultural sector had a difficult 2018 due to a highly supplied market – in our view 2019 will likely not be any different and should depend very much on weather patterns."

For oil in particular the situation is different. Here supply is the issue, Weber suggests.

The introduction of sanctions against Iran by the US in November – albeit with six-month waivers issued for Turkey, China, Japan and South Korea – was followed in early December by



Opec's move to cut output – potentially firming prices.

But the risk is that "2019 could potentially be a repeat of 2014, in light of the ever increasing supply out of the US and the softening of the demand, and much depends on whether Saudi Arabia will fight market share or the price level."

THE BULL VIEW

Arguing for a more bullish sentiment on commodities is Jeremy Leach, chief executive officer at Managing Partners Group (MPG), who points to expectations of relative underperformance by equities in 2019, as investors on both sides of the Atlantic brace for a recession "increasingly expected in 2020".

MPG is calling a possible 20% price inflation in gold as investors seek to hedge against the US economy overheating, while also seeking safety against the impact on bonds of possible rate rises.

"Key drivers of an equities bear market will be Brexit uncertainty, further tightening of monetary policy on both sides of the Atlantic, political gridlock and trade tensions – all forcing equity values lower in the UK, Europe and the US.

"European equities remain overpriced and the eurozone will experience slower growth in 2019, owing to monetary-policy tightening, cessation of QE, trade frictions and the unsustainable debt dynamic in Italy and Greece."

Like Weber, Leach is among those who also see oil prices rising because of supply constraints – something that would add to global inflation.

Olivia Markham, portfolio manager of the BlackRock Commodities Income Investment trust, points to varied conditions.

On the one hand she sees supply and demand balanced in a way that should support prices. But natural resources equities are broadly pricing in a weaker price outlook compared to BlackRock's current expectations.

Like others, she refers to the risk of a global recession in the next 12-18 months, with the conflict on trade between the US and China and concerns of overly aggressive US Federal Reserve rate hikes weighing on markets generally.

"Given the natural resources sector is cyclical, a weaker global growth environment is typically a negative. However, opportunities amid uncertainty can arise, should the market have become overly pessimistic. On this point, our view remains that we are in a period of slower but positive global economic growth, rather than approaching negative growth.

"In terms of the outlook for the natural resources sector, key considerations for us include: the supply and demand balance in commodity markets, the valuation of natural resources equities, the financial position of companies (ie, balance sheet strength) and relative value versus other sectors."

For oil, Markham outlines expectations of prices returning to a range of $60-70 per barrel in 2019. One reason would be that, despite more pipelines to US shale fields for extraction, the US exploration and production (E&P) companies are more focused on shareholder returns, thus would not necessarily up output.

In mining, there has been a 66% cut to spending since 2012, meaning the balance between supply and demand is "tight".

"Our base case is therefore, barring an economic slowdown, mined commodity prices to be stable to rising through 2019. Meanwhile, we believe the shares are pricing in a materially worse commodity price environment. We see the risk-reward opportunity in mining as attractive given the improvements in balance sheets over the last 2-3 years and given many of the large diversified miners are trading on free cash flow yields of above 10%."

SUPERCYCLE... OR NOT?

Christopher Korpan, who co-manages JPMorgan Funds – Global Natural Resources Fund, considers the question of whether the supercycle in commodities is ended by looking at capital expenditure levels on both the mining and energy sectors.

"After commodity prices corrected in 2015 companies focused on restructuring, building up their balance sheets and became increasingly disciplined about their capital allocation decisions," he says.

"As a result, companies are now more focused on returning cash to shareholders. In addition, the lack of new projects being developed potentially sets the scene for a rising commodity price environment and future commodity cycles."

Looking ahead through 2019, Korpan also sees support for the oil price, based on supply changes, while for natural resources companies generally the low level of capital expenditure means supply is constrained .

"By investing across mining and energy sectors the Sicav fund remains a late-cycle play on a pick-up in inflation and rising rates," he adds.

Ray Jian, portfolio manager, head of EM Aggregate Debt at Amundi says that whether the supercycle is still going

$6.1bn Value of US wheat exports in 2017

GOLD & ETF FLOWS

The World Gold Council recently issued its predictions for 2019, which includes the following points:

- Increased market uncertainty and the expansion of protectionist economic policies will make gold increasingly attractive as a hedge;
- While gold may face headwinds from higher interest rates and US dollar strength, these effects are expected to be limited as the Fed has signalled a more neutral stance; and
- Structural economic reforms in key markets will continue to support demand for gold in jewellery, technology and as means of savings.

Looking at ETF flow data for all of 2018, the Council noted that:

- Xtrackers Physical Gold in Germany led global inflows, adding 46t ($1.9bn) and growing 295% on the year;
- iShares Gold Trust led North American inflows with 36.7 tonnes ($1.6bn, 16%);
- SPDR® Gold Shares led global outflows, losing 49.8 tonnes ($1.8bn, 5%);
- Central Fund of Canada lost 9 tonnes($890m) or 41% of its assets;
- In Asia, Chinese-listed Huaan Yiffu added 7.7 tonnes ($315m, 40%); and
- NewGold in South Africa lost 11.1 tonnes ($454m, 36%). The country's base currency fell 16%, elevating gold returns for South African investors who likely took profits following a double-digit local gain.

may depend on how it is defined, but he, personally, feels it is over.

Considering what happened over the past decade, it is possible to see the supercycle as having been driven by demand, with bottlenecks appearing for some key commodities such as iron ore and copper. Thus there are mismatches in supply/demand, but demand will not longer be what it was during the supercycle.

Taking China as an example, demand there was ramped up by putting debt on both corporate and household balance sheets. But that has reached its limits; in the composition of GDP some 50% is still driven by investments, which is a challenge.

That leaves the question whether demand could rise from other sources.

"China accounts for around 50% of seaborne demand of industrial commodities such as copper and iron ore. India is fast growing, but the base is quite low as it consumes less than 10% of global copper trade," Jian says.

"For iron ore, India is pretty much self-sufficient, thus demand for seaborne iron ore is close to zero. Hence, there is no obvious country that can drive further demand growth if China disappoints."

Benjamin Louvet, commodities fund manager, OFI Asset Management in Paris, sees the US Federal Reserve as a key driver of demand in an area such as precious metals.

"Gold having no yield is more competitive when interest rate expectations are reviewed downwards," he says.

"Palladium, the production of which will be in deficit for the eighth consecutive year, has even greater potential. If its price is already as high as it can go, it is difficult to solve the supply problem."

SELECTOR VIEWS

Madalena Teixeira, senior portfolio manager at ASK Wealth Management in Lisbon, is among those who have invested in commodity funds.

In the past this was to get exposure to gold, she explains, but adds that in her view the best way to play the commodity exposure strategy is via ETFs, preferably physically backed.

"When trying to implement commodities exposure in a portfolio using funds it is very likely that you will end up having exposure to companies that trade the commodity rather than exposure to the commodity itself, which can totally bias your strategy. I have used BGF World Gold and World Energy funds, as well as the Pictet Water fund."

However, Teixeira warns that selectors need to know more precisely what exposure it is that they are seeking.

"When you decide to implement a commodity exposure in your portfolio, as stated before, the best way to do it is via ETFs or ultimately with futures if the portfolio is large enough to accommodate that. Implementing commodities in a portfolio makes perfect sense, and that decision arrives from macro data analysis; you can use gold in order to hedge against inflation, whereas energy mining and agricultural commodities are directly related to growth cycles.

"The commodities world is fascinating but it's gigantic! Either you become expert in one specific commodity or it's quite impossible to keep track of all the market."

As for a supercycle, Teixeira does not see one.

"In my opinion, commodities will always be a very efficient market. Besides, one has to bear in mind that this asset class is the base for global industrial production, so it is important that the cycle does not end.

"I can agree that in the past some mistakes were made within the commodities asset class as for the many synthetic products that were developed, and traded with almost no rational. If you do know what is a commodity and what it will represent in your investment strategy, and moreover if you have the fundamental support the investment, you should most definitely have commodities as an asset class in your portfolio, either with futures or with ETFs.

"Commodities are a reflex of the economic cycle we are upon, that said you will probably have some commodities that will lose momentum within the coming months." ■

BALTIC DRY & OTHER INDICES

The Baltic Dry index is a benchmark of the cost of moving commodities by sea. It covers some 23 different key shipping routes, on which ships would carry cargoes of both hard (coal, iron ore) and soft (agricultural commodities).

Towards the end of January 2019, the index return was down about 30% for the 12 month period.

The Thomson Reuters/CoreCommodity CRB index, a commodity futures price index covering aluminum, cocoa, coffee, copper, corn, cotton, crude oil, gold, heating oil, lean hogs, live cattle, natural gas, nickel, orange juice, RBOB gasoline, silver, soybeans, sugar and wheat, was down about 7%

The London Metal Exchange index, which covers aluminium, copper, zinc, lead, nickel and tin, was down about 16% over the period.

4.4% Expected increase in business investment in Portugal in 2019 (INE)

MADALENA TEIXEIRA

Madalena Teixeira is a senior portfolio manager at ASK Wealth Management, a company she joined in 2015.

She previously worked at the wealth and investment management division of Barclays Bank in Portugal, and before that, was responsible for the management of institutional portfolios at CA Gest.

Madalena Teixeira warns that interest rate dispersion between Europe, Japan and the US might affect emerging markets and developed economies alike, widening the gap between both blocs. Eugenia Jiménez reports

The diversification champion

This year threatens to be challenging as Europe, Japan and the US are in very different rate cycles, which could have an impact in almost every asset class as well as on Teixeira's fund selection process, warns ASK Wealth Management's senior portfolio manager Madalena Teixeira.

"If central banks from the US, Japan and Europe keep their divergent policies, rate hikes and standstill QT, fixed income assets might suffer an impact as well as FX rates and consequently the other asset classes as prices will be affected by currency depreciation/appreciation."

"If this divergence persists, the gap between developed and emerging economies will grow, since EM economies will see their currencies devaluating while the cost of debt will increase, as recently seen," she says.

According to the IMF, while the US expansion continues, the forecast remains for a deceleration with the unwinding of fiscal stimulus. Across advanced economies, growth is expected to slow from 2.3% in 2018 to 2 % in 2019 and 1.7% in 2020. This softening growth momentum has provided little lift to inflation. While core inflation is close to target in the US where growth is above trend, it remains significantly below target in the euro area and Japan.

"The outlook for emerging markets and developing economies reflects the continued headwinds from weaker capital flows following higher US policy rates and exchange rate depreciations, even though they have become less extreme. Across emerging economies, some of the pickup in inflation reversed towards the end of 2018," says the IMF.

"WHEN YOU COMBINE EXPERTISE WITH GOOD COMMUNICATION AND EXCEL AT GOVERNANCE, YOU BECOME AN ADMIRABLE MANAGER"

POLITICAL HEADWINDS

Teixeira is also concerned about the geopolitical climate. The Fed's economic stance, the looming trade war between Washington and Beijing, the future of the EU and the Brexit outcome are some of the hot topics she is looking at when selecting funds. Nevertheless, her biggest worry is the volatility building up in the market.

"2019 will be at least a tricky year and once again due to the expected volatility. Our focus will be in alternatives, in order to reduce asset correlation. Global macro data results will be decisive over the next few months, and they will surely craft 2019 financial markets path."

To avoid disruptions in the months to come, Teixeira champions diversification as an effective way to reduce volatility while admitting paying special attention to alternatives, namely global allocation funds and unconstrained ones.

When it comes to quality, the manager's background and expertise is essential: "It is important to know that the one managing the funds is aware of different business cycles, and knows that markets can turn from time to time. When you combine expertise with good communication and excel at governance, you become an admirable manager," she comments.

QUALITY AND OPEN ARCHITECTURE

As a senior portfolio manager for ASK, Teixeira is responsible for the firm's portfolio investment decisions, which includes both asset allocation and portfolio tailoring activities.

ASK, launched in 2008 and with current AUM of €50m, is headquartered in Lisbon, but has also offices in Brazil, Angola and Switzerland – through a partnership with TASK Wealth Management.

Although ASK's portfolios are mainly invested in actively managed funds, it also uses ETFs when it comes to implement an investment idea quickly or when it finds some opportunistic short term view.

As part of the asset allocation team of a global fund house, she explores all asset classes and geographical areas.

"We monitor a wide number of funds from different geographies and asset classes. Our selection process is purely based on quality and open architecture.

"In our analysis process we often monitor smaller/niche investment managers with alternative investment solutions, but we also follow the mainstream investment houses, since they usually offer a lot of expertise and new ideas. Finally, we specifically focus on our due diligence process in order to choose those funds that truly comply with our governance policy while making sure they are a perfect match to our clients' portfolios," she concludes. ■

91% Proportion of internet users searching for information on goods and services for private purposes in Germany in Q1 2018

German property market booms

Stuttgart saw the biggest increase in real estate investments in 2018. Ridhima Sharma reports

According to the latest figures from German Property Partners (GPP), Hamburg, Berlin, Düsseldorf, Cologne, Frankfurt, Stuttgart and Munich became the top seven cities in Germany for real estate investments in 2018. These cities generated a transaction volume of €36.71bn, thus setting a new record.

This figure is 22% higher than the prior year and even tops the previous record set in 2007 by close to €5bn. In the fourth quarter alone, commercial properties changed hands for a total of €12.02bn. Forward deals accounted for a remarkable 18% of the total volume traded. Year-on-year their volume doubled to €6.62bn. In 2018 international investors accounted for 44% of total trading (-6%).

Comprising 67% of the volume traded in 2018, office properties remained the most sought-after asset class. Year on year the proportion of portfolio sales on the market fell from 23% to 16%.

Amounting to a share virtually unchanged against 2017 (29%), 31% of the volume traded was located in the central business districts (CBD) or inner cities.

The top seven prime yields on office properties slipped back by 0.22 percentage points to 3.04%. In this sector the lowest prime yield was registered in Hamburg at 2.80%, the highest in Cologne and Stuttgart at 3.30%. Yields shrank most in Cologne and Düsseldorf, where they fell by 0.40 percentage points.

Commercial buildings and logistics properties also saw yields declining further year on year.

Currently the German market features a large number of properties in which the majority of space is already let before completion, with significant investor interest in such properties GPP said. ■

STUTTGART

In 2018, Stuttgart posted the greatest increase of all top seven cities noted by GPP. Year-on-year the volume of transactions grew by 79% to €2.1bn, soaring past the previous best mark set in 2016. Above all, this new record result is due to four nine-figure transactions and several in the high eight-figure range. Of all the top seven cities, the proportion of mixed-use properties was highest in Stuttgart. Stuttgart and Cologne were the two cities posting the highest prime yield on office investments at 3.30%.

HAMBURG

A transaction volume totalling some €5.95bn (+65%) made 2018 yet another exceptional year. In the fourth quarter alone properties valued at €1.95bn were traded. The most important driver behind this result was the conclusion of 16 transactions of over €100m each, which added up to some €2.7bn. Portfolio sales contributed 27% to the final result. Yields in Hamburg bottomed out in the fourth quarter. Prime net yields on Hamburg office properties shrank only slightly to 2.80%.

FRANKFURT

Year-on-year the volume traded grew by 42% to reach a new all-time high of some €9.7bn. This placed the metropolis on the Main ahead of the other top 7 cities. The prime net yield on office properties fell by 0.30 percentage points to 3% and on commercial buildings by 0.20 percentage points to 2.90%.

DÜSSELDORF

The capital of North Rhine-Westphalia reported a new record volume of transactions for 2018; the total of some €3.8bn (+30%) broke the previous record set in 2017. Three transactions of over €200m take some of the credit for the result. At 25% the share of portfolio transactions in 2018 was nearly as high in Düsseldorf as in Hamburg.

MUNICH

Ongoing high demand was reflected in a 6% year-on-year increase in the total traded to €6.2bn. As in Stuttgart and Düsseldorf, almost 90% of the transactions involved properties located outside the central business district. Forward deals accounted for only 7% of all trades in Munich in 2018 – the smallest proportion in any top seven cities. Commercial buildings provide a prime net yield of 2.4%.

BERLIN

Germany's capital city posted a lower volume of transactions as a result of a noticeable shortage of properties. Although the result sank by 8% to some €6.8bn, it is nevertheless the third highest ever.

This year too, international investors dominated the investment market. Their share of 60% pushed Berlin ahead of Frankfurt and Munich. On office properties the prime net yield was 3%.

COLOGNE

The cathedral city saw the market for investments in commercial properties contract by 9% to about €2.1bn. This can be traced back to fewer properties on the market than in the record year 2017. No other top seven city had a higher proportion of hotel trades than Cologne, which accounted for around 20% of the volume.

191,192 Total number of cruise passengers disembarking in Malta in Q4 2018

Malta has emerged over the years as a gateway for financial products and services to the European Union. Ridhima Sharma reports

Malta: Passport to the EU

Over the years, financial services have become an important part of the Maltese economy. The sector's growth helped accelerate Malta's accession to the European Union in 2004; and EU membership means financial products and services licensed by the Malta Financial Services Authority (MFSA) are easily passported into all other EU countries.

This has not only reduced cost and bureaucracy, but has also opened up markets, while maintaining investor confidence in regulatory standards, the MFSA says.

Being the single regulatory authority for all financial services businesses in Malta, the MFSA also licenses local and international companies to operate in the country and has powers to help maintain orderly markets and good corporate behaviour.

HOME TO FUND MANAGERS

Since the island's accession to EU in May 2014, Malta has become home to fund managers and administrators, providing an attractive environment to smaller funds and start-up managers.

The growth of the investment funds sector has not only been driven by the registration of funds in Malta, but has also led to the development of service clusters in asset management and servicing.

One of the largest sectors in Malta is asset management. Currently there are 160 operators on the island in the asset management depository and advisory sector.

Fund managers and fund administrators based in Malta service funds in other locations. Malta offers flexible structures for asset managers, including Alternative Investment Fund Managers (AIFMs) and Ucits management companies.

A growing network of fund managers and administrators, as well as a number of other prominent service providers, have set up in Malta, and together with local players, a well-developed and comprehensive industry cluster has evolved.

Malta has also emerged as a veritable location for start-up managers. Funds and managers in Malta are seen to benefit from a competitive operational environment.

The island allows for funds to opt for the self-managed route as an alternative to external third-party management. Self-managed funds have to appoint an in-house investment committee, which is expected to hold the majority of its meetings in Malta.

There is a high level of product flexibility for fund managers that Malta offers.

FREEDOM TO USE FOREIGN SERVICE PROVIDERS

Another advantage the finance centre claims over established domiciles is that funds registered in Malta are not required to appoint a local administrator.

Described as a non-protectionist approach, it gives promoters the flexibility to work with institutions with which they have already established a business relationship. Nevertheless, a high percentage of funds opt to have a Maltese administrator; which is seen as testament to the quality of provided by local administrators.

The same applies for custodians providing safe-keeping arrangements to Professional Investor Funds; PIFs do not need to appoint local service providers. ■

A GATEWAY FOR THE UK, TOO

Malta will be in an excellent position to provide UK funds with easy access to the EU post Brexit, according to Kenneth Farrugia (pictured below), chairman of FinanceMalta: "Over the last 20 years, Malta has developed a regulatory and legal ecosystem that has supported the development of a vibrant asset management industry. Malta's financial services industry benefits from several advantages over our European peers. Our legal framework is based in part on the English legal system and English is one of Malta's two official languages.

"This framework has always been intended to complement London's prowess as Europe's prime financial market. We have also focused on being innovative and nimble – for instance we launched the Notified AIF fund structure in 2015, as a simpler, quick-to-market way to launch and manage funds.

"Today, Malta hosts over 160 investment services licenses, 26 fund administrators, as well as nearly 600 funds with a total AUM in excess of €12bn. We insist on strict safeguards and procedures for all participants. Asset managers need to demonstrate that there is material activity in the country and that they strictly comply with protocols. PostBrexit, our aim is to provide a straightforward process that allows funds to be nimble to changes thrown up by Brexit, and for that reason we have seen substantial inquiries over the last few months."

80-85% Proportion of Spanish investment banking Spain's five largest banks will hold by 2020, according to predictions by Citi

Banking sector braced for wave of consolidation

Industry voices predict further mergers between Spanish mid-sized banks in the months to come as low profitability remains a major challenge. Eugenia Jiménez reports

Although Spanish banks have recapitalised their balance sheets, signalling the beginning of Spain's return to health a decade on from the Global Financial Crisis, their profitability is still relatively low which, according to banking experts, is preventing capital increases and hindering business growth. According to the Bank of Spain, the profitability of Spanish banks stands at around 7%.

In a bid to improve these low profit margins, some central banks including the ECB or the Bank of Spain, as well as industry professionals, point at mergers as an effective way to tackle this.

The ratings agency Standard & Poor's was one of those that earlier this year predicted more mergers between medium sized Spanish banks would happen in 2019. Low profitabilities and the fact that most of the Spanish banks are trading below the book value of their assets seem to be the biggest issues behind S&P's predictions.

It also said that after years of rating upgrades for Spanish banks, "which have positioned them very close to the levels of December 2011, and even before the crisis", this year could see some downgrades. However, S&P admitted that Spanish banks were well positioned, with restructured balance sheets and favourable prospects in terms of credit quality.

The ratings agency Scope also believes there is room for tie-ups between Spanish banks, but not for cross-border mergers at the moment.

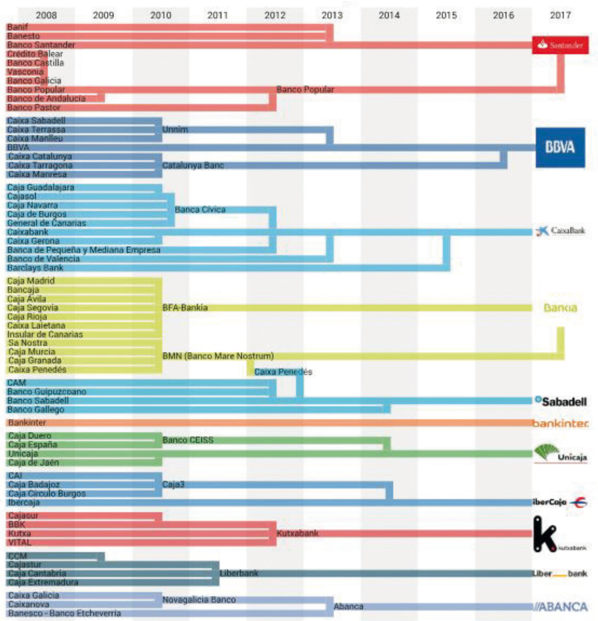
"In Scope we do not see value in these operations because there are hardly advantages of scale by bringing together two entities of different countries. In addition, regulators demand more capital from larger banks, which would be another issue," said Scope to the Spanish daily *Expansión*.

CONCENTRATION

After Spain's financial crisis exploded in 2008, a wave of bank collapses and mergers vastly reduced the number of smaller banks in the market and concentrated business among the biggest players.

Between 2008 and 2017, the number of Spanish banking entities went from 62 to 11 while the number of offices and employees decreased by 40% and 32% respectively.

SPANISH BANKING SYSTEM MERGERS 2008-2017



As at end of December 2015 Source Spanish Banking Association

These drops led to an increase in the percentage of the market held by the five largest banks in terms of total assets (Santander, BBVA, CaixaBank, Bankia and Sabadell), which rose from 42% in 2008 to 63%% in 2017, according to data from the ECB.

For its part, investment bank Citi recently foresaw an increase in these figures with Spain's five largest banks likely to hold between 80 to 85% of the market by 2020.

PAST AND POSSIBLE MERGERS

Since Spain's banking system started recovering from the financial crisis, two big mergers have taken place in the country's sector.

Spanish Bankia, which is 64% Spain's state-owned, acquired Banco Mare Nostrum at the beginning of 2018. Following the acquisition, Bankia became Spain's fourth-largest bank by market capitalisation.

Banco Santander bought the Spanish lender Banco Popular for a nominal €1 in 2017, after European authorities stepped in to prevent the use of public aid.

Spain's Unicaja and Liberbank announced in December 2018 that they had begun discussions about a possible merger, a combination that would create Spain's sixth-largest bank by assets, with a total of €95.9bn.

Liberbank was created out of the merger of three regional savings banks in 2011, in the midst of Spain's banking crisis. Unicaja, based in the Andalusian city of Málaga, was created from the merger of five local savings banks in 1991. ■

-1% Decrease in producer prices in French industry in December 2018

Edouard Carmignac broke with tradition to personally announce his stepping down from managing his firm's ubiquitous Patrimoine fund. Jonathan Boyd reports on key points from the manager's recent pan-European press event

Into the void

Edouard Carmignac was in reminiscing mode when he stepped up to the microphone at asset manager Carmignac's recent annual pan-European press briefing day in Paris.

For a business started some 30 years ago with a few hands, he noted how it had grown into a one of some 278 people with €42bn of AUM and distribution across 16 countries.

However, having overseen the development of the business and in particular the Patrimoine fund, Carmignac confirmed that he would be stepping back from daily portfolio management to focus on the role of CIO and his role in the recently established Strategic Investment Committee (SIC).

Rose Ouahba, head of Fixed Income and David Older, head of Equity, will take over the management of Patrimoine, as well as sit on the SIC.

They will be joined by Frédéric Leroux, head of Cross-Asset and Diddier Saint-Georges, head of Portfolio Advisers.

The CIO role will allow more time to ponder the greater themes that investors face, Carmignac suggested, while the SIC will focus on the task or ensuring macro analysis and performance matches bottom up performance, especially for the global funds that slipped in performance over the past year or two, added Saint-Georges.

Key themes over the next 3-5 years seen by Carmignac include reacting to the peak of global growth through stimulus measures, even as China shows signs of slowing down; the continued spread of internet access to hundreds of millions currently without, with a commensurate collapse in the price of education; lab grown protein that will replace meat grown on farm animals; and treatments for diseases such as Alzheimer's.

SIC POINTS

The other members of the SIC also provided their views, particularly on nearer term outlooks.

Saint-Georges noted the work that has gone on internally to understand the underperformance of certain funds in the past year or two, and suggested that there is now greater confidence on what caused this performance slip.

Leroux tackled monetary policy, suggesting that China has limited room to manoeuvre with lower rates without angering US president Donald Trump who is engaged in trying to agree a trade deal, partly in response to what has been a long term complaint by the US of China's currency being too cheap versus the dollar.

The European Central Bank, like China is waiting for more liquidity being injected into the financial system by the US Federal Reserve, he suggested. Meanwhile, if 2019 repeats the pattern seen in 2011-12 and 2015-16, then equity investors should watch out for a double bottom.

Rose Ouahba also touched on the ECB, suggesting that a dovish policy favours a carry strategy. Globally, there are interesting pockets of value, such as Mexican Bonos.

EUROPEAN EQUITY & DEBT

At a more granular level than the outlook offered by the SIC, Mark Denham, head of European Equities, and Keith Ney, manager of Carmignac Sécurité, a bond fund, outlined their views of the respective asset classes in which they invest.

Denham noted that growth prospects in Europe itself may not be the chief challenge, as European companies derive half their income from elsewhere. In this context the trade war between the US and China is a critical element.

Populism also poses a challenge. While possibly too early to tell in terms of the impact on specific stocks, areas such as cleaning up the region's banking system could become more sclerotic as a result of political changes. On Brexit, it is difficult to hold a top down view, but there are individual UK companies that will do relatively better because of their global business exposure.

Ney suggested that he was maintaining high liquidity, ready to take advantage of any additional value uncovered in the eurozone corporate credit market. Greek government bonds remain a preferred asset versus other such instruments across southern Europe, he added. ■

£39bn 'Divorce' settlement suggested to be paid by UK to EU

Standing on the precipice

As the clock continues to count down to the Brexit deadline, *InvestmentEurope* looked at some of the views expressed following the latest big shift before press day, which was the votes in the UK Parliament on the evening of 29 January, calling on prime minister Theresa May to return to Brussels to negotiate further changes to the Withdrawal Agreement

Uncertainty around the Brexit process went to another level through January as the UK prime minister Theresa May sought to get backing for the agreement her government had negotiated with the EU27.

But, following the worst defeat of any sitting prime minister in a vote in the House of Commons, she had to try a different approach.

This resulted in a series of UK Parliamentary votes on the evening of 29 January, which effectively set her up for a return to Brussels to negotiate changes to the Withdrawal Agreement spelling out how the relationship with the EU27 would be sustained through a transition period once leaving the EU on 29 March.

In particular, the UK prime minister was effectively told to go and renegotiate the so-called backstop – the part of the agreement relating to finding a solution to the EU/non-EU border that would be created between the Republic of Ireland and Northern Ireland.

ON COURSE FOR NO DEAL?

The immediate reaction from European Council president Donald Tusk, via a spokesperson, was emphatic: "The Withdrawal Agreement is and remains the best and only way to ensure an orderly withdrawal of the United Kingdom from the European Union.

"The backstop is part of the Withdrawal Agreement, and the Withdrawal Agreement is not open for re-negotiation."

UK prime minister, Theresa May
Alexandros Michailidis/Shutterstock.com

"The December European Council conclusions are very clear on this point."

This, several commentators said, effectively put the UK still on course for a no deal exit.

Speaking on 30 January, Jordan Hiscott, chief trader at ayondo markets, noted: "The positive coverage of last night's Brexit Amendment vote is perplexing.

"On the face of it, Theresa May has indeed secured a victory of sorts but the EU has already repeatedly said that the current deal is the best they can offer, and that the issue of the

THE IRISH QUESTION

Quite apart from the Good Friday Agreement, there are other reasons why the relationship between the UK and Ireland matters in the Brexit negotiations.

According to consultant Adas, some 67% of UK imports of dairy products come from Ireland, as well as 68% of beef and veal imports.

In somewhat related news, on 30 January, the European Council's Permanent Representatives Committee (Coreper) approved a mandate that would enable the Presidency to start negotiations with the European Parliament on proposals for new maritime connections between Ireland and other EU countries as part of the Trans-European transport network in the event of a no deal Brexit.

"The reformulation of the corridor will ensure continuity for ongoing and future infrastructure investments and provide legal clarity and certainty for infrastructure planning," the Council noted.

"The proposal adapts the 2013 Connecting Europe Facility (CEF) regulation, which provides funding for key projects in the transport, telecommunications and energy sectors.

"After 2020, the CEF regulation will be replaced by CEF 2.0, on which negotiations have just begun between the Council and the European Parliament."

Irish backstop is not up for negotiation.

"Parliament has voted to not extend the deadline and this dramatically increases the possibility of a no deal Brexit."

Paul O'Connor, head of the UK-based multi-asset team at Janus Henderson, said: "It says a lot about the state of the Brexit process, that the best victory the prime minister has achieved in some time, was when Parliament voted last night to rip up the draft Brexit deal that she has spent more than a year agreeing with the EU.

"Mrs May now has been given a mandate to go back to Brussels to renegotiate the Withdrawal Agreement by attempting to replace its contentious Irish border backstop with 'alternative agreements'. Within minutes of last night's vote, the European Council president, Donald Tusk, dismissed this aim as futile."

O'Connor continued: "While it is nevertheless still conceivable that the EU might yet be persuaded to make some adjustments to the backstop, it is unlikely that these will be significant enough to satisfy the 317 MPs who voted for the backstop to be 'replaced'.

"Time is an important dimension here. The prime minister said that she would try to renegotiate this deal by 13 February, giving Parliament another chance to vote on the deal that evening.

"Should it fail, MPs will have the ability to make further suggestions on how to proceed the day after that – happy Valentine's Day prime minister."

Concluding, O'Connor said: "It is hard to avoid the conclusion that [29 January] developments will achieve little more than running down the clock and we will be in a similar position in a couple of weeks to where we were before last night's vote: a Parliament that cannot deliver a majority vote on the Brexit deal on offer, nor on any of the other Brexit options such as no-deal Brexit, delayed Brexit, a general election or a second referendum."

Chris Cummings, CEO of the Investment Association, representing the fund industry and asset managers in the UK, said following the vote on 29 January that: "With exactly two months before the UK leaves the EU, asset managers and the millions of savers and businesses who rely on them are looking for greater certainty.

"It is critical that every effort is now made to find a constructive path forward that protects Europe's savers and investors from the cliff edge effects that a no-deal Brexit could bring."

"Asset managers have been working on no-deal contingency plans since day one, but an orderly transition must remain the common goal of policymakers and business alike if UK and European savers are to be protected." ■

THE IBERIAN FUND INDUSTRY VIEW

Spain's economic output would be reduced by 0.2% over the long-term if Britain leaves the European Union without a free trade deal next year, the International Monetary Fund (IMF) said in October 2018.

The EU as a whole would suffer economic damage worth about 1.5% of annual GDP in the long-term in the case of a hard Brexit, the IMF said in July.

Guendalina Bolis, CEO at Inversis Gestión, has noted these predictions, but suggests that it might not be something that specifically impacts the local fund industry.

"We do not expect any major Brexit impact on the asset management industry in Spain as our partners have been already moving their products to Luxembourg or Dublin and mostly Spanish offices are now depending from their Irish or Luxembourg central offices. As a consequence, if there is a Brexit, our clients will not suffer any impact from an operational point of view."

"The story can be quite different in terms of economic impact, but as we do not know the final agreement, for the moment we can only speculate on it."

Madalena Teixeira, senior portfolio manager at ASK Wealth Management in Lisbon, added: "The Brexit effect on the Portuguese fund industry is not considerable. UK Asset Managers have already anticipated the different regulation issues choosing EU-complaint locations to distribute their funds. However, to the economy as a whole the Brexit will have considerable impact, mainly to imminent changes in business procedures that have been in place for more than 30 years. Brexit will affect socially and financially many countries, besides the UK."

8,581,373 Current population of Switzerland as per UN estimates as of 30 January 2019

Fiona Frick, CEO of Unigestion, the boutique headquartered in Geneva, has outlined to Jonathan Boyd the key development objectives going forward

Servicing evolution

Fiona Frick is CEO of Geneva based Unigestion, a boutique that focuses on equity, private equity, alternatives and multi-asset strategies, and which offers access to alternatives, equities and multiasset through its Sicav.

Recently, she outlined to *InvestmentEurope* the objectives that the organisation has in developing its presence in these areas.

To start with, she noted that Unigestion is firmly placing itself in the active management camp, given what she sees as an industry bifurcation between large passive and active managers.

"Active risk is at the centre of what we do, so we need to take risk, but in a measured and managed way," she says

Additionally, Unigestion believes mixing systematic processes with human insight in order to avoid human biases. This defines the approach the manager takes across its product portfolio.

However, having built or acquired the investment skills in the asset classes outlined, the next five years are set to be much more about client servicing, Frick says.

An indication of this focus in coming years was the hiring in November 2018 of Dominik Kremer as head of Business Development. This followed the hiring in 2016 of a distribution team for areas other than pure institutional, Frick adds.

Dominik Kremer will oversee all aspects of distribution. The next couple of years are likely to see the manager increasingly focus on client centricity and understanding what clients are doing in terms of asset allocation before proposing an investment solution. Furthermore more complex financial markets will lead for a need of more sophist investment solutions.

A further example is Unigestion's planned expansion into the German market, which is seen as important because of its relative size compared to the Swiss market. Being in proximity to clients is seen as a requirement to grow in the German market above a certain size, including looking to bank distribution, unit linked in the insurance space, and second tier pension funds. And Germany is described as a complex market to serve because of differences to the UK and French markets, for example in the way ESG constraints may apply or regulation are implemented .

That said, the UK very much remains as an integral part of Unigestion's future, Frick says.

"The UK will remain an investment hub," she says.

"It offers more diversity than any other place and the pipeline of talent that can be found in the market is strong."

The UK remains in institutional priority for Unigestion, she adds, plus, there are some distribution partners already.

"THE UK WILL REMAIN AN INVESTMENT HUB. IT OFFERS MORE DIVERSITY THAN ANY OTHER PLACE AND THE PIPELINE OF TALENT THAT CAN BE FOUND IN THE MARKET IS STRONG"
Fiona Frick, Unigestion

TECHNOLOGY

As an applicant of a systematic approach, Unigestion is already to a degree reliant on technology, but it sees the use of technology continue to broaden and deepen.

"Clients want more specific aspect in their portfolio, linked to their own risk appetite, regulation or ESG constraints, so we need a way to mass customise the the bespoke solutions we propose by using different building blocks.

"Some client want multi asset with an overlay of more equity exposure on top. We need to mix our different investment expertise in the solutions we offer. All this means client servicing and customising, so we need tools to do this."

Frick notes that Unigestion seeks to outsource on the technology side what is considered as a commodity, but keeps in-house what it sees as the critical value added areas, such as investment processes and certain research.

Still, despite the rapid pace of technology development in the past 10-15 years, Frick still sees a role for people in a collaborative approach that marks out the DNA of Unigestion.

"Models are backward looking, therefore we want investment insight on top of that."

Augmented intelligence rather than artificial intelligence is the facet to this approach.

"We have been using machine learning for the past 20 years with model around principal component analysis. The algorithms are getting smarter. With big data exploding in size, we can use them to test smart to test investment hypothesis more efficiently."

Another area of development is to provide investor education through partnerships with the likes of Imperial College London and Paris Dauphin University. ■

Visiting the community

Visits conducted by *InvestmentEurope* with the fund selector community continued over the past month in Italy, France, Belgium and Luxembourg, as Jonathan Boyd reports

Milan

Luisa de Vita, Fund Selector Relationship manager – Italy & Ticino, went to Italy's biggest financial centre in the third week of January, for a number of visits, including to the winner of the *InvestmentEurope* Fund Manager of the Year Awards 2018-19 Personality of the Year for Italy, Alberto Tomasini (see right).

She also attended the Aberdeen Standard Investment Themes 2019 presentation at the Palazzo Parigi.

Meetings included:

- Mario Baronci – senior portfolio manager, head of Institutional Clients – Quaestio Capital;
- Alberto Tomasini – client advisor HNWI – UBS & Personality of the Year;
- Sara Cazzola – fund manager – & Stefano Bestetti – director – Hedge Invest;
- Daniele Fontanili – Group Asset Managers Management – Generali Assicurazioni; and
- Nicola Saccone – asset allocation – Progetto Sim.

UBS' Alberto Tomasini receives the Investment-Europe Fund Manager of the Year Awards 2018-19 Personality of the Year for Italy

Paris

Vanessa Orlarey, head of Fund Selector Relationships, Angela Oroz, Fund Selector Relationship executive, Iberia, and Elisabeth Reyes, interim French-Speaking Markets correspondent, visited Paris for joint meetings on 21-22 January, including:

- Pierre Molinero – analyste gérant – Ofi Asset Management;
- Vicent Canel – head of Discretionary Portfolio Management (OPCVM) – Vega investments;
- Stephane Corsaletti – chief investment officer – ABN Amro Investment Solutions;
- Jérôme Cognet – director, investment specialist – UBS;
- Bruno Viellet – Lavallee – European equity specialist – Amundi;
- Hervé Seignol – Responsable des appels d'offres et de la sélection de gérants – Fonds de réserve pour les retraites;
- Alexandre Thery – chef d'entreprise – Auxense Gestion;
- Claire Bruhin – portfolio manager – Athymis Gestion;
- Francois Pascal – directeur de la Gestion Diversifiée – Amilton Asset Management;
- Jean Carlou – portfolio manager, Gérant Diversifié – La Française;
- Vladimir DANESI – Directeur des Investissements – CBT Gestion; and
- Stanislas Bernard – President – Selection – TwentyFirst Capital.

Brussels

Vanessa Orlarey and Angela Oroz continued on from Paris to Brussels for meetings on 23-24 January, including:

- Benoit Ruelle – senior fund analyst – Degroof Petercam Asset Management;
- Damien le Maire – head of Funds Selection & Management – Deutschebank Belgium;
- Nicolas Crochet – co-CEO – Funds For Good;
- Frédéric Goblet – executive director & partner – Ascot Investments; and
- Levi Sarens – head of Investment Research; and Wim Aontoons – head of Asset Management – Bank Nagelmackers.

Luxembourg

Europe's biggest cross-border domiciliation hub by assets was visited by Vanessa Orlarey and Angela Oroz on 25 January. Meetings included:

- Damien Armand – client director, Belgium/Luxembourg – GAM;
- Stefano Torti – head of Advisory Desk – Banque Havilland;
- Marco Paolucci – head of Advisory; and Eric Grandjean – head of Investment Funds – CA Indosuez Wealth (Europe);
- Giulio Senatore – head of Financial Assets Portfolio Management – BIL Manage Invest; and
- Maxime Hoss – fund analyst/ portfolio manager – Banque de Luxembourg Investments. ■

1% Forecast German economic growth in 2019

Deeper and broader

Legg Mason, the operator of a multi-affiliate model is broadening and deepening its European presence, as Jonathan Boyd finds out

Legg Mason has its roots in the US going back to 1899, but it did not acquire its name until 1970, when Legg & Co acquired Mason &Co.

The brand, as currently known and used, properly came about in the 1980s, in the wake of the acquisition of Western Asset plus ongoing organic growth.

By 2005, when it had acquired City Asset Management, the company had divested its securities business to become a pure play asset manager.

Since 2014, it has constituted nine subsidiaries or affiliates – including Brandywine Global, Clarion Partners, ClearBridge Investments, EnTrust-Permal, Martin Currie, QS Investors, Rare Infrastructure, Royce & Associates and Western Asset.

It has also acquired US digital wealth platform Financial Guard and taken a minority stake in Quantifeed, a platform that focuses on producing personalised solutions for customers of financial intermediaries.

For the European investor audience, there are nine investment businesses – affiliates – that are most relevant – those mentioned above.

AUTONOMY

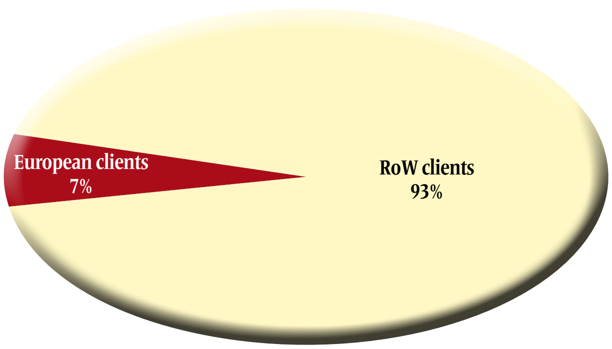
"The idea is that giving autonomy to businesses with entrepreneurial cultures should produce superior investment outcomes," says Justin Eede, senior managing director, head of European and Americas International Distribution at Legg Mason

It means that under the Legg Mason brand, the nine affiliates are free to offer products and solutions across different asset classes in the pursuit of outperformance, Eede continues.

"Whether Brandywine Global, Martin Currie, QS Investors or Western Asset, it is important that investors understand their distinct approaches.

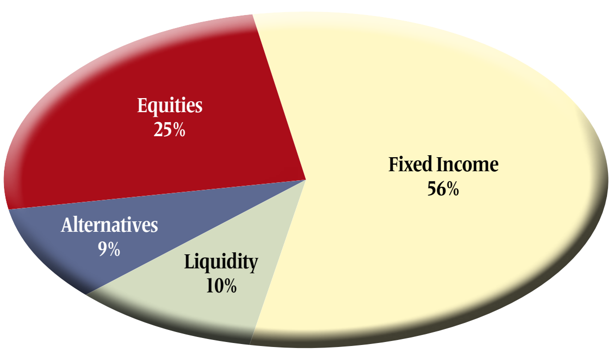
"If they have the investment autonomy, it is important to retain the distinct brands and cultures; some have existed for 30 years or more – their identity needs to be maintained."

GLOBAL AUM (TOTAL = $727.2BN)



As at 31 December 2018 Source Legg Mason

GLOBAL ASSET CLASS SPLIT



As at 31 December 2018 Source Legg Mason

LOCATIONS

Currently, Legg Mason has eight European offices: London, Dublin, Madrid, Paris, Frankfurt, Milan, Geneva and Zurich.

The two branches in Switzerland are technically subsidiaries of a UK Manco, while the more recently opened Dublin office will be a hub for continental European markets. The idea going forward is for the branch offices to be linked to Dublin rather than London as is the case currently.

This implies that the six people in the Dublin office will be joined by others.

However, Legg Mason is also looking to continue strengthening its presence on the ground. It is looking to a branch office in Sweden to support the Nordic market.

"It is important to be physically present on the ground to effectively serve the clients," Eede says.

Other markets will be served by existing presence, such as Austria being served by the Germany office; Benelux served from the French office, and Portugal served from the Spanish office.

Legg Mason is currently licenced to sell in some 22 European countries, and it is taking a closer look at the Israeli fund market, given the opening up that has occurred there in recent times for foreign funds and fund providers.

CLIENT TYPES

Looking to the clients being served, Eede notes that "there is no one-size-fits-all in Europe", implying that any client channel approach needs to reflect that.

For example, Switzerland involves a lot of interaction with the private banking channel, while in Italy the focus is on the bank distribution channel and institutions.

From the asset class point of view, it is important to reflect that the business is about both new but also existing clients.

"We would like clients to be familiar with all parts of Legg Mason that are relevant to their business. This is likely to include all nine affiliates who, through their respective areas of specialism, cover every asset class," Weede says.

"We see increasing demand for customisation from clients; whether providing capabilities in the right vehicle, separately managed accounts, mutual funds or delivery of model portfolios to clients for their own fulfilment. There is more we can do in terms of customisation. Clients want bespoke solutions. We feel we can do that by increasingly offering expertise from multiple affiliates.

"One thing we don't do is passive. That said, we wouldn't associate passive with ETFs; we see ETFs as a vehicle rather than a passive approach. But we are certainly in the active management camp. We want to develop strategies that cannot be replicated by passive.

"The focus is on active and what active can do, for example, in alternatives, in the unconstrained space, in long/short products. There are many ways to add value through active management."

Justin Eede is senior managing director, head of European and Americas International Distribution at Legg Mason.

Joining in June 2001, he is responsible for pan European and Americas International distribution and is a board director for Legg Mason's European legal entity. In 1996, Eede started his career in asset management with GT Global. Following the acquisition of GT by Invesco in 1998, he became a director of Business Development with responsibility for London.

He assumed the same role at Invesco Perpetual before joining Legg Mason. Eede graduated in French and business studies from the University of Southampton in 1996.

TECHNOLOGY & PERSONNEL

A key development that Legg Mason is aware of is in technology, with clients increasingly raising the subject in regards to what asset management companies may be offering through technology that can enhance the customer experience.

There is a key role for asset managers to play here, Eede notes, citing the stake in Quantifeed, the business that is using white labelling to provide theme-based and goals-based portfolios that are tailored to individual end investors.

Another area of development regards those employed across Europe; Legg Mason wants them to understand not only how their work relates to others' across functions, but also to have an awareness of the impact of what they do themselves.

For example, it is important for not only business development people to understand clients, but others in different functions, Eede insists.

And given the developments in technology used in asset management, there is a growing interest in technology minded people, with a link to business development and understanding how intermediary clients can improve their own businesses.

"Think about it as becoming even more 'client specialist', think about 10-year relationships rather than selling product for a year," Eede notes.

"There's a thirst for investment specialists, for transparency around strategies, what to expect from strategies in any market cycle, and the level of technical details required that is above where it has ever been." ■

150,000 People entering the EU through irregular crossings in 2018 (Frontex)

Rising to the challenge

Around 50 Italian fund selectors attended the second edition of *InvestmentEurope*'s Milan Forum 2018 in a difficult year for investors. Eugenia Jiménez reports

InvestmentEurope returned once again to the Four Seasons Hotel in Italy's financial hub to host the Milan Forum, which was held on 20 November in its eighth consecutive year.

Six leading asset management groups spoke at the event addressing five key areas: emerging market equities; global equities; thematic investing; emerging market debt; and the Chinese RMB bond market.

EM EQUITIES

Nicolas Deltour, senior client portfolio manager equities at Candriam, outlined two of the firm's EM strategies: Candriam Equities L Emerging Markets, an active fund focusing on quality and sustainable growth that has been able to outperform over the cycle, and its sister strategy Candriam SRI Equity Emerging Markets including sustainable aspects in its portfolio construction.

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

The fund aims to create long term capital appreciation through emerging market equities. This is achieved through a diversified, conviction based portfolio of attractively priced companies with strong sustainable growth and profitability. If follows a bottom-up approach, combining a proprietary stock analysis platform with a thematic overlay, with a focus on quality companies

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

Deltour highlighted how this fund generates alpha consistently, through a unique investment approach that combines a winning stock picking approach with a thematic overlay.

Candriam SRI Equity Emerging Markets, a sub-fund of the Candriam SRI Sicav, invests in equities of emerging markets companies as long as they comply with the 10 principles of the UN Global Compact and are not involved in controversial activities such as gambling or armament.

GLOBAL EQUITIES

John Boselli, equity portfolio manager at Wellington Management, exposed the firm's investment approach to global equities, rooted in the belief that consistent alpha generation requires the portfolio to have high active share and a focus on downside mitigation as much as upside participation.

Boselli presented Wellington's Global Quality Growth Fund, a strategy he has managed since inception in 2011. The fund seeks to provide long-term total return by investing primarily in equity securities issued by companies worldwide, emphasising a balance of growth, valuation, capital return and quality criteria in selecting stocks.

THEMATIC INVESTING

Artisan Partners' Thematic Team's investment approach is based on thematic ideas generation, a systematic

38% Proportion of Italians polled who described France as the most hostile country in Europe (IPSOS)

framework for analysing companies and proactive risk management. Through this approach, the team seeks to construct a focused portfolio designed to maximise alpha while limiting downside risk over the long term, explained Natalya Michaels, managing director and head of Business Development for the Thematic Team of Artisan Partners.

Artisan Thematic Strategy is managed by Chris Smith – who has 15 years of long/short and long only investment experience at firms including Karsch Capital and Kingdon Capital – alongside four research analysts and one data analyst.

Michaels said that ideas are generated based on those areas the team believes are experiencing inflections in multi-year trends, which can lead to powerful re-ratings of industries and companies.

EM DEBT

Both Principal Investors and Aviva Investors shared their views on emerging markets debt while introducing their strategies investing in the asset class.

Damien Buchet, CIO Total Return Strategy at Principal Global Investors introduced the firm's EM Total Return strategy, which he described as an "optimal performance solution to extract value from EMD along the full market cycle".

Finisterre's EMD Total Return fund is an unconstrained emerging market bond fund launched by Principal Global Investors for its specialist developing world debt subsidiary Finisterre Capital.

The fund, managed by Buchet alongside portfolio manager Christopher Watson, invests across emerging market fixed income, focusing on opportunities from across income-generating opportunities.

After a turbulent year for EM fixed income, marked by global headwinds and EM specific event risks, the asset class now looks technically cleaner, and trading at multi-year valuation lows, said Buchet.

According to Aviva Investors' portfolio manager Aaron Grehan EM sovereign credit had experienced a notable shift in sentiment since the beginning of 2018 as investors have been cautious towards the asset class due to a weakening macroeconomic environment and the impact this has on the fundamental outlook for some countries.

"However, given the negative returns year-to-date and the adjustment higher in asset yields, risk/ reward looks more favourable than when the investment rationale was much stronger."

Grehan introduced Aviva Investors Emerging Markets Bond fund, which invests mainly in bonds issued by governments and corporations in emerging market countries. It invests at least two-thirds of total net assets (excluding liquidities) in bonds of governmental, quasi-governmental, supranational, bank or corporate issuers that have their registered office, or do most of their business, in EM countries.

CHINESE RMB BOND MARKET

Stephen Jen, CEO and Co-CIO Eurizon SLJ Capital at Eurizon talked about the investment opportunities presented by the liberalisation of China's RMB bond market.

According to the bond manager, the proactive liberalisation of the Chinese RMB bond market is arguably the biggest change in global finance since the introduction of the euro.

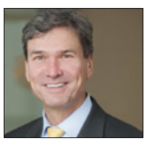
"Soon to become the second-largest bond market in the world, the RMB bonds have the potential of offering the world a second benchmark yield curve to complement the US Treasuries."

He continued: "We are still at the very early stages of the biggest change in the global investment structure since the introduction of the euro in 1999. We are talking about a market that is $12trn now but could double in size in the next 3-5 years.

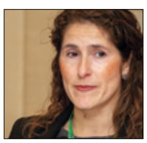
"Excluding central banks, foreign institutional investors make up just 1% of the Chinese bond market. Next year this number should climb to 3%, with $250bn in inflows coming in soon and up to $2trn by 2021-23. This is a major shift and potential tailwind for investors to consider." ■

Speakers

Nicolas Deltour has been senior client portfolio manager Equities at **Candriam** since 2016. He previously worked at ABN AMRO Luxembourg as head of Investment Advisory. Prior to that, he served as a senior portfolio manager at Rothschild.

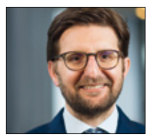


John Boselli is senior managing director, partner and Equity portfolio manager at **Wellington Management**. He heads the team that manages Global, EAFE, and European Quality Growth portfolios.



Natalya Michaels is managing director, head of Business Development for the Thematic Team of **Artisan Partners**. She joined Artisan in 2007 from Eton Park Capital Management, a multi-billion dollar multi-strategy investment firm

Damien Buchet joined **Finisterre** in September 2015 and is a partner and CIO for the EM Total Return Strategy. Prior to joining Finisterre, he was the Global Head of EM Fixed Income at AXA-IM for five years.



Aaron Grehan is deputy head of Emerging Market Debt and portfolio manager, EM Hard Currency **Aviva Investors**.Before joining Aviva Investors in March 2000, Grehan worked as a credit fund manager in the liability-driven fixed income team.

Stephen Jen is CEO and Co-CIO **Eurizon SLJ Capital** at Eurizon. Prior to that, Jen was MD of Macroeconomics and Currencies at Bluegold Capital from May 2009 to March 2011, responsible for managing the fund's currency risks.

NIS10,302 October 2018 average monthly wage in Israel

InvestmentEurope's foray to Israel last November brought with it ideas on systematic investing, EM debt, and European and global equities. Jonathan Boyd reports

Covering the bases

The *InvestmentEurope* Tel Aviv Forum 2018, which took place on 27 November last year at the Hilton Tel Aviv, saw some 20 delegates treated to a plethora of ideas across asset classes – all of which could provide useful diversification for local investors.

Since then, markets through the last month of 2018 and into the first month of 2019 have exhibited volatility across the board. Yet the ideas discusses are ones that should have staying power over longer time horizons than two months.

Taking the global overview, Chip Ridley, managing director at Artisan Partners outlined the autonomous approach that investment teams have at that manager, including the Growth Team, where Ridley is business leader.

As such, he focused on the global and US equity strategies that the Growth Team manages, and which are benchmarked against the likes of the MSCI All Country World index.

To do well in these asset classes, investors should follow profit cycles; Artisan Partners' approach includes looking for companies with dominant market share, proprietary assets, and whose stock is believed to trade at a discount, and which are best invested in when an emerging profit cycle has been identified.

Sectors where growth opportunities are being seen include healthcare innovation, data analytics, industrial process innovation, emerging market consumer, financials and digital payments, he noted, adding that with a rotation ongoing investors would benefit from patience.

Picking up on the growth question linked to the China-US trade dispute, he suggested that while Chinese stocks might be cheaper, it was, at the time, too early to tell if a deal could be done between the two and thereby send prices higher.

China was also cited in terms of what to think about when considering growth opportunities – in this case in the wine industry. It is arguably better to focus on 'masstige' wines targeting the Chinese market, rather than trying to compete with French Grand Crus.

EUROPEAN EQUITIES

Picking up on the French and other European angles, Mark Nichols, portfolio manager, European Equities, at Columbia Threadneedle, explained his approach to the asset class, including the role of macro and themes, and the that of analysis required to take 1,500 companies down to some 40-60 holdings.

In light of concerns about quality, he noted that the investment world is prone to mean reversion; something to keep in mind when seeking out companies that can maintain a competitive edge.

Nichols pointed to Pernod Ricard as an example of a company offering proven European drink brands, with opportunities in the fact that each year some 23 million people come of drinking age in India, while Chinese consumers like the flavour of cognac. Combined, such factors make this an interesting European stock, he noted.

As to concerns over Italy, related to its sovereign debt, he said the country was "not going anywhere", given its physical attachment to the Continent, being part of the eurozone and the signals from Germany that it wants Italy to remain in the EU.

EMD

Picking up on another debt angle, Daniel Moreno, head of Global Emerging Market Debt at Mirabaud, pointed to positive dynamics ongoing in that asset class.

By 2050, six of top 10 economies will be EM ones, with the so called E7 – China, India, Indonesia, Brazil, Russia, Mexico – while emerging markets already constitute over half of global GDP, but still a relatively small segment of the overall debt market.

But for investors to best benefit in from EMD they need to get away from benchmarks; all to better manage risk.

Flexibility is very important when considering hard and local currency sovereign debt, quasi sovereign and corporate debt instruments that make up the mix, he continued.

In terms of these markets, he pointed to Brazil potentially being worth additional exposure depending on the signals from the new administration in areas such as fiscal policy. Further afield, top tier banks in Nigeria have been a good way to extract alpha.

SYSTEMATIC APPROACH

Outlining a systematic approach was Ashley Lester, head of Multi-Asset Research, Multi-asset Quantitative Research at Schroders.

Referring to the academic foundation of factor based investing, he noted that academics have identified some 400 signals that are relevant to the factor families – including value, quality, momentum, low volatility.

The question for investors, then, is how best to access multiple factors, either taking a top down smart beta style approach or from the bottom up, for example, looking for stocks based on, say, value and momentum.

The latter approach is more logically consistent, suggested Lester.

Overall, he outlined how factors can be used to provide diversification, including better managing volatility, while mitigating drawdown.

However, also important in consideration of systematic approaches is ESG, as Lester outlined evidence that ESG integration can capture some $6 of benefits for every $100 of revenue in well managed companies. This is something that is sought out by the Sustainable Multi-Factor Equity strategy of Schroders. ■

Speakers

Chip Ridley is managing director, business leader for the **Artisan Partners** Growth Team. Before joining in 2006, he managed institutional marketing for western North America at Grantham Mayo Van Otterloo & Co.

Ashley Lester is head of Multi-Asset Research, Multi-asset Quantitative Research at **Schroders**, which he joined in 2015. He is responsible for factor investing strategies, and chairs the Strategic Investment Group Multi-Asset and the Model Review group.

Mark Nichols, portfolio manager, European Equities, joined **Columbia Threadneedle** in 2015. Co-manager of the European Select Fund, he has focused on European equities throughout his career, starting at Invesco.

Daniel Moreno is head of Global Emerging Market Debt at **Mirabaud AM**, which he joined in 2017 with some 20 years' experience. Previously head of EM Debt at Rubrics AM, he has also worked at Dresdner Kleinwort Benson, Deutsche bank, Union Investment, Global Evolution and Sydbank.

SEK-4.7bn Sweden's net trade balance December 2018

The long and short of it

The latest event hosted by *InvestmentEurope* in Stockholm for fund selectors based in the Swedish market outlined ideas both for going long as well as going short. Jonathan Boyd reports

The facets of investing outlined at the Stockholm Forum 2018, which took place on 4 December last year included developments in Asia, global income, global growth, fixed income within multi-asset and shorting within absolute return.

Outlining forecasts for developments in Asia, Rahul Chadha, CIO of Mirae Asset Global Investments (HK) started by saying that sentiment is worse than reality, with opportunities still available for those willing to engage in bottom up analysis of individual companies.

And in terms of downside risk from continued uncertainty around trade between China and the US, much of this has already been priced in, suggesting that any reversal of the trade rift along with a mellowing of US rates policy could stand markets in the region in good stead.

China itself is expected to stabilise through 2019 notwithstanding concerns over consumption. However, Chadha noted that the A shares inclusion in the MSCI EM index was as profound as accession to the WTO – something for investors to ponder.

In terms of other key Asia markets, he suggested Vietnam's development lags some five years behind India, which in turn is some seven-to-eight years behind China.

GLOBAL INCOME

Giorgio Caputo, senior fund manager and head of J O Hambro Capital Management's Multi-Asset team, outlined his thoughts on accessing and building income.

One of the ingredients for successfully seeking income as part of a total return approach is that it is important to look across the capital structure of those companies in which investments are being made, he suggested, adding that mispricings should not be seen in context of only equity or only fixed income exposure.

Disruption is a key theme, with many investors still gauging companies based on their past rather than evaluating their futures. Also, businesses need a 'social licence' as well as a 'commercial licence' to do well. An example is hydrocarbons extracted from Canadian tar sands, which because of linked CO_2 emissions, sell at heavy discount, Caputo noted.

FIXED INCOME

Joubeen Hurren, senior portfolio manager at Aviva Investors, co-manager on the AIMS Fixed Income portfolio, used the Forum to outline how fixed income sits within a multiasset objective as determined by AIMS.

A challenge facing fixed income investors involves the conundrum that is negative correlation between asset classes not being guaranteed, such as experience during the Taper Tantrum, the Bund Tantrum and the election of US president Donald Trump.

Aviva Investors looks across the spectrum of fixed income to identify contributions to return, but it is also

applying a multi-layered approach to ESG integration, including areas of ideas generation, when generating house views, and through screening for exclusions.

GLOBAL GROWTH

Taking the global overview, Chip Ridley, managing director at Artisan Partners outlined the autonomous approach that investment teams have at that manager, including the Growth Team, where Ridley is business leader.

As such, he focused on the global and US equity strategies that the Growth Team manages, and which are benchmarked against the likes of the MSCI All Country World index.

Looking to sectors, he noted that software as a service is offering interesting growth potential, including the ability to tap into mid-cap sized companies. And in context of concerns about global growth, he noted that certain growth stocks can still to well in periods of economic downturn, and investors should not just automatically reach for defensive value stocks.

SHORTING

Ivan Kralj, assistant fund manager in the Absolute Return team at Jupiter Asset Management, outlined how shorting has been the main driver of alpha in the manager's Absolute Return strategy – an interesting observation given that the event took place before some of the bigger falls experienced in stock markets later in December.

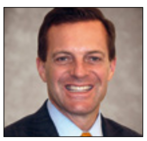
At the macro level, he noted that the S&P 500 bull market of 2009-2018 was one of the longest on record, and similarly for the MSCI World – with growth stocks acting as particularly strong drivers of returns in the last couple of years; with particular focus on a few US technology stocks.

Herein lies particular concerns, such as Netflix, which Kralj suggested has deteriorating cashflow because of its need to acquire more content the more its subscriber base grows; or Tesla, the equity of which could go to "zero" as it seen as unlikely to ever make "real" profits.

Tracking other short sellers positions can give indication of which stocks to short, but Kralj stressed the need to beware "predatory funds" generating their own alpha by looking for indications of stop losses, which they can use to engineer price changes. ■

Speakers

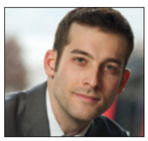
Rahul Chadha is CIO of **Mirae Asset Global Investments** (HK). He oversees the manager's Investment Unit and is a member of the Investment Committee. He joined Mirae Asset in 2006.



Chip Ridley is managing director, business leader for the **Artisan Partners** Growth Team. Before joining in 2006, he managed institutional marketing for western North America at Grantham Mayo Van Otterloo & Co.

Giorgio Caputo is a senior fund manager and head of **JOHCM**'s Multi-Asset team. He joined the firm in 2017, having previously worked at First Eagle Investment Management, Jana Partners and Credit Suisse First Boston.

Joubeen Hurren is senior portfolio manager at **Aviva Investors**, working as co-manager on the AIMS Fixed Income portfolio. He is a permanent member of the Strategic Investment Group, where all investment ideas that are proposed for inclusion in the AIMS portfolios are discussed.



Ivan Kralj is an assistant fund manager in the Absolute Return team at **Jupiter Asset Management**, which he joined in 2014. Previously he was a trainee investment manager at Scottish Widows Investment Partnership.

Approaching events

Following February's Sub-Advisory Summit in London, *InvestmentEurope* heads off to Milan and Stockholm for respective Italian and Nordic events

NEXT EVENTS

INVESTMENT EUROPE
MILAN FORUM 2019

MILAN, 8 MARCH

InvestmentEurope returns to Italy in the first quarter of the year for the Milan Forum 2019, which takes place 8 March at the Four Seasons Hotel.

Groups taking part include EURIZON, Comgest, Acadian Asset Management, La Financière de l'Echiquier and Vontobel Asset Management, targeting some 35 fund selector delegates with latest investment ideas in a boardroom format, while also maximising the networking opportunities.

Also taking part as an educational partner is the CFA Society Italy.

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

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

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

INVESTMENT EUROPE
NORDIC SUMMIT STOCKHOLM 2019

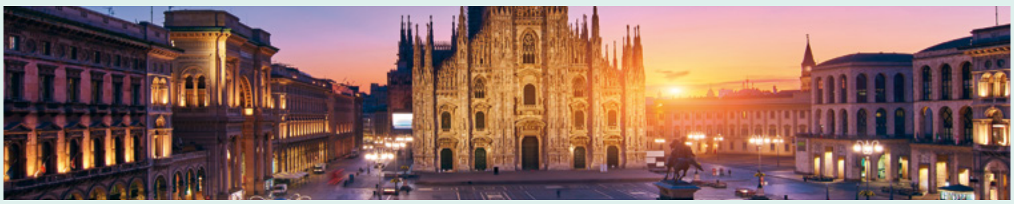
STOCKHOLM, 12-13 MARCH

The Nordic Summit Stockholm 2019 takes place at the Grand Hotel on 12-13 March and will bring together some 40 fund selector delegates to hear latest ideas from groups such as GAM Investment, Lazard Asset Management, Macquarie Asset Management, RAM Active Investments and Tokio Marine Asset Management.

Topics covered are set to include systematic investment strategies, the path forward for global equity, and opportunities for stockpickers in Japan.

As a Summit event, the programme will include ample networking time through coffee breaks, lunches and a dinner, which will also feature a speaker. This year's event will offer Johan Eriksson; with a background as an entrepreneur and many years within Procter & Gamble, today he leads the organisation for innovation and branding within Google.

To register your interest in attending the Nordic Summit Stockholm 2019, please contact Patrik Engström at patrik.engstrom@odmpublishing.com or phone +44 (0) 20 3727 9940.



TAKE PART IN THE DISCUSSION

Delegates to the Milan Forum 2019 are encouraged to connect ahead of the events by tweeting using the hashtag #IEFORUM. For the Nordic Summit Stockholm 2019 use the hashtag #IESUMMIT.

InvestmentEurope's relaunched website offers additional opportunity to learn about upcoming events, including https://events.investmenteurope.net/milanforummarch and https://events.investmenteurope.net/nordicsummit. And there are LinkedIn pages dedicated to events and other news. Visit https://www.linkedin.com/showcase/6403794 for further information.

LOOKING AHEAD

INVESTMENT EUROPE
FRABELUX FORUM 2019

PARIS, 20 MARCH

InvestmentEurope returns to Paris on 20 March for the Frabelux Forum 2019, bringing together fund buying professionals from France, Belgium and Luxembourg, who will gain access to investment ideas.

This event will offer 30 fund selector delegates access to ideas from up to six management groups.

To register your interest in attending the Frabelux Forum 2019, contact Vanessa Orlarey at vanessa.orlarey@odmpublishing.com or phone +44 (0) 74 7393 4144.

INVESTMENT EUROPE
IBERIAN SUMMIT BARCELONA 2019

BARCELONA, 30-31 MAY

InvestmentEurope is targeting the launch of its inaugural Iberia Summit Barcelona 2019 on 30-31 May, at the Hotel Sofia.

This event is for Spanish and Portuguese fund selectors and will feature a mixed format of interactive panel discussion as well as dedicated workshops/boardroom sessions for the 40 targeted selector delegates and 10 participating asset management groups.

To register interest in attending the Iberian Summit 2019, contact Angela Oroz at angela.oroz@odmpublishing.com or +44 (0) 20 3727 9920.

Further information on this event and other events is available at: www.investmenteurope.net/events.

➤ The calendar of *InvestmentEurope*'s 2019 events up until September is presented overleaf.

EVENTS CALENDAR 2019

8 March	Milan	Forum
12-13 March	Stockholm	Nordic Summit
Sweden's capital city once again hosts a two-day event for some 40 fund selectors based across the Nordic region, with boardroom sessions, networking and a keynote		
20 March	Paris	Frabelux Forum
30-31 May	Barcelona	Iberian Summit
5 June	Oslo	Roundtable
6-7 June	Rome	Italian Summit
13-14 June	Zurich	Pan-European ESG Summit
Building on last year's successful ESG Roundtable, InvestmentEurope is offering a content-led event with a programme that speaks to the myriad of issues and challenges facing fund buyers on this theme		
24 September	Helsinki	Roundtable
25 September	Reykjavik	Roundtable
2-4 October	Milan	Pan-European Sub-Advisory Summit
The second such event of 2019 following the London event in February, this Summit event will provide insight into developing and maintaining prosperous sub-advised relationships		

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

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

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

26 Number of SharingAlpha top rated funds for all 2018

SharingAlpha

SharingAlpha CEO and co-founder Oren Kaplan recently took part in a podcast with Jonathan Boyd

Speaking out

Those looking to obtain a flavour of the ethos behind the SharingAlpha platform now have the opportunity to hear the thoughts of CEO and co-founder Oren Kaplan directly.

Recently he joined Jonathan Boyd, editorial director of Open Door Media Publishing, to discuss the background to the SharingAlpha story, how its services have been developing and what the future developments may be in terms of not only European but also global presence among the fund selector community.

The podcast can be found on the *InvestmentEurope* website here: https://www.investmenteurope.net/news/4000452/podcast-exclusive-oren-kaplan-sharingalpha-rating-funds-fund-selectors.

TOP FUNDS

On the basis of the data collected from its user base, SharingAlpha has also published the list of top rated funds for all of 2018 (see right).

This is based on the methodology applied, which asks platform users to rate funds by people, price and portfolio. ■

Oren Kaplan, SharingAlpha

TOP RATED FUNDS FOR 2018

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.

Category	Fund
Asia ex-Japan Equity	Stewart Investors Asia Pacific Ldrs Fd
Asia Fixed Income	Matthews Asia Fds Asia Credit Opps
Asia Equity	Fidelity Pacific Fund
Greater China Equity	Janus Henderson China Opportunities Fund
Convertibles	Lazard Convertible Global
Emerging Markets Equity	Templeton Frontier Markets Fund
Emerging Markets Fixed Income	DPAM L Bonds Emerging Markets Sust
Europe Equity Large Cap	Liontrust European Income Fund
Europe Equity Mid/Small Cap	azValor Iberia FI
Euro Fixed Income	La Française LUX Multistratagies Obligataires
Global Equity Large Cap	Cobas Seleccion FI
Global Equity Mid/Small Cap	Baillie Gifford Global Discovery Fund
Global Fixed Income	PIMCO GIS Global Bond Fund
High Yield Fixed Income	Manulife Emerging Markets Debt Fund
India Equity	Kotak India Midcap Fund
Japan Equity	Parvest Equity Japan Small Cap
Real Estate Sector Equity	AXA Aedificandi
Technology Sector Equity	Pictet-Robotics
UK Equity Large Cap	Liontrust Special Situations Fund
UK Equity Mid/Small Cap	Liontrust UK Smaller Companies Fund
US Fixed Income	Nomura Fds US High Yield Bond Fund
US Equity Large Cap Blend	Vanguard US Opportunities Fund
US Equity Large Cap Growth	MS INVF US Growth Fund
US Equity Large Cap Value	Robeco BP US Premium Equities
US Equity Mid Cap	Threadneedle American Smlr Coms Fd(US)
US Equity Small Cap	Nuveen NWQ Small-Cap Value Fund

As at end of 2018 Source www.SharingAlpha.com

InvestmentEurope's Editorial Board members give their views on downside risks, liquid alternatives and China

Ideas generation

EMMANUEL FERRY

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

Is there any asset class you are particularly concerned about regarding downside or upside risk?

Corporate Credit might be the epicentre of the next financial crisis. Valuations are extreme and dispersion in balance sheet quality is wide among issuers. Net leverage is high and interest cover will gradually deteriorate.

The credit cycle is mature. Defaults would not rise unless there was an economic downturn and an increase in volatility. In the US, the Fed has flagged its normalisation process properly, and that has been priced into spreads. The EM crisis (Turkey and Argentina), the Sovereign crisis in Europe (Italy) and the likelihood of corporate fallen angels (GE, AT&T) are early warnings of the fragile environment.

THOMAS ROMIG

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

Is there any asset class you are particularly concerned about regarding downside or upside risk?

European corporate hybrids currently offer an extra return of around 3%. This significant return pickup – compared to European corporate bonds with an investment grade rating – was caused by the latest risk-off rally.

In the long run a favourable regulation will lead to massive market growth and attractive issue premiums. Furthermore, a good liquidity of European corporate hybrids is ensured, because they are part of wide credit indices. Of course there are some potential risks, but overall, we believe that the upside potential of European corporate hybrids dominates.

BERNARD AYBRAN

CIO Multi Management
Invesco
Paris
www.invesco.com

With markets behaving the way they are, what does this suggest about the behaviour of risk premia strategies (liquid alts)?

The very goal of risk premia strategies was to profit from opportunities of performance that would be moderately correlated with the overall direction of financial markets and that would exhibit a degree of consistency over time.

The fact that many such strategies peaked late January last year, in synch with stock markets, casts some doubt on the whole assumption.

As was already the case with more traditional asset classes and investment styles, the fickleness of inter-assets correlations keeps on interfering with portfolio construction.

JON BECKETT

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

What professional skills should selectors be thinking about updating this year?

Tomorrow's New Fund Selectors will share many of the core instincts of today's yet differ in skills, systems and methodologies. In the New Fund Order they will more easily adapt to assessing; ETFs, sustainability, cost analysis, statistical, Algo and AI strategies. They will seamlessly allocate active and index managers.

As a generation of increasingly professional and accredited fund investors they will become more globalised, specialised, employ new screening, behavioural economics and due diligence methods. Versed in automation; both assessing and using embedded technology.

FILIPPO STEFANINI

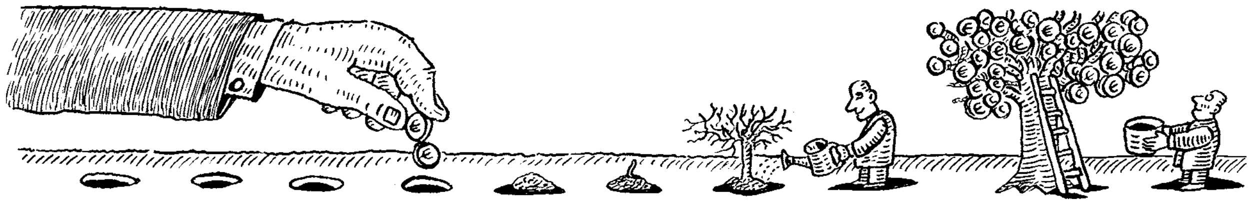
Head of Multimanager Investments & Unit Linked
Eurizon Capital SGR
Milan
www.eurizoncapital.com

With dire warnings about growth in China, is now actually the best time to consider increasing exposure?

Worries about a US-China trade war are slowing global trade. However, the PBOC is exected to ease monetary policy in response.

Consumption and reform of state owned enterprises are interesting themes on equity (A shares). On the bond side China debt will start to be included in the Bloomberg Barclays Global Aggregate index in April, assuming certain conditions are met.

In any case the best way to increase the exposure to China will be using active funds as it is a regulated market where specialised managers can add value.



Introducing the new breed of fund selector

The Association of Professional Fund Investors (APFI) is a registered Swiss non-profit, all-volunteer organisation exclusively composed of and led by professional fund investors. Founded in 2011, it serves members on six continents.

For more information visit www.profundinvestors.com.

Noting the changes ongoing around the fund selector community, members of the Board and the Leadership Team at the Association of Professional Fund Investors has outlined a number of attributes it sees in the era of the 'new' fund selector operating in the era of cross-border funds, technology developments and altered business models of fund manufacturers and asset managers.

PERSONAL

- Embraces cognitive diversity, gender, race, socioeconomic class, and so on.
- Awake, ethically and socially as well as being sustainably minded.
- Open to reinventing themselves for the modern age.
- Comfortable with change and ambiguity, especially of institutional structure.
- Intellectually agile, capable of thinking 'outside the box'
- Ability to work remotely not just inside four walls – the non-traditional office.
- Curious and willing to maintain learning in areas already understood as an expert, but also with humility to be able to adapt to changing environments and client needs.
- Personable and approachable – helps develop relationships for more transparent and genuine responses from fund managers.
- Dedication to the hours and reading required to really understand sectors, asset classes and due diligence technique.
- Has a strong understanding of how financial markets work.

TECHNOLOGY

- Adopts new screening and quantitative tools – away from standard past performance methods.
- Tech-minded: savvy about the opportunities from AI, machine-learning, robots coding, quant, and embracing Fintech.
- Networked and comfortable communicating on any platform, eg, Xing/LinkedIn.
- Comprehensive due diligence leveraging technology: effectively blending quantitative and qualitative DD to complete the mosaic – including leveraging technology like AI to select and monitor funds.

ESG

- Has a strong sense of fund governance pre and post selection.
- Cost conscious, actively explores efficiencies and optimum economic value – that is, the most economically efficient means to deploy a strategy.
- Integrates ESG principles in investment and operational due diligence.

FOCUS

- Client orientated: listens to them, understand their needs and provide solutions.
- Believes the best ways of investing tomorrow may not be the same as yesteryear.
- Invests in both index and active strategies, empirically driven rather than marketing led.
- Investment vehicle agnostic, user of mutual funds, ETFs, and so on.
- Selects boutique specialists as much as large asset managers.
- Performs monitoring and ongoing due diligence with the same effort as the first selection process.
- Implements good sell discipline, with an ability to move out of the fund either when the investment thesis goes wrong or when the macro fundamentals warrants a switch even if nothing is inherently wrong with the product.
- Understands that the long term is a series of short-term time periods. A good fund selector will understand and monitor fund behaviour over shorter-time periods but their analysis will remain within the context of the long-term. There is nothing worse than fund selectors continually recommended poor-performing funds and eventually pulling the recommendation after 2-3 years of serial underperformance.

These are some of the traits currently identified, yet more could come to the fore in future. ■

GETTING CERTIFIED/ BECOMING A MEMBER

Current APFI members meeting the qualifications for the Accredited Professional Fund Investor (APFI) certifications should contact their respective country representative to have their relevant experience vetted and to confirm they meet the APFI qualifications. The FAPFI certification will be available in certain jurisdictions following the launch of the APFI Fellowship Exam starting next year. Global rollout will follow.

To become an APFI Member, an individual fund investor or manager due diligence professional can sign-up online at www.profundinvestors.com.

ITALY ALPHA 3-YEAR

Fund	Alpha over 36 months v. sector
Boost Palladium 2x Leverage Daily ETP in EU	86.17
ETFS Carbon EUR in EU	73.38
Xtrackers Physical Rhodium in EU	53.42
Xtrackers Physical Palladium ETC USD in EU	34.54
Invesco Physical Palladium in EU	34.05
ETFS Physical Palladium JPY in EU	33.87
ETFS 2x Daily Long Zinc USD in EU	33.34
Bradesco Brazilian Equities Mid Small Caps R EUR USD in EU	30.83
ETFS 3x Daily Short Coffee USD in EU	29.74

ITALY CROWN + PERFORMANCE

Fund	Crown rating	36 months
DWS Invest Brazilian Equities NC in EU	x5	170.91
BNY Mellon Brazil Equity A EUR in EU	x5	145.04
Polar Capital Global Technology USD in EU	x5	99.58
HSBC GIF BRIC Equity M2C NAV USD in EU	x5	92.94
Allianz Global Metals and Mining AT NAV EUR in EU	x5	92.80
HSBC GIF BRIC Markets Equity AC NAV USD in EU	x5	90.69
Fidelity Global Technology A EUR in EU	x5	84.52
Pictet Russian Equities R EUR in EU	x5	84.04
Janus Henderson Global Technology A Acc USD in EU	x5	83.51

ITALY SHARPE 3-YEAR

Fund	Sharpe
Boost Palladium 2x Leverage Daily ETP in EU	1.30
Xtrackers Physical Rhodium in EU	1.24
Xtrackers Physical Palladium ETC USD in EU	1.24
ETFS Physical Palladium JPY in EU	1.22
Invesco Physical Palladium in EU	1.21
Absalon EM Corporate Debt I EUR in EU	1.19
Bradesco Brazilian Eq Mid Small Caps R EUR USD in EU	1.17
Fiera Capital Europe Magna MENA N EUR in EU	1.14
Fidelity Global Technology A EUR in EU	1.10

ITALY PERF/VOLATILITY 3-YEAR

Fund	Cumulative	Annualised
Boost Natural Gas 3x Short Daily ETP in EU	-91.75	120.61
ETFS 3x Daily Short Natural Gas in EU	-92.13	116.61
Boost Natural Gas 3x Leverage Daily ETP in EU	-93.59	115.59
ETFS 3x Daily Long Natural Gas USD in EU	-91.18	112.30
Boost WTI Oil 3x Short Daily ETP in EU	-94.92	92.80
Boost WTI Oil 3x Leverage Daily ETP in EU	-26.46	91.90
ETFS 3x Daily Long Nickel USD in EU	-10.68	89.57
Boost Brent Oil 3x Short Daily ETP in EU	-96.75	87.71
ETFS 3x Daily Short Nickel USD in EU	-91.17	87.39

ITALY FIXED INTEREST 3-YEAR

Fund	36 months cumulative
HSBC GIF Brazil Bond AD NAV USD TR in EU	69.47
Bradesco Brazilian Fixed Income R USD in EU	58.85
Santander AM Brazilian Fixed Income A in EU	48.90
Aberdeen Global Brazil Bond A Acc USD in EU	43.90
Vontobel Emerging Markets Bond I in EU	41.72
Natixis Loomis Sayles High Income R EUR in EU	34.52
AXA World Fds US Dynamic High Yield Bds A Cap USD in EU	33.58
Edmond de Rothschild EDRF Emerging Credit A USD in EU	33.10
Franklin Global Convertible Securities A Acc USD in EU	32.31

ITALY BETA 3-YEAR

Fund	Beta over 36 months v. sector
Boost BTP 10Y 5x Short Daily ETP in EU	-18.96
Boost BTP 10Y 3x Short Daily ETP in EU	-11.42
Boost Bund 10Y 5x Short Daily ETP in EU	-7.78
Lyxor UCITS ETF Daily Double Short BTP EUR in EU	-7.64
Boost WTI Oil 3x Short Daily ETP in EU	-5.70
Boost Brent Oil 3x Short Daily ETP in EU	-5.63
ETFS 3x Daily Short Nickel USD in EU	-5.12
Boost Short USD Long EUR 5x Daily ETP in EU	-5.04
ETFS 3x Daily Short DAX 30 EUR in EU	-4.75

ITALY PERF/SIZE 3-YEAR

Fund	Cumulative	Size (€m)
Boost Palladium 2x Leverage Daily ETP in EU	435.21	0.9
ETFS Carbon EUR in EU	272.80	21.6
Xtrackers Physical Rhodium in EU	222.50	38.8
Boost NASDAQ 100 3x Lev Dly ETP in EU	182.30	27.0
DWS Invest Brazilian Equities NC in EU	170.91	43.2
Xtrackers Physical Palladium ETC USD in EU	158.01	6.4
Amundi MSCI Brazil UCITS ETF C in EU	157.19	11.4
iShares MSCI Brazil UCITS ETF Acc USD in EU	155.80	31.2
Lyxor MSCI Brazil UCITS ETF Acc EUR in EU	153.87	197.0

ITALY INFORMATION RATIO 3-YEAR

Fund	Ratio rel vs sector
Vontobel Emerging Markets Bond I in EU	1.79
BNP Paribas ABS Europe AAA I in EU	1.78
Fidelity Global Technology A EUR in EU	1.73
Carmignac Portfolio Long-Short European Equities E EUR Acc in EU	1.73
Pharus Sicav Liquidity A EUR in EU	1.70
Russell IC Acadian European Equity UCITS A Acc EUR in EU	1.67
iShares Euro Corporate Bond BBB-BB UCITS ETF EUR TR in EU	1.67
LO Asia Value Bond MA USD in EU	1.65

Source for all charts FE Analytics, bid-bid, to 25/1/2019.
All figures in % and are gross return rebased in euros

The long and short of it

Leveraged long and leveraged short ETF plays on commodities dominate the wilder ends of the attribution spectrum – whether looking at alpha or beta scores in the Italian fund market.

Of course, a number of these plays are denominated in euros rather than dollars, which means the movement of the underlying asset may be further distorted by foreign exchange movements. The policy direction for US Federal Reserve rates this year could prove crucial not only for investor sentiment towards commodities, but also in terms of the impact on returns denominated in euros, should a gap appear in policy direction with the European Central Bank.

That is not to say commodities or geographic exposure where commodities weigh heavily should be avoided. The returns from Brazilian and Russian equity as well as metals and mining funds can also be consistent, according to the Crown ratings scores.

Bonds of Brazil have done well for fixed income investors too.

Still, the volatility scores exhibited by leveraged ETFs are no doubt something for investors to keep in mind, notwithstanding the returns achieved over the period from certain assets. ■

GROSS RETURNS ON FUNDS FOR SALE IN ITALY REBASED IN EUROS

Fund	1m	3m	6m	1yr	3yr	5yr	10yr
Boost Palladium 2x Leverage Daily ETP in EU	18.73	38.44	93.03	44.48	435.21	147.45	
ETFS Carbon EUR in EU	-4.55	23.06	34.30	149.68	272.80	290.68	45.68
Xtrackers Physical Rhodium in EU	2.62	0.71	9.01	68.46	222.50	131.84	
Boost NASDAQ 100 3x Leverage Daily ETP in EU	43.43	-19.14	-35.14	-17.93	182.30	408.43	
DWS Invest Brazilian Equities NC in EU	13.08	15.82	30.59	21.93	170.91	54.64	
Xtrackers Physical Palladium ETC USD in EU	10.67	22.24	49.39	34.59	158.01	116.82	
Amundi MSCI Brazil UCITS ETF C in EU	18.75	14.10	23.09	7.66	157.19	53.18	
iShares MSCI Brazil UCITS ETF Acc USD in EU	17.66	13.78	22.61	7.13	155.80	51.90	
Lyxor MSCI Brazil UCITS ETF Acc EUR in EU	14.13	10.63	22.21	2.81	153.87	49.11	61.14
HSBC MSCI Brazil NAV GBP TR in EU	16.34	12.50	21.25	6.20	153.17		
Xtrackers MSCI Brazil UCITS ETF 1C USD in EU	14.18	10.77	22.63	3.89	151.35	52.05	86.05
Invesco Physical Palladium in EU	6.65	19.25	44.59	31.24	151.21	108.81	
ETFS Physical Palladium JPY in EU	6.65	19.22	44.51	31.11	150.46	107.76	667.11
iShares MSCI Brazil UCITS ETF Inc USD TR in EU	14.85	11.33	23.07	4.04	150.18	51.69	86.61
Bradesco Brazilian Equities Mid Small Caps R EUR USD in EU	14.32	17.93	28.25	16.85	146.49	61.33	
BNY Mellon Brazil Equity A EUR in EU	12.34	10.96	22.57	13.08	145.04	58.03	126.31
ETFS 2x Daily Long Zinc USD in EU	14.91	1.27	10.60	-35.07	139.90	33.66	25.59
Invesco STOXX Europe 600 Optimised Basic Resources in EU	5.09	3.31	-5.37	-9.02	133.47	25.08	
HSBC GIF Brazil Equity AC USD in EU	16.68	16.79	24.51	7.06	131.25	25.17	96.47
Parvest Equity Brazil Classic Cap USD in EU	14.14	12.16	20.58	2.36	129.54	33.95	

World 50 funds

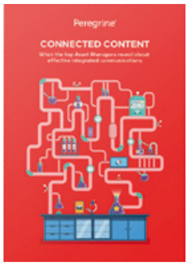
Market volatility seen in the last month of 2018 is visible in the presence of funds offering exposure to the VIX index. Similarly, falling share prices would have boosted returns from funds going short

NAME	LIPPER GLOBAL SECTOR	% GR 1YR 31/12/17 TO 31/12/18	SHARPE RATIO 1YR 31/12/17 TO 31/12/18	FUND VALUE (€M)	FUND MGT CO	DOMICILE
1. iPath ETN Global Carbon;A	Commodity Energy	242.88	1.00	11.02	Barclays Bank PLC	USA
2. ETFS Carbon EUR	Unclassified	193.03	0.64	16.95	ETFS Mgt Co (Jy) Ltd	Jer
3. Vestas Investment Specialist Prv Real Estate 11	Undisclosed	154.99	0.4	22.43	Vestas Investment Mgmt	RoK
4. Direxion Daily Natural Gas Rel Bear 3X Sh	Alternative Other	137.1	0.29	5.77	Rafferty Asset Management LLC	USA
5. Boost Euro Stoxx Banks 3X Short Daily ETP	Unclassified	133.15	0.32	5.72	Boost Mgmnt (Jer) Ltd	Ire
6. MUKAM KOKUSAI S&P500 VIX STF IdxETF	Alt Managed Futures	85.58	0.24	105.55	MitsubishiUFJ Kokusai AM	Jap
7. iPath ETN S&P 500 VIX ST Ftrs A	Unclassified	82.26	0.21	777.14	Barclays Bank PLC	USA
8. VelocityShares VIX Short-Term ETN	Unclassified	75.14	0.2	22.48	Credit Suisse AG	USA
9. ProShares VIX Short-Term Futures ETF	Unclassified	73.6	0.2	130.78	ProShare Advisors LLC	USA
10. ProShares Ultra VIX Short-Term Futures ETF	Unclassified	65.57	0.13	180.38	ProShare Advisors LLC	USA
11. Alpenroute Fleet6 Spec Private 1 Class C-A	Undisclosed	61.57	0.18	5.01	Alpen Route	RoK
12. Direxion Dly S&P O&G Exp & Prod Br 3X Sh	Alternative Other	56.67	0.12	41.11	Rafferty Asset Management LLC	USA
13. Direxion Dly MSCI Dev Mkts Bear 3x Shs	Alternative Other	55.48	0.29	5.34	Rafferty Asset Management LLC	USA
14. ETFS 3x Daily Short DAX 30 (DE)	Unclassified	53.5	0.33	18	ETFS Mgt Co (Jy) Ltd	Jer
15. Boost ShortDAX® 3x Daily ETP	Unclassified	51.84	0.32	6.95	Boost Mgmnt (Jer) Ltd	Ire
16. Direxion Daily Energy Bear 3x Shares	Alternative Other	51.45	0.14	23.01	Rafferty Asset Management LLC	USA
17. AfricaRhodium ETF	Commodity Prec Metals	50.14	0.68	19.85	Africa ETF	RSA
18. db Physical Rhodium ETC USD	Commodity Prec Metals	49.62	0.48	38.85	Deutsche Bank AG (London)	Jer
19. DGB Index Linked Specialist Prv Deriv 21	Undisclosed	49.54	0.49	46.99	DGB Asset Mgmt Co Ltd	RoK
20. Daiwa Jap Topix Bear	Equity Jap	47.81	0.25	6.92	Daiwa Asset Mgmt (Sing)	Cay
21. Pionero Renta Plus	Bond USD	46.61	2.46	155.22	Macro Fondos SGFCI SA	Arg
22. Mirae Asset TIGER 200 Futures Inv 2X ETF	Unclassified	44.68	0.3	66.62	Mirae Asset Global Inv	RoK
23. KB KBSTAR 200 Futures Inverse 2X ETF	Unclassified	44.49	0.3	35.21	KB AM	RoK
24. Kiwoom KOSEF200 Futures Inv 2X ETF	Unclassified	44.19	0.3	10.74	Kiwoom Asset	RoK
25. Samsung KODEX 200 Futures Inv 2X ETF	Unclassified	44.18	0.29	283.5	Samsung AMC	RoK
26. ProShares UltraShort Oil & Gas	Alternative Other	42.49	0.17	16.1	ProShare Advisors LLC	USA
27. Direxion Daily MSCI EMBear 3x Shs	Alternative Other	39.88	0.16	65.17	Rafferty Asset Management LLC	USA
28. HSBC Saudi Financial Institutions Equity Fd	Equity Sector Financials	38.97	0.42	18.12	HSBC KSA ltd	KSA
29. ProShares UltraShort FTSE Europe	Alternative Other	38.54	0.28	18.28	ProShare Advisors LLC	USA
30. Xtrackers Sh DAX x2 Dly Swap Ucits ETF 1C	Unclassified	38.32	0.38	110.65	Deutsche Asset M	Lux
31. Odey Swan R EUR	Absolute Return EUR High	37.5	0.75	52.32	Odey Asset Management	Ire
32. ProShares UltraShort Basic Materials	Alternative Other	37.2	0.24	6.65	ProShare Advisors LLC	USA
33. Multi AM Global Pship Prv Plc Eq Mxd	Undisclosed	36.8	0.41	38.42	Multi Asset	RoK
34. BIGGEORGE'S NV 4. Ingatlanforgalmazo ba	Real Estate European	36.35	0.63	24.69	Biggeorge's-NV Ingatlan	Hun
35. Lyxor Daily ShortDAX X2 UCITS ETF Acc	Unclassified	36.17	0.35	75.9	Lyxor Intl AM	Fra
36. ProShares UltraShort MSCI Jap	Alternative Other	36.13	0.25	7.52	ProShare Advisors LLC	USA
37. L&G DAX Daily 2x Short UCITS ETF	Unclassified	35.44	0.35	72.23	LGIM ETF Manager	Ire
38. Daiwa ETF Jap TOPIX Double Inv (-2x) Ind	Unclassified	35.39	0.21	12.05	Daiwa AM	Jap
39. Direxion Dly CSI 300 China A Sh Bear 1X Sh	Alternative Other	35.25	0.35	57.47	Rafferty Asset Management LLC	USA
40. Simplex TOPIX Bear -2x ETF	Unclassified	34.97	0.2	59.76	Simplex AM	Jap
41. Hana Alternative Landship Prv Plc Rl Est 67	Undisclosed	34.15	0.41	12.05	Hana Alternative	RoK
42. Alawwal Invest Saudi Financial Equity	Equity Sector Financials	33.4	0.46	9.81	Alawwal Invest SAU Ltd L	KSA
43. Daiwa Jap Nikkei 225 Bear	Equity Jap	33.27	0.14	5.7	Daiwa Asset Mgmt (Sing)	Cay
44. iPath ETN S&P 500 VIX MT Ftrs A	Unclassified	32.46	0.19	41.81	Barclays Bank PLC	USA
45. H2O Multibonds R(C)	Alternative Multi Strategies	32.19	0.37	2209.68	H2O AM LLP	Fra
46. ETFS Daily Leveraged Cocoa	Unclassified	31.6	0.08	9.26	ETFS Commodities Sec Ltd	Jer
47. VelocityShares Daily 2x VIX Short-Term ETN	Unclassified	31.5	0.05	416.13	Credit Suisse AG	USA
48. ProShares VIX Mid-Term Futures ETF	Unclassified	31.48	0.19	49.25	ProShare Advisors LLC	USA
49. Direxion Daily Small Cap Bear 3x Shares	Alternative Other	31.07	0.1	254.21	Rafferty Asset Management LLC	USA
50. ProShares UltraShort MSCI EM	Alternative Other	30.31	0.17	23.27	ProShare Advisors 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.

New research from Peregrine into the communications effectiveness of asset managers shows a sharp decline in organic search volume (down 31% year-on-year) through Google with fewer than one-in-four seeing an increase. Ridhima Sharma explains

Challenges affecting asset managers' communications



Peregrine research analysed the integrated marketing communications (IMC) performance of 100 European asset management firms.

The aim of this study was to provide an insight into how well the asset management industry performs across the spectrum of IMC activities.

The report, *Connected Content*, ranks the 100 leading European asset managers in terms of how they promote their businesses across the spectrum of IMC activity. The three highest ranked performers, respectively, were Vanguard, Fidelity Investments and Natixis Investment Management.

The quantitative report, based on analysis conducted on over 7,000 data points, unveils best practices for the most effective use of multi-channel communications and provides a methodology for tracking IMC effectiveness across six core key metrics including: Messaging Effectiveness; Brand Awareness; Google Page 1 Strength; Media Sentiment; Social Media Presence and Website Effectiveness.

The decline coincides with a difficult period for the share price performance of listed asset management firms. It also comes as industry research shows that the asset management sector is boosting marketing spending, including the use of digital, and expects to continue to do so in 2019.

"This research shows the key challenges facing marketers as they look to improve the effectiveness of their marketing at a vital point where competition and resistance to traditional marketing are dramatically increasing," says Anthony Payne, CEO of Peregrine Communications.

"For us, the report is about far more than simply ranking firms according to their integrated communications performance; it is the foundation for two exciting new developments," adds Peregrine Communications account manager Josh Cole,

"Firstly, it provides the first benchmark and methodology for tracking and improving the communications activities of our clients. And secondly, it provides a powerful research group for further analysis, particularly as we dig into the detail of which behaviours truly separate the best from the rest."

BENEFITS

Integrated marketing offers asset managers the opportunity to leverage content across multiple channels to maximise their target audience's time, attention, and engagement. Although many managers recognise that integrated marketing is the right approach for the digital age, there is no real consensus about what constitutes best practice.

Peregrine's research focuses on improving how the various IMC tools can be made to work better together. ■

Connected Content can be downloaded at: https://peregrinecommunications.com/library/insights/connected-content.

KEY FINDINGS

- Connected content creates dynamic benefits: of the 20 firms active across all 3 social media platforms – LinkedIn, Twitter and YouTube – 85% of them had above average Google Page 1 scores.
- 22% of all asset managers studied had a poor Google Page 1 score.
- 20% of the 'Best Practice Group' were not in the top third for current Brand Awareness.
- 65% of the 'Best Practice Group' had above average Media Sentiment scores.
- 75% of the 'Best Practice Group' had above average Messaging Effectiveness scores.
- There was an average decrease in organic search traffic of 30.5% across the industry (based on all firms studied) year-on-year to September 2018.
- 20% of all the firms studied have no regular presence across social media at all.
- 96% of all the asset management firms have a LinkedIn presence, making it the most favoured medium (this compares to 94% in 2017).
- Only 58% of managers have a YouTube channel.
- 84% of managers post high quality educational or video content across at least one social media channel, but just 20% post regularly across all three channels.
- 25% of the 'Best Practice Group' were able to deliver outstanding IMC results without making it into the top 30 firms by brand awareness.
- The highest score a firm could achieve was 54; the average score was 33.

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