INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

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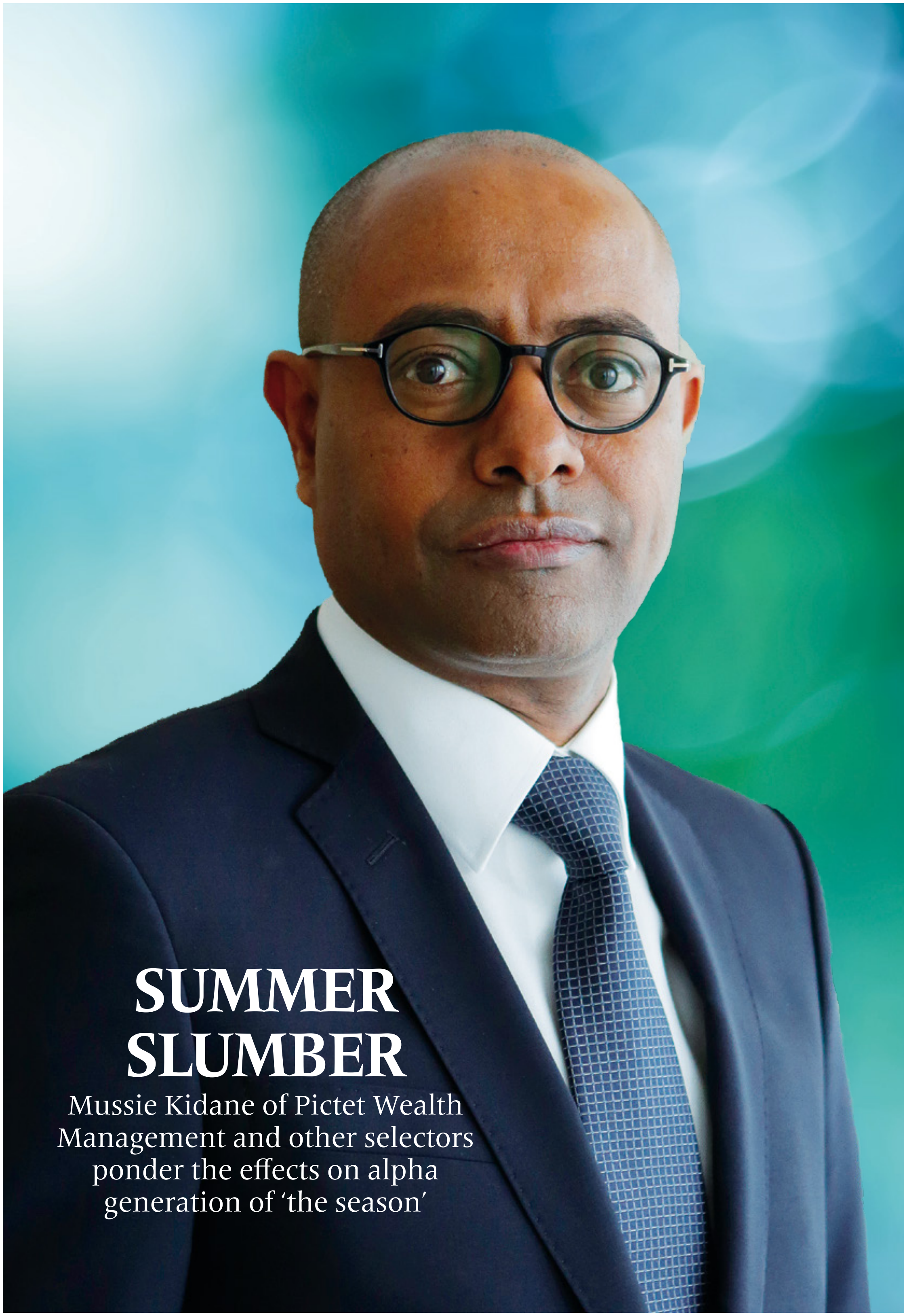

SUMMER SLUMBER

Mussie Kidane of Pictet Wealth Management and other selectors ponder the effects on alpha generation of 'the season'

Spotting gems

Ion Zulueta of Arcano Partners on selecting for a family office unit

Launching latest

Horos AM lands in Spain

Long term play

Mandarine's microcap view

Fixed income bets

Jonathan Cohen, Cédric Özazman of Reyl & Cie on niche credit searches

Tech arbitrage

Swiss and French pick between BATXs or FAANGs

Controlled steps

M17's development plans

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EVENT REPORTS

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COPENHAGEN, 30 OCTOBER 2018

BENEFIT FROM THE KNOWLEDGE OF LEADING FUND MANAGERS

***InvestmentEurope* is pleased to present the Copenhagen Forum 2018, taking place on 30th October at the Hotel d'Angleterre.**

Delegates will benefit from the knowledge and key insights of five leading fund managers as well as the opportunity to discuss the latest developments in the investment market. The event also offers a highly effective platform for networking with peers and other leading minds in the industry. The forum is specifically designed for key fund selectors in the region.

Complimentary attendance for professional investors involved in fund selection.

INVESTMENT EUROPE
COPENHAGEN ROUNDTABLE 2018

EVENT INFORMATION

DATE: 30th October 2018
START TIME: 09:00
END TIME: 12:00
LOCATION: Hotel d'Angleterre

Register today to secure your free place at this exclusive event.
RSVP: patrik.engstrom@odmpublishing.com or +44 (0)20 3727 9940

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

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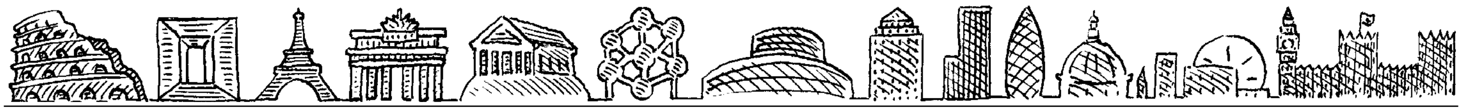

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INSIDE THIS ISSUE
Considering key developments in the sub-advisory market ahead of the Pan-European Sub-Advisory Summit 2018 in October

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INVESTMENT EUROPE
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School's Out

Jonathan Boyd, editorial director of *InvestmentEurope*

For those of a certain age (ahem), the song that put Alice Cooper on the map of contemporary music serves as good a marker as ever on the possible dangers facing portfolio managers as thoughts turn to the summer months.

For, unlike George Gershwin, who suggested "the livin' is easy" in the summertime, Cooper suggested that not only do the children get to enjoy free time, but in doing so they might actually blow up the school. Just for fun.

That element of unexpected volatility and downside risk is something that markets witnessed in the summer months of 2011. And 2012. And a not insignificant number of summers since the Big Bang, for those who follow FTSE indices.

It is apt then to consider not only what DDQs need to incorporate by way of understanding how portfolio managers reduce the risk of something blowing up either because of market volatility or because they are on holiday, but also to understand what the thoughts of fund selectors may be in approaching the issue of managers being human beings and needing time away from the office.

This is especially true because analysis of performance data both supports and debunks the myth that investor should go away in May and not return to the markets before the eponymous St Leger Stakes. It is no small irony that investment decisions of a serious nature are linked to pure gambling in the form of a horse race – even if that race has outlived every company globally bar few since 1776.

SUB-ADVISORY SUPPLEMENT

Don't forget to also peruse our special supplement on the upcoming Pan-European Sub-Advisory Summit 2018.

Taking place 4-5 October in Milan, this event promises key insight into this rapidly growing area.

Ongoing updates and information around this event are also available via www.investmenteurope.net/event/pan-european-sub-advisory-summit-milan-2018. ■

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UPCOMING EVENTS

InvestmentEurope's events programme continues with a visit to its northernmost venue in Iceland for the Reykjavik Roundtable 2018 on 13 September.

Thereafter follows a busy October with the inaugural Pan-European Sub-Advisory Summit 2018 on 4-5 October in Milan, the Pan-European Summit Hamburg 2018 on 17-19 October, the Madrid Forum 2018 on 25 October and the Copenhagen Roundtable 2018 on 30 October.

Zurich, Milan and Tel Aviv respectively host Forum events in November. The final month of 2018 will see selectors targeted with an event in Stockholm, ahead of London hosting the latest round of the *InvestmentEurope* Fund Manager of the Year Awards – to which both sell side and buy side are invited to celebrate the best of cross-border funds and selection.

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

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


HAMBURG

Fund selectors in the news

Investors give their views on post-Brexit Dublin, favoured tech and other themes

www.bancamediolanum.it

Name: Christophe Jaubert
Role: Head of Investments
Company: Mediolanum
Base: Dublin

Do you perceive many managers are picking Dublin for their European base ahead of Brexit?

Dublin has long been recognised as a key strategic location for international firms across a range of international industries particularly finance and technology. It is business friendly with a reputation for innovation and regulatory excellence.

Being a vibrant international city, which is also English speaking helps, as it can attract talent from everywhere. This is a clear plus compared to other potential cross border financial centres in Europe.

Dublin also ranks highly in international comparisons regarding quality of life. Only the price of real estate can be a headwind.

www.reyl.com

Name: Jonathan Cohen
Role: Portfolio manager, in charge of long-only fund selection
Company: Reyl & Cie
Base: Geneva

What is your stance on total return and unconstrained bond funds?

Total return funds can form an additional option, but maybe later in the cycle.

It has become fashionable for fund providers. We started removing unconstrained fixed income funds mid-2015 because we favoured niches. That said, having some unconstrained investment solutions in an allocation grid has made sense since a few months ago.

We want to know what is in a portfolio and there is a need for defined guidelines.

www.dauphine-patrimoine.fr

Name: Guillaume Di Pizio
Role: Chief investment officer
Company: Dauphine Asset Management
Base: Paris

Do you favour other tech names than FAANGs?

Alibaba, Tencent and Baidu trade at valuations that are below these of FAANGs. However, only around half of the Chinese population uses the internet.

The market that can be addressed in China is colossal. Moreover, Facebook and Google cannot enter this market, which is not reciprocal like we have seen with Alibaba that can impose its payment methodology Alipay in the US.

www.xaia.com

Name: Jochen Felsenheimer
Role: Managing director
Company: XAIA Investment
Base: Frankfurt

Where are you seeing opportunity in the short/long term?

Increasing volatility in the global financial markets will provide new opportunities as a 30-year yield downward trend seems to be coming to an end.

This development will be the basis for the implementation of market neutral strategies, which are benefitting from market disruptions and high levels of volatility.

http://ifk-invest.de

Name: Martin Wilhelm
Role: Founder & chief investment manager
Company: Institut für Kapitalmarkt
Base: Frankfurt

How will Fed and ECB interest rate rises affect bonds?

The US has an unemployment rate of 4%, GDP growing at 3% and inflation around 2.5%. Increasing interest rates are widely expected and in the past the Fed acted within its guidelines.

Since the financial crisis in 2008/9 and QE, the Fed has stopped buying government bonds, started shrinking its balance sheet and increased interest rates without major impacts on markets. We expect this path of Fed policy to continue, therefore no big downward moves on financial markets due to interest rate changes.

In the eurozone we have a different situation. Unemployment is falling but still high at 8.5% (in some countries above 15%) and inflation is below 2%. Therefore, we expect an end to the purchase program by end 2018, added to by a first interest rate increase in mid-2019.

www.morabanc.ad

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

Do you review portfolio positions before leaving on holidays?

We prepare the portfolios depending on potential scenarios. We always have managers working in the office even during bank holidays so the summer or winter holidays do not change substantially the way we manage portfolios.

In our case we do not perform specific operations before holidays to close some trade or investment. What we do is to prepare the portfolios according to our market view. If the market situation changes we can adapt the portfolios.

www.piguetgalland.ch

Name: Léonard Dorsaz
Company: Banque Piguet Galland & Cie
Role: Head of External Fund Selection, alternative and long-only funds
Base: Geneva

What is the focus of your current fund searches?

We are quite happy with our current long-only fund selection. We number some 80 funds on our recommended list. There is a single asset class for which it remains tough to pick a fund manager for long-term purposes.

The US stock market remains extremely efficient. By playing styles, we can find interesting fund picks sometimes but picking the one manager that we would hold on a long-term basis without any issue is hard. We try to reach the right balance between styles to get the best possible returns on the segment.

We currently hold a US mid-cap growth fund as well as a deep value US equity fund. Another strategy we recommend seeks to deliver S&P+ returns. The alpha it generates is somewhat limited but at least it does not deliver S&P- returns.

People moves around the industry

ALEXANDRA AUBONNET

Fund selector moves to French nuclear energy giant

Alexandra Aubonnet has joined French nuclear energy giant Orano (formerly Areva) as a portfolio manager of the group's assets and liabilities.

Prior to that, she worked as a fund analyst at French dentists and midwives independent pension scheme *Caisse autonome de retraite des chirurgiens dentistes et des sages-femmes* (CARCDSF). Aubonnet left her previous role in April 2018, *InvestmentEurope* understands.

The CARCDSF was among those affected by last year's French government decree that restricted the investment framework of French pension schemes managing assets on behalf of 'liberal professions' and built on a pay-as-you-go model.

Aubonnet had also served as a multi-manager analyst from 2010 to 2006. She started her career at Neuflize OBC in 2009.

MARIA CANTILLON

State Street appoints head of Sector Solutions for EMEA

State Street Corporation has appointed Maria Cantillon as head of Sector Solutions for Europe, the Middle East and Africa (EMEA).

Cantillon, who previously served as the global head of Alternative Asset Manager Solutions at State Street, will now be responsible for outlining and guiding the business strategy for key prospects and clients in the region. She will report directly to Liz Nolan, chief executive officer of State Street for EMEA.

Prior to this role, she was head of Alternative Investment Managers at BNP Paribas Securities Services and a member of the firm's Executive Committee. Throughout her career, she has held similar sales and relationship management roles at HSBC and JP Morgan in Singapore, Hong Kong and London.

MARTIN MORYSON

Sal. Oppenheim chief economist joins DWS

DWS has appointed Martin Moryson as chief economist Germany. Moryson joins from Sal. Oppenheim.

DWS confirmed this newly created position to *InvestmentEurope*. Moryson reports to Johannes Müller, head of CIO Office and Macro Research.

Moryson was part of Sal. Oppenheim from November 2012 to March 2018, and worked as chief economist. Prior to that he worked with HSH Nordbank and Feri Institutional Advisors.

FABRIZIO PAGANI

Muzinich bolsters team for global expansion

Muzinich & Co. has appointed Fabrizio Pagani as global head of Economics and Capital Market Strategy.

In his newly-created role, Pagani, who will be based in Paris and London, will be responsible for contributing to the development of new strategies and investment programmes to expand the firm's global franchise.

Pagani joins from the public sector, where he has held a number of roles, including most recently head of the Office of Italy's minister of Finance, responsible for developing policies targeting macroeconomics, tax, finance and banking.

HANS STOTER

Ex-NN IP CIO named AXA IM new fixed income chief

While revealing plans to streamline its organisation, AXA Investment Managers has appointed Hans Stoter (pictured right) as global head of Fixed Income.

He succeeds John Porter, who joined the business in November 2013, and now has stepped down.

Stoter also replaces Laurence Boone, who has joined the OECD as chief economist, by taking on interim responsibility for Multi Assets Client Solutions.

Stoter previously spent 19 years with NN Investment Partners before departing in June 2017. There he had held the role of chief investment officer for four years and was a board member.

Stoter has been a portfolio manager and team manager across various fixed income asset classes.

He started his career at Philips Electronics and Nomura Bank.

MIGUEL ÁNGEL GIL

Value Tree hires Santander veteran

Value Tree has appointed Miguel Ángel Gil as head of Investment Strategy. Gil will be responsible for implementing investment strategies aimed at combating growing volatility in market and achieving additional alpha.

With over 26 years' experience, Gil previously worked at Banco Santander as portfolio manager and as director of equity derivatives strategy.

MAGNUS KRISTENSEN

Hermes appoints director for Nordic region

Hermes Investment Management has appointed Magnus Kristensen as director of Business Development for Nordic region. Based in Denmark, Kristensen will report into Paul Voute, head of European Business Development.

Kristensen will be responsible for both institutional and wholesale channels in Sweden, Norway, Denmark and Finland. Furthermore, he will oversee the strategy in the region, covering existing clients, Hermes' strategic partners, as well as raising third party assets and delivering new business targets.

Prior to joining Hermes, Kristensen was head of Client Relations at Jyske Bank.

Fund watch and product launches

Franklin Templeton launches active fixed income ETFs

Franklin Templeton Investments announced two actively managed fixed income ETFs for its Franklin LibertyShares Ucits ETF range in Europe.

The funds are registered in Germany and the UK and listed on the Deutsche Börse on 26 June, and the London Stock Exchange on 27 June.

The Franklin Liberty Euro Short Maturity Ucits ETF will be managed by David Zahn, head of European Fixed Income and Rod MacPhee, portfolio manager. It aims to provide income and total return by investing in European short-term debt securities.

The Franklin Liberty USD Investment Grade Corporate Bond Ucits ETF is managed by New York based Marc Kremer, manager, and by San Mateo-based portfolio manager Shawn Lyons.

It aims to provide income from dollar denominated corporate debt of US and other companies.

www.franklintempleton.com

Andbank Spain unveils value investing FoF

Andbank Spain has launched the Gestión Talento Value, a fund of funds comprising nine value investment funds, that "represent the best talent within the value investing philosophy in Spain despite not having yet as much notoriety as other names in the industry."

The portfolio includes funds such as Gesconsult Renta Variable , Valentum , Incometric Equal Global Value , Gestión Boutique Bissan Value and True Value, as well as Sicav funds such as Eurobolsa Selección, Kersio Capital, MCIM Capital Opportunities and Munda Valor Investments.

Andbank Spain previously launched Gestión Value, the €150m AUM precursor of the new fund, in January 2017. It was the first value-based Spanish fund of funds that brought together the four main Spanish value managers; AZ Valor, Cobas AM, Bestinver and Magallanes.

www.andbank.com

Columbia Threadneedle expands multi-asset offering

Columbia Threadneedle Investments has expanded its multi-asset offering with the launch of the Threadneedle (Lux) Euro Dynamic Real Return fund in the Netherlands.

The fund is designed to deliver equity-like returns of 4% above European inflation over a 3-5 year investment horizon with less than two-thirds of the volatility.

The Ucits-compliant Sicav fund is managed by Maya Bhandari, who is also responsible for products such as the Threadneedle (Lux) Global Asset Allocation and Threadneedle (Lux) Global Multi Asset Income funds. Bhandari will be assisted by Toby Nangle, co-head of Global Asset Allocation and head of Multi-Asset for EMEA at Columbia Threadneedle.

www.columbiathreadneedle.com

LFDE launches AI fund

Paris-based boutique La Financière de l'Echiquier has launched the Echiquier Artificial Intelligence fund in Luxembourg and France. Further registrations across Europe will follow.

The fund invests globally in stocks of companies that develop or benefit from artificial intelligence. Sub-themes include AI developers, AI users, AI infrastructure and companies developing AI senses.

It is run by Rolando Grandi, co-manager of the Echiquier World Equity Growth fund and manager of the FCM Robotique fund. The fund is domiciled in Luxembourg as sub-fund of the Echiquier Fund Sicav.

www.lfde.com

Santander AM expands sustainable range

Santander Asset Management has expanded its Santander Sustainable range to five funds with the launch of Santander Sostenible Acciones.

Applying a sustainable investing strategy, the fund will be managed according to environmental, social and corporate governance criteria, including the fight against climate change, the promotion of respect for human and labour rights, the development of disadvantaged regions, the inclusion and further participation of women on companies' boards, and the battle against corruption, among others.

The fund will use the MSCI Europe benchmark. Manager Lola Solana and a team of three will analyse companies across the investment spectrum.

www.santander.com

LBPAM launches revamped SRI fund range

La Banque Postale Asset Management has announced the official launch of its Conviction ISR fund range.

Encompassed are six funds, four of which are SRI conviction strategies including the existing LBPAM ISR Actions Euro and the LBPAM ISR Actions Environnement funds, as well as the newly launched LBPAM ISR Diversifié and the LBPAM ISR Obli Crédit funds.

The LBPAM ISR Obli Crédit focuses primarily on credit in the eurozone and aims to outperform the Barclays Bloomberg Euro-Aggregate 500 MM over a five-year recommended period.

Two solidarity funds, LBPAM Actions Solidaires and Libertés and Solidarités, complete the Conviction ISR range.

www.labanquepostale-am.fr

EDMOND DE ROTHSCHILD

Bond markets: don't feel obliged to invest

Guillaume Rigeade surveys the state of the bond markets in the wake of political upheavals

Guillaume Rigeade is Fund Manager of Edmond de Rothschild Fund Bond Allocation

High bond market volatility at the end of May has brought us back to reality. After a long period of indulgence, markets have finally woken up to the fact that Europe is mired in fresh political upheavals.

Assessing the risk premium is, however, still tricky. In only a few days, yields on two-year Italian debt jumped from -0.20% to +2%[*]. In these conditions, only an actively managed, flexible approach will help investors adapt efficiently to the current market environment.

Bond markets are currently facing serious challenges. They are still expensive but justifiably so given generally upbeat macroeconomic data. But in the second half of the year, we will need to closely monitor political developments in Italy and Spain, US protectionist rhetoric (and any reprisals), the risks of a global trade war, central bank moves to tighten monetary policy, inflation and oil price trends and what now looks like a slowdown in the pace of global growth.

An extended period of political uncertainty in Italy, combined with political developments in Spain, is likely to fuel market volatility but, at the same time, create opportunities. That is why we have kept back enough cash to be able to seize any buying opportunities. Peripheral eurozone countries like Portugal, Greece and Cyprus look interesting but only if we remain particularly selective.

"An extended period of political uncertainty in Italy, combined with political developments in Spain, is likely to fuel market volatility but, at the same time, create opportunities."

High yield[†] bonds are still one of our strongest investment convictions, and especially financial debt, even if it underperformed in May. Sovereign debt volatility totally contaminated financial debt too but not high yield bonds. We are nevertheless maintaining our long term positive stance on the segment.

To offer a diversified portfolio, we also invest in emerging country debt, inflation-indexed bonds and US investment grade credit.

ACTIVELY MANAGING MODIFIED DURATION

Bond markets are more than one type of bond: they offer a wide range of instruments, some of which are better equipped to deal with periods when interest rates are rising. However, these instruments are not always accessible to private investors and require a thorough grasp of markets and a highly responsive investment regime.

That is where Edmond de Rothschild Fund Bond Allocation comes in. One of the advantages of our investment approach is its flexible exposure to interest rates, primarily to deal with rate shifts. The fund is also flexible over exposure, as it has broad investment limits on various market segments. And as EdR Fund Bond Allocation brings together all Edmond de Rothschild Asset Management's fixed income strengths, it offers investors a solution to volatile bond markets.

EdR Fund Bond Allocation now has more than €2.5bn under management for a diversified and international client base. We have earned their trust thanks to the fund's regular returns. As of 31 May 2018, it had returned an annualised +3.9% since the investment team change on 14 February 2013. We are also particularly attentive to volatility which is running at 1.6% over a year and 3.8% over three years[‡].

For more than five years, EdR Fund Bond Allocation has posted the regular returns investors are looking for. At the same time, the fund has constantly monitored volatility and represents the first step towards building a diversified portfolio.

[*] Data at 31 May 2018. Source: Edmond de Rothschild Asset Management (France).

† Corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

‡ Past performance and volatility is not a reliable indicator of future returns and volatility. AUM at 31 May 2018: €2.59bn. Performance data at 31 May 2018 for the fund's euro-denominated A share. Cumulative returns since the investment team change on 14/02/2013: +22.59%. A-EUR share volatility at 31 May 2018. A-EUR share volatility: 1.6% over 1 year and 3.8% over three years. Source: Edmond de Rothschild Asset Management.

Edmond de Rothschild Fund – Bond Allocation is a sub fund of the Luxembourg-regulated SICAV which is approved by the CSSF and approved for marketing in France, UK, Spain, Switzerland, Italy, Luxembourg, Belgium, Germany and Austria. Main investment risks: the fund is classified in category 3 in line with the nature of securities and geographical zones in the "objectives and investment policy" section of the key investor information document (KIID). The risks described below are not exhaustive: it is the responsibility of investors to analyse each investment's risk and to come to their own opinion. Capital loss risk, risk from emerging market investments, discretionary management risk, interest rate risk, credit risk, credit risk from investing in speculative securities, risk from participation in financial contracts and counterparty risk.

12.4% Increase in total number of trips to Ireland by overseas residents in Febraury 2018

Summer slumber

Summertime poses other challenges to fund investors, from heightened volatility, lowered liquidity, and questions of who is in charge when the lead manager goes on holiday. Jonathan Boyd, Adrien Paredes-Vanheule, Eugenia Jiménez and Ridhima Sharma report

As one old adage in the UK suggests, investors should "sell in May and go away, and come back on St Leger's Day".

The St Leger Stakes refers to a horse race run each September, and which has been going since 1776.

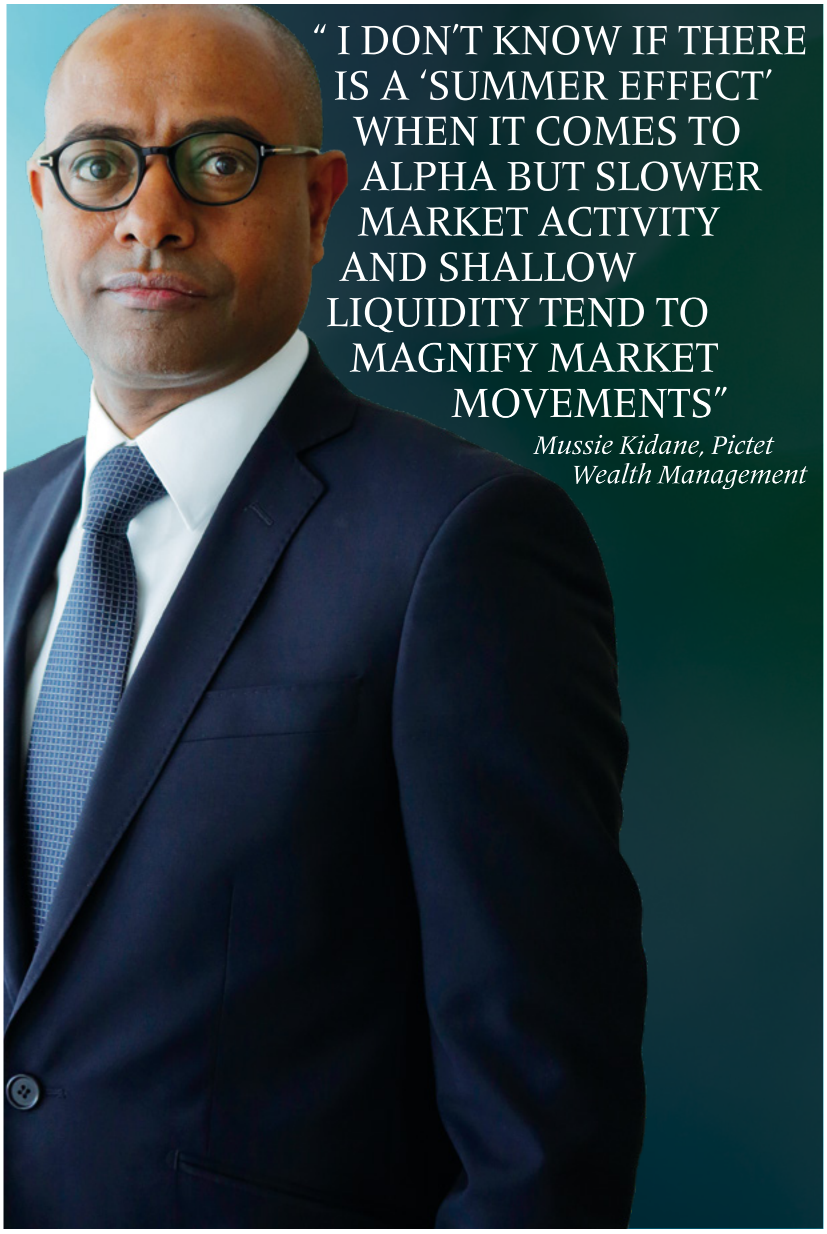
The implication has been that investors should stay away from stock markets during the summer months – as the aristocrats and bankers used to stay away from the City of London in days gone by.

Tilney, the UK investment and financial planning group that oversees some £23bn of assets published research in 2017 that looked at 31 years of total return data for the FTSE All Share index, including dividends reinvested, since the so-called Big Bang reforms that brought in electronic trading to London, among other developments.

This suggested that investors would have made positive returns in 20/31 years by staying invested over the summer. That 65% rate was compared to markets rising 77% of the time across the full calendar years over the period.

Key sell-offs occurred in the summer months of 1992 (-11.6%), 1998 (-12.6%), 2001 (-18.4%), 2002 (-21.2%), 2008 (-13.0%), 2011 (-10.9%) and 2015 (-9.6%), Tilney's research suggested. But there were also years when double digit gains were made over the summer, such as in 1987, 1989, 1995, 2003, 2005 and 2009.

Meanwhile in April this year, research published by *Bloomberg* for the 1 May to 15 September period each year from 1988 to 2017, sug-



2% Decrease in the number of overnight stays in Germany in April 2018

gested that the adage didn't necessarily hold true for US assets.

While the MSCI Asia Pacific index achieved a negative return of -1.2% on average, the Stoxx600 did -1%, and the FTSE 100 did -0.4%, for the S&P 500 the return was a positive 1.2%, while US Treasuries did 2.8%, and US high yield bonds did 2%. Gold did 0.6% on average, the Bloomberg numbers suggest.

Going into more detail on such trends, a study on *Seasonality in the Baltic Stock Markets*, authored in 2015 by Rasa Norvaisienea, Jurgita Stankevicieneb and Ausrine Lakstutienec at the Kaunas University of Technology, logged daily return indices of the Nasdaq OMX Tallinn, Nasdaq OMX Riga, and Nasdaq OMX Vilnius for the period of 2003-2014.

They concluded that regression analysis could only prove an effect in the Estonian stock market – where returns were "significantly higher November-April than that in May-October".

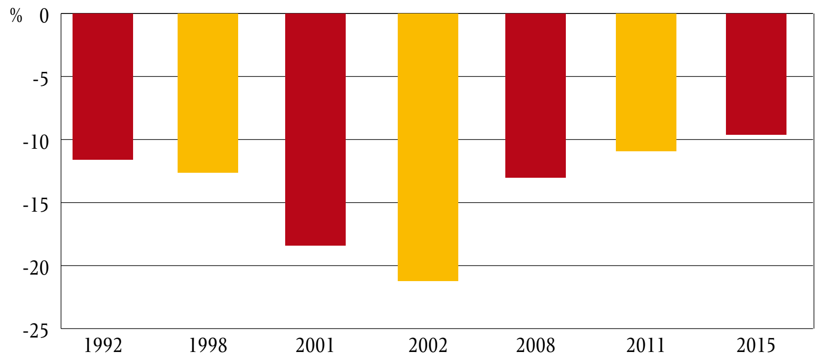
"The results of regression analysis in Lithuania and Latvia were not statistically significant, so this analysis has not proven the existence of the Halloween effect in Lithuanian and Latvian markets. Disclosed calendar effects in the Baltic countries prove the inefficiency of stock markets in those countries, because stock prices are not random but can be predicted in accordance with calendar moments. A return on stock is consistently higher or lower depending on the season. The disclosed seasonal effects may serve as valuable information to reason investment decisions, as well as to estimate expected returns for market participants who invest in the Baltic markets. Investors could increase their expected profitability and earn more than the average by evaluating the seasonality trends and choosing time of transactions."

Overall, then, there are numbers that suggest investors should actually pay heed to the patterns that occur in markets over the summer months.

However, the causes of such patterns may be varied, and this in turn may mean fund buyers have to take different measures to either tap into upside risk, or avoid downside risk.

Evidence of these other factors

FTSE ALL SHARE INDEX RETURN OVER SUMMER MONTHS



Source Tilney

comes via the DDQs (due diligence questionnaires) that buyers put to sellers.

Rob Saunders is a co-founder of Door, and former global head of Marketing at Aberdeen Asset Management. Door provides a platform intended to facilitate standardisation of the due diligence process, to save fund selectors and fund managers alike significant amounts of time currently allocated to chasing successful conclusions to DDQs. In this process, the importance of understanding people to the investment process is key to successfully completing the due diligence.

"Investment is a people business, therefore Door's Standard Questionnaire includes multiple and varied questions related to investment personnel," Saunders says.

"Questions that relate to a portfolio manager's time away from the office are covered on two levels, the expected and the unexpected. The questionnaire asks: 'What decision process is used in the individual's absence?' and what is the 'protocol in the event of an unexpected departure of the portfolio manager?' The answers to such questions tell us a lot about the continuity of decision-making at the investment firm under scrutiny.

"We cannot rest on our laurels however. The questionnaire evolves continuously with input from Door's Guidance Panels and from the wider fund selection community as a whole. Door's current collaboration with key industry stakeholders on additional questions that relate to diversity and inclusion has prompted potential questions about a manager's preparation for staff who are absent on maternity or paternity leave. The addition of D&I questions will add a further and vital dimension to the DDQ process."

Jake Moeller, head of Lipper UK & Ireland Research at Thomson Reuters, says: "I would contend that technology is now so portable and working conditions so increasingly flexible that any nominated fund manager is likely to have their eyes on their fund at all times – even on a holiday. I've been a fund manager and the urge to constantly research and monitor your fund is overwhelming – almost paternal/maternal. 'B-teams' are probably more of a compliance construct than a reality. A reputable fund house would have a protocol in place to ensure that where any material change in a stock arose, the lead fund manager would be contactable to relay an appropriate course of action."

SELECTOR VIEWS

Mussie Kidane, global head of Fund Selection at Pictet Wealth Management responds from the buy side that "during summer, it is business as usual for us".

"Sure, there are fewer roadshows and fund manager visits, so our research work is more refocused on documentation read-through and record updates."

"We ask what the back-up plan is when the lead portfolio managers are away, what's the scope of responsibility of the back-up manager, etc."

3.3% Rise in CPPI in Portugal YoY in 2017

“THE ONLY SIGNIFICANT PATTERN ON STOCK AND BOND MARKETS DURING THE SUMMER SEASON I ACKNOWLEDGE TO BE TRUE IS THAT BECAUSE OF THE HOLIDAY ABSENCE OF MANY INVESTORS OVERALL MARKET TURNOVERS TEND TO BE LOWER”

Matthias Reiner, Bernecker & Cie

However, as to whether there is a seasonal effect he is less sure: “I don’t know if there is a ‘summer effect’ when it comes to alpha but the slower market activity and shallow liquidity tend to magnify market movements during this period.”

And as to the European Central Bank’s tapering decision: “I think that the ECB has passably forewarned market participants about its intentions. Besides, it’s well understood that the first rate hike has been pushed out to 2019. Barring unwarrantable comments from officials, I don’t think the ECB’s continued tapering will provoke significant turmoil this summer.”

Thierry Crovetto, CEO-CIO of TC Stratégie Financière says a team approach by a manager can help.

“Funds with multiple minds stay active during summer time as the team can manage the holiday schedule. A tight team of two fund managers, who challenge or complete each other, will make sure that one of them is present and active during summer time. And finally, we believe that ‘Star Managers’ would always be connected in order to monitor the market and manage the positions as they are passionate about their job and unwilling to disconnect.”

As for himself, Crovetto notes that his own firm “constantly” monitors its own portfolios, whether before leaving for the weekend or going on holidays, in order to adjust the portfolio in case of a correction or rally.

Also, Crovetto is yet to be persuaded about any advantages that, say, ETFs might enjoy over active fund managers during the slower summer period.

“We haven’t found any evidence of outperformance of ETFs during summer at this time,” he says, adding that not being active in summer will “make it harder” to achieve alpha.

Matthias Reiner, head of Portfolio Strategy Multi Asset (D/CH) Bernecker & Cie Portfolio und Trust AG ,suggests that there may be a phenomenon of seasonal summer breaks and portfolio managers’ respective market returns, but he feels it is more myth than reality.

“The reasons, why this topic ‘portfolio managers and summer breaks’ seems rather uncritical to me, are twofold,” he says.

“First, because capital (= stock and bond) markets from year to year become increasingly informative – and time-efficient – which is already the result of the steadily growing share of hedge fund-like and other high-frequency traders amongst all investors. Certainly, portfolio management meanwhile is a ‘full year job around the clock’. This means that just for the reason of market time-efficiency nowadays an (ambitious) single portfolio manager simply hasn’t any more chance to leave his portfolio management out of his sight and mind during summer holidays, because he immediately would risk falling behind the concurrent performances of his peer competitors or even team members of his own company.

“Second, the only significant pattern on stock and bond markets during the summer season I acknowledge to be true is that because of the holiday absence of many investors overall market turnovers really tend to be lower than in the remaining seasons of the year.”

“But this said, in my opinion this effect of only a general lower market turnover doesn’t allow any conclusions about the resulting market chart technicals and how any kind of relevant information will be reflected in stock / bond prices at the summer season.”

Reiner adds that generally he does not expect deviation from past performance paths just because of the summer season and possible holiday absence of the responsible manager.

“I certainly don’t ask such a question within a due diligence test only for reasons of summer holidays, but for the overall year the question of the target managers’ general substitution process in case of any of his absences is clearly a very relevant one.”

Likewise, the lack of evidence of a significant performance impact just because of the season means that considerations of alternative investments is instead linked to expectations of severe market corrections, which could happen at any time of the year, he says.

The due diligence angle mentioned by Reiner is also taken up by Antoine Chapelle, senior portfolio manager at CBT Gestion, who says that: “During due diligence, we ask how the management team works. We prefer when there is a team management with at least two people who can manage the fund like one chief manager and one co-manager. If there is just one portfolio manager, it is more important to understand the process, and it won’t be a problem if it’s a quantitative process or a long term holding process.”

TEAM STRUCTURE

Patrick Wittek, consultant, Fonds Laden stresses the need to understand the team structure, both internally and externally.

“We are team players. Firstly, all decisions will be discussed within the team, before we implement portfolio-transactions. During my absence, my colleague maintains the skills of our company and comes into action on the asset allocation, if necessary.

"If fund managers are keypersons in companies or some tactical short-term positions are in portfolios, it is important for us to know, who is assuming responsibility during the portfolio managers' holidays."

That said, Wittek notes that generally speaking the managed portfolios he helps oversee are structured for mid- and long-term periods with low turnover, which may also impact the way that the summer question is approached.

"We expect from good fund managers and their teams, to get alpha in all market periods, not depending of season. We like it, if fund managers see opportunities in times with slower activity – such as in the summer month – and achieve alpha."

Bernard Aybran, deputy CEO and CIO Multimanagement at Invesco says while it may be true to state that there is less activity in volume terms over the summer, that does not mean there is no volatility, hence "there is no time to rest".

"Strong movement flows for minor reasons remain quite frequent at some point in July and August. We observe an important differentiation between portfolios and indices. But there is nothing really specific to summer."

The need to not switch off is echoed by Stephan Germann, chief investment officer of Plurigestion. "I do not reallocate assets or review positions before leaving on holidays," he says.

"Personally, I cannot stay away from my portfolios during my holiday break. I know what I want to invest in if there is any market correction occurring while I am off. Everything is ready. For instance, regarding tech, I will buy more Chinese names, more semiconductors. If there is a sell-off on the emerging debt segment, I already know to which extent I want to increase my exposure. I could screen markets once every day during a 15-day break to understand what is going on in my current trades. I can still call my brokers and make the trade. Because an investment-focused mindset knows no pause. Keeping an eye on investments is alright but trading every day during your break is not. Also, sometimes fresh investment ideas come to mind during holidays."

There are also strategic reasons to keep looped into investment developments over the summer months, as explained by John Townsend, Investment Fund Portfolio Construction and Optimisation, Matz-Townsend Finanzplanung – who usually limits his own breaks to a week, and avoids holidays at month, quarter and year ends.

"In 2008, my wife and I tried to take a two-week break, but the financial crisis became so obviously intense that we broke it off and headed back to the office to speak and write to all our clients, explain what was happening and to hold their hands. The net result was that we lost no clients and by writing about and reporting the world as we saw it we actually gained clients who had been left feeling unsupported , especially by their banks."

As to the challenge of portfolio managers going on holiday, he says it does not really apply because of the selection criteria used; he makes sure that there is a big enough team to provide support to a portfolio.

"Vacations are not the only worry here; if a fund manager should fall under a bus or be ill or absent for any reason, there has to be someone capable of continuing with the strategy. If not, then I regard a team that is too small as a knockout criteria in the selection process.

"My portfolios are constructed looking three to five years ahead and any temporary movement may be bad for the nerves, but should not be seen as needing instant action. If I think any particular position needs to be changed then action should be taken irrespective of any upcoming holiday. To procrastinate and to leave changes to the last minute is unhelpful. Once again, the discipline of a three to five year time horizon plays a role in the calm handling of stable portfolios."

"VACATIONS ARE NOT THE ONLY WORRY"

John Townsend, Matz-Townsend Finanzplanung

Contingency plans also feature in the questions that Juan Hernando, head of Fund Selection, Morabanc, puts to managers.

"Maybe we do not specifically ask about holidays, but we try to make sure that there are back-ups, not only in the case of the manager but as well in risk management, trading or operations. We try to determine the idiosyncratic risk linked to the manager and depending on that we are more or less demanding regarding back-ups.

"There are some funds highly dependent on a key manager, in these cases we are more interested on what happens in his/her absences. There was a manager that even had a written contingent plan in case he died. In funds that are not so dependent on a manager it is not so relevant but there is always someone in charge.

"We prepare the portfolios depending on potential scenarios. We always have managers working in the office even during bank holidays, so the summer or winter holidays do not change substantially the way we manage portfolios."

Hernando adds: "We do not make specific operations before holidays to close some trade or some investment. What we do is prepare the portfolios according to our market view. If the market hanges we can adapt."

Still, certain summer events have left their scars, he acknowledges.

"I remember the summer of 2011 that was very painful for the markets. The Eurostoxx 50 plummeted -22.32% from 22 July to 10 August, the S&P 500 -16.71% in that period. It is one of those weeks that the investors do not forge.

"August is usually a lower volume month, especially in Europe, but in 2011 August was the highest volume - one that shows how complicated it was. During the following year the problems in the eurozone continued and the summer was very volatile until Draghi pronounced his 'whatever it takes'. 2011 and 2012 are an usual conversation topic before summer holidays." ■

>132,263 2017 YoY increase in people living in Spain

ION ZULUETA

Ion Zulueta is head of Manager Selection at Arcano Partners, which he joined in 2015.

Previously, he worked at Crèdit Andorrà Group as a hedge fund analyst managing a fund of hedge funds. He also worked at various companies including Kutxa Bank asset management division and Safei, a pioneer in the Spanish private banking industry.

Background picture: Shutterstock.com

2006 Year in which Arcano Partners' asset management arm was launched

Arcano Partners' head of Manager Selection Ion Zulueta comments on his firm's business expansion, underlying the independence and specialisation of its three divisions. Eugenia Jiménez reports

Spotting hidden gems

Arcano Partners was founded in 2002 by Álvaro de Remedios as an investment bank, which is reflected in the fact that it remains the firm's main business accounting for some 60 out of 150 employees working for the firm.

Arcano is currently split into three divisions: Investment Banking, Asset Management – launched in 2006 and with around €4bn AUM, and Multi Family Office.

Madrid-based Ion Zulueta is responsible for selecting managers in all strategies for the firm's clients at the family office unit, which advises around 30 families and tallies some €2bn in assets under management or advisory. The family office's team comprises 12 people providing an integral service to clients, which includes investment advisory on liquid financial assets, private equity and debt, real estate focusing on the Spanish market and finally, legal, fiscal and testamentary aspects as well as wealth planning.

Exposure of the firm's client portfolios to Ucits hedge funds, including L/S equity, equity market neutral, discretionary macro, trend following, systematic fundamental macro, and catastrophe bond strategies, represents 15% of overall investments.

"Aside from adding performance, these strategies aim at diversifying the beta of our clients' portfolios," Zulueta says.

Although Zulueta normally favours active managers, he would also consider an indexed solution when investing in a market in which adding excess returns proves to be difficult. "We may also opt for the same solution when we take short-term beta bets and when we take exposure to a certain risk factor," he adds.

INVESTMENT PROCESS

Arcano Family Office's investment process is equally quantitative and qualitative. "Regarding the quantitative side, the focus is on judging fairly and accurately the quality of the managers' track records: length, style and factor risk biases, risk adjusted returns, potential drifts along the road, consistency, performance attribution."

On the qualitative, the emphasis is on the firm (philosophy, honesty, expertise), the investment management team (background, experience, stability, alignment of interests,), the fund's investment strategy and risks, and finally, on the risk management measured by portfolio managers and by the Risk Management and Compliance teams.

Zulueta prefers managers who are independent, performance-focused, specialised and transparent, but also those who are able to attract investment talent, and whose assets under management are large enough to have a proper operational infrastructure, but without reducing their capability to add value.

RED FLAGS

Liquid funds with an unusual exposure to illiquid assets are red flags fsince they present a mismatch between the liquidity terms offered and the underlying assets' liquidity.

"We would not invest in small funds with exposure to less liquid assets – like credit or small caps – if the investments are too concentrated, volatile or too dependent on retail investors. Likewise, if we receive confusing replies or if the asset manager has some kind of non-ethical behaviour," Zulueta says.

> "NOW THAT CENTRAL BANK INTERVENTION IS DIMINISHING, ALPHA DELIVERY MAY INCREASE"

FORECASTS

Looking ahead, Zulueta believes high net worth individuals will remain interested in active managers. "Since the financial crisis, it has been a tough environment for active investing and now that central bank intervention is diminishing, alpha delivery may increase. That said, clients may reevaluate the active managers they have to keep just the good ones at the right price."

However, there will also be room for passive investment since the alpha delivered by some portfolio managers arises mostly from their portfolios' biases to risk factors, with not too much alpha left after fees.

"If alpha delivery improves, and/or ETFs investing in less liquid assets – credit or small caps – face a potential liquidity stress, the current support for passive may diminish."

Although he does not predict major changes on investment structures, Zulueta does envisage a new trend evolving fund managers implementing their multi-manager vehicles through managed accounts.

And warning investors about illiquid, complex strategies looking for decent and correlated returns, Zulueta says: "When the tide turns we fear some of these investments may prove costly for their investors." ■

$9.3trn Global tech stock market cap as of June 2018

Tech arbitrage

French and Swiss fund managers and selectors diverge in their preferences among US and Chinese tech giants. Adrien Paredes-Vanheule finds out more

Discussing the US equity market and ways to consistently outperform the S&P 500 index, Pictet Wealth Management's global head of Fund and Manager Selection Mussie Kidane says that over the last five years, one would have been to create a portfolio made up 90% of an ETF that tracks this index and 10% in the so-called FAANG stocks (2% each) and to rebalance that portfolio every year.

The challenge for active managers, as he puts it, has been the ultra-concentration of the market leadership on a few mega cap stocks including the ubiquitous Facebook, Amazon, Apple, Netflix and Google (FAANGs).

But the acronyms do not end there, for it is not only FAANGs finding room in investors' portfolios, but also their Chinese counterparts Baidu, Alibaba, Tencent and Xiaomi (BATXs), thus leading to a situation of tech arbitrage.

"Big US tech names and their Chinese equivalents are must-haves in equity portfolios. On average, we cannot term FAANGs' valuations as extravagant even though these of Netflix and Tesla are harder to explain. There are important components of many active fund managers which are overweight tech. As per European tech names, the issue lingers in the poor offering. Managers get two or three same names like Gemalto and Wirecard," observes Bernard Aybran, deputy CEO and CIO multimanagement at Invesco.

Aybran says Invesco positions on both US and Chinese tech giants' equities as the firm is invested in an active Asian manager holding the BATXs.

"That said, we see more potential on the US tech giants. Look at Amazon. On the commercial side, its market share remains for now only a fraction of Walmart's activity if we compare both stocks," he argues.

Furthermore, Aybran notes the rebalancing of indices will propel interesting moves within nomenclatures as telecoms are due to rebrand as communications services.

"In the US, this sector's weight in the S&P 500 will pass from 3% to 10%. Alphabet – Google's parent company – is due to be removed from the discretionary sector to be transferred in the new communications services bucket. Some other IT and discretionary names will follow. That will have an impact on MSCI indices' composition that we will have to monitor," he outlines.

ADDRESSABLE MARKETS

At Dauphine Asset Management, FAANGs represent 3% of the Dauphine Megatrends fund of funds, which had some 38% of its net assets invested in the technologic disruption trend as of June 2018.

"FAANGs' volatility will likely stretch in a significant manner and we want to be positioned on other players enjoying a very strong growth," Dauphine AM's CIO Guillaume Di Pizio explains.

China's Alibaba, Tencent and Baidu are preferred as they trade at lower valuations than the FAANGs and half of the Chinese population has yet to gain internet access.

"The market that can be addressed in China is colossal. Moreover, Facebook and Google cannot enter this market, which is not reciprocal like we have seen with Alibaba that can impose its payment methodology Alipay in the United States, Dauphine AM's CIO highlights.

Though he considers FAANGs a performance driver no investor would like to be cut off from, Di Pizio assesses the market offers a premium to quality management skills of visionary CEOs who manage to reposition their companies by adapting them to a larger addressable audience and capacities to monetise their products.

A similar view is provided by Athymis Gestion's CEO Stéphane Toullieux who sees the company capacity to renew and address changing consumption habits of Millennials as a key differentiator.

"FAANGs are core to Millennials trends and we have been invested in four of those stocks since Athymis' Millennial fund inception two years ago, with an overweight Amazon and underweight Facebook. We are delighted with these choices at the moment.

"The Millennial theme and the revolution of usages resulting from it leads us to stocks linked to social networks like Twitter, cloud such as Salesforce and PayPal. But Asia should not be forgotten with Samsung and Alibaba," he says.

Toullieux feels BATXs carry a more spectacular growth potential than that of the FAANGs as they grow as multi-activity businesses.

A position he reduced was Facebook as scandals start to multiply.

"We do not hold it in the Athymis Better Life fund as Facebook does not make the world any better in our view."

A "daily regret" is on Netflix, which Athymis Gestion sold a few months ago. Since then, the manager has been trying to find entry points to get back in.

If Toullieux praises the FAANGs growth and cash generation - he likes their "pluri-optionality" too, meaning the capacity to launch initiatives that can bring further growth – in contrast Ostrum AM's equity CIO Jean-Louis Scandella points to future prospects making stockpicking harder.

"If companies were books, most would be Ulysses stories today. At the beginning, Amazon was doing e-commerce, Google was a search engine and Facebook a social network. But It doesn't stop there. They are in TV, sport broadcasting, finance, research like Google with transhumanism. It is very complicated to analyse what they are and have become," says Scandella.

He notes that understanding newcomers has become difficult since they raise funds for products whose use is impossible to understand without the help of a specialist or an engineer and which do not even exist yet.

Scandella adds he favours Tencent and Alibaba to Facebook and Amazon respectively.

"Alibaba is a builder of a new world in China with its shopping malls. Before Alibaba, the shopping experience in China was pretty sad. Also, the cost of delivery is cheaper because of the way cities are built in China.

"It is easier to deliver 20 to 30 parcels in a same building than in 20 or 30 different houses. Life is built around new technologies in China."

NOT OVERCROWDED

At Geneva-based private bank Reyl & Cie, senior portfolio manager Jonathan Cohen acknowledges FAANGs have been a trigger of performance similarly to Asian IT peers having led the rise of emerging markets and Chinese equities over the past year.

However, FAANGs do not form a particular conviction in Reyl's US equity fund selection.

Cédric Özazman, head of Investments and Portfolio Management, does not see a consensus around FAANGs among US equity fund managers.

"We have a US deep value fund that has none of the FAANGs in the portfolio. The current focus of the market on FAANGs rather comes from the arise of the passive strategies. These stocks gain market valuation hence they gain weight in indices that are being replicated," argues Reyl's investment chief.

"Diversification is key. We therefore combine innovation and US technology even though the theme is a bit overcrowded.

"FANNGs still deliver fantastic earnings and valuations are not that expensive. So, we are happy to keep them in our direct line investment recommendations. Combining this with European staples which have no more premia compared to the market currently can help the balance of a portfolio if a macroeconomic event such as recession were to occur," he adds.

Diversification is also sought by Léonard Dorsaz, head of External Fund Selection at Banque Piguet Galland & Cie, which invests directly in Facebook and Amazon. Dorsaz looks for US equity funds with a different profile, not necessarily including "appealing" FAANGs.

Are FAANGs becoming overcrowded? Stephan Germann, CIO of Plurigestion (to be rebranded Pleion as of September 2018), estimates that "as long as we say FAANGs are overcrowded, that means they are not".

"You can consider some of the FAANGs are weaker than others. We could have thought that Apple would have struggled to renew itself but in the end, even though new Apple devices may not carry any technological revolution, the firm's performance and earnings are similar to these of the other FAANGs.

He says the market environment is such that any new big tech listing would see an investor rush and bad events cannot affect FAANGs' public reputation.

Germann expresses a preference for Google because of a cheaper valuation and YouTube's potential can be better exploited.

"You need to have them all and to reallocate from time to time to that FAANG that is cheaper than the others. It is dangerous not to have FAANGs in portfolios," assesses Germann.

Plurigestion's CIO also buys Chinese names like Tencent, arguing Chinese techs follow the path drawn by its US counterparts because there will be dominant companies and no competition since foreign players won't be allowed to enter the Chinese market.

"It will soon become difficult for new entrants in the Chinese tech sector to get room among Chinese FAANGs," Germann predicts. ■

€12bn Q1 2018 net sales of money market funds worldwide (Efama)

MMF reform: key points

The European money market fund reform will be effective 21 July 2018 for new products in the asset class and a year later for existing ones. Adrien Paredes-Vanheule reports

Some 12% of the European fund industry's net assets in Ucits – some €9.87trn as at the end of April 2018 – were in money market funds, the European Fund and Asset Management Association (Efama) reported recently.

This is important, because on 21 July 2018 the European money market fund (MMF) reform, approved by the European Parliament and Council in June 2017, will apply to new money market funds. The deadline to comply for existing money market funds will extend to 20 July 2019.

The regulation applies a narrowing action framework to money markets funds, marking a distinction between short-term and standard MMFs in Europe.

For instance, derivatives will only serve currency and interest rate hedging objectives while the use of securities other than money market instruments, such as equities or commodities, becomes prohibited.

In addition, the regulation introduces a new, third category alongside the traditional constant net asset value and the variable net asset value money market funds provided to investors : the low volatility NAV fund.

BNY Mellon views this new vehicle as a new structural option for non-government debt funds, given the reform allows it a maximum 15% overall exposure to securitisation and asset backed commercial papers as well as a 17.5% capped exposure to other MMFs. The low volatility NAV funds will carry a different security level and portfolio valuation method.

Another impact of the reform will see constant NAV MMFs invest 99.5% of their assets in public debt instruments or cash.

LIQUIDITY, REDEMPTIONS

Liquidity requirements form another key point of the MMF reform. For variable NAV money market funds, the liquidity requirement is set as at least 7.5% of daily maturing assets (cash and reverse repo included) and 15% of weekly maturing assets, when these respective rates are up to at least 10% and 30% for constant NAV and low volatility NAV money market funds.

Managers of constant NAV and low volatility NAV money market funds will have new options to consider for gating redemptions – currently gate redemptions are limited to 10% of the fund's net assets.

BNY Mellon describes three steps: "1. A discretionary fee/gate by the fund's board if the weekly liquid assets fall below 30% of total assets and the daily net redemptions exceed more than 10% of the fund's value. 2. Mandatory fee or temporary gate will be imposed if the weekly liquid assets fall below 10%. 3. If a redemption suspension is 15 days or more within a 90-day period the fund must convert to a floating NAV fund."

MMF: A €4.95TRN MARKET

According to Efama's international statistical data, money market funds registered net sales of €12bn worldwide in Q1 2018 against €112bn in the last quarter of 2017.

China recorded the largest net sales of money market funds in Q1 2018 (€54bn) whereas net outflows of €46bn and €4bn were seen on the asset class in the US and in Europe respectively. Almost €4.95trn of assets were managed in money market strategies worldwide as at the end of March 2018.

NO IMPACT ON ATTRACTIVENESS

Thierry Darmon, co-head of Liquidity Solutions Business Line at Amundi, says the firm reacted shortly after the publication in the Official Journal of the reform, in order to be compliant on time by launching various internal workshops on the main topics covered by the text (management rules, drafting of prospectuses, credit quality assessment, know your customers issues, stress tests, etc.).

"The main uncertainty lies in whether managers of funds with constant NAV and low volatility NAV denominated in euros can continue to use the reverse distribution mechanism in a context of negative returns," he points out, adding that the main impact of the reform will be an increased security of monetary funds through an extensive, immediately enforced throughout EU, set of rules.

Asked about the impact of the reform on the attractiveness of the asset class, Amundi's Darmon suggests that the level of money market funds outstanding seems to be determined more by the economic environment and the financial market context (low rates, risk aversion) than by the introduction of the reform.

"That said, the latter, by strengthening the reliability of money market funds, can only promote their future attractiveness," he concludes.

State Street conducted a survey in January 2018, gathering investors' views on the European MMF reform. 27% of the respondents said that they believed the regulation will make MMFs more attractive against 26% saying the contrary while no impact was foreseen by 38% of the surveyed investors. ■

Erste Asset Management saw Russia back on a growth path prior to the World Cup finals, but cautions against euphoria. Ridhima Sharma reports

Russia back on track

Russia's economy and its equity market beyond the current events in sports; the rise in US interest rates; the strength of the dollar; the recovery in the oil price; the renewed tightening of sanctions, and the re-election of president Vladimir Putin have shifted the economic environment and the framework for investors.

According to Erste Asset Management equity strategist Peter Szopo, the Russian economy has moved past the recession of 2015-16, which was largely triggered by the slump in oil prices and in domestic purchase power.

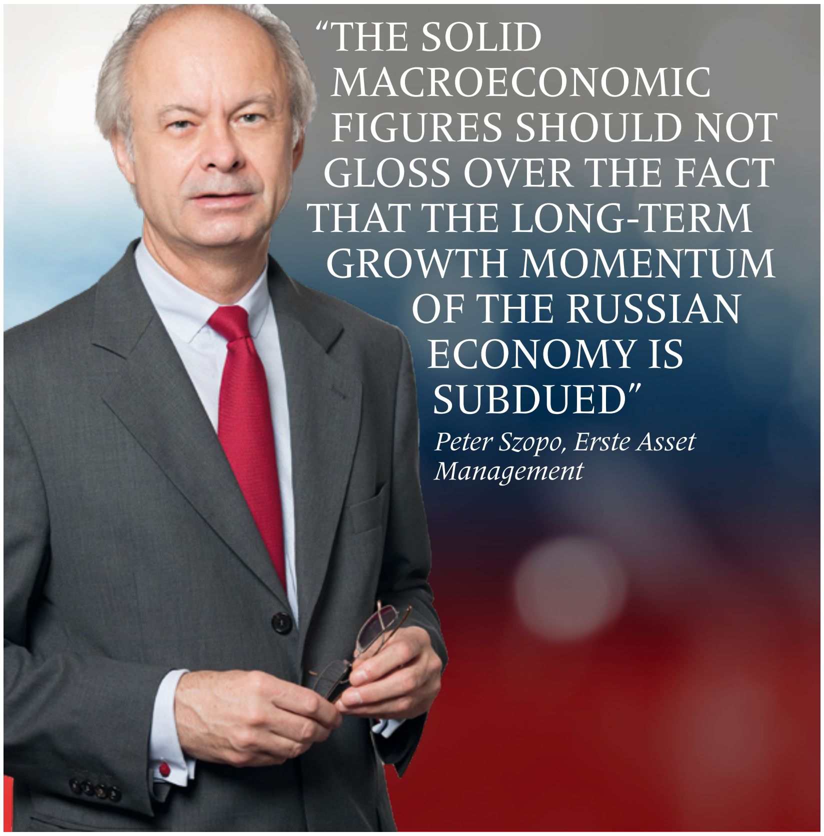
This year and in 2019, the economy should grow by about 1.8% according to current forecasts. Whereas a number of emerging economies have been negatively affected by the rise in US interest rates and the appreciation of the dollar, Russia is in better shape to face this scenario, he explains.

The country has generated a current account surplus and a practically balanced budget. Total debt has generally fallen in recent years, with government debt amounting to only 17.5% of GDP.

"However, the solid macroeconomic figures should not gloss over the fact that the long-term growth momentum of the Russian economy is subdued," says Szopo.

The predicted growth figures are just half those of global economic growth overall. This would mean significantly lower growth rates than in the years prior to the global financial crisis, when the country was in the fast lane. Whether this will change during "Putin 4.0" remains to be seen.

"The new government and the reform goals decreed by the president are signalling limited willingness to reform," Szopo explains.



OIL PRICE FLUCTUATIONS

There are no signs of loosening sanctions by the West. In fact, the opposite is the case: the US has imposed new sanctions, which among other things have led to another bout of depreciation of the Russian currency.

So far, the negative effects of the sanctions have been partially absorbed by the fluctuations of the price of oil and other commodities, but in the long run the consequences will be strictly negative for the Russian economic outlook, Szobo adds.

From an investor perspective, the latest round of US sanctions is particularly negative given that for the first time listed companies and their international operations have been affected by politics.

This situation notwithstanding, the outlook of Erste AM for the Russian equity market is generally positive.

"At a PE of about 6x on the basis of expected earnings, the market commands an attractive valuation," says Alexandre Dimitrov, manager of the €32m Russian equity fund ESPA Stock Russia. The valuation discount relative to other emerging markets is clearly above 40%. Also, the Russian equity market offers a dividend yield of more than 6%, which is bolstered by both earnings forecasts and foreseeable dividend policy.

At the moment, Dimitrov prefers export-oriented companies with healthy balance sheets that can boost their profits also in a difficult environment. These are mainly listed companies in the energy and commodity sector that benefit from the low rouble and offer investors a high dividend yield. ■

5,768 Constituents of the MSCI Micro Cap index (USD)

Long term playground

Investors, including institutional investors, should not fear volatility or liquidity constraints when considering microcaps explains Mandarine portfolio manager Sébastien Lagarde. Jonathan Boyd reports

Investors ignoring the microcap universe run the risk of missing out on key returns that active management can provide over time because of ongoing market inefficiencies.

So suggests Sébastien Lagarde, portfolio manager Microcaps at Mandarine Gestion, which offers the Mandarine Europe Microcap and Mandarine Global Microcap funds – and who took part in the *InvestmentEurope* DACH Summit Munich 2018 (www.investmenteurope.net/past-event/dach-summit-munich-2018). He argues that the asset class brings with it advantages over investments further up the market cap spectrum.

Performance remains better than large caps on average over the long term, and while volatility at the single stock level exists, it is possible to construct portfolios that can provide better control of this risk, he says.

This can be done through a specific investment process, which, for example, recognises the sheer number of available stocks, Lagarde says, adding that such an approach should be followed regardless of macro shifts, such as the tapering of quantitative easing. Rather, QE has a bigger effect on bigger stocks, he says. Vehicles such as ETFs allow significant flows into and out of markets, but do not yet exist to the same extent to influence microcaps.

QUANTS & FUNDAMENTALS

Dealing with such a large universe through a fundamental approach faces challenges, which is why Lagarde looks to quantitative analysis to facilitate identifying opportunities, he explains.

For example, in mind of the average growth that is twice the level seen in the large caps universe, this calls for quants on growth scores. Secondly, as there are high levels of market inefficiency involved, quants can be used to consider indicators relating to the quality of companies relative to each other – the approach is to find growth companies that have decent valuations.

Quality and the financial strength of companies is another important metric, while price momentum and market sentiment indicators are also important. Putting all of these together works well when managing assets in the microcap universe, Lagarde says.

"Over 25 years of back testing, the success rate of this approach is around 57%," he says.

"It's a good first step toward having an opinion on all companies in the universe."

There are differences between the two microcap strategies – Europe and Global – that Lagarde is involved in managing.

In respect of UK microcaps, the roughly 20% fall in the value of sterling has been a key factor for companies importing materials such as electronic components from Asia. Such companies focused on UK sales are facing a 20% drop in margins and have had to be sold out of the portfolio. But for others, weaker sterling is positive, driving up exports. The UK remains a key part of the European microcap universe and in the fund, he adds.

GLOBAL STRATEGY

For the global portfolio, there are concerns being expressed about the impact of US protectionist moves, such as tariffs. But here again, investors in microcaps have an advantage; it is the biggest companies that will suffer most from tariffs and other threats, Lagarde says, adding that he is not really exposed to the sorts of risks being discussed.

"Microcaps are the last 2% of market cap in developed markets. But these companies account for half the number of companies listed. That is a huge number that's always been underinvestigated by institutional investors. For example, MSCI decided only in 2010 to compute microcaps indices. So, it's a new area for a lot of people.

"These companies are on average very young, deliver lots of growth, do well in the long run, but are undercovered, which means lots of inefficiencies."

A crisis of the scale seen in 2008 would naturally hit microcaps also, but the fundamentals continue to speak to the advantages; more growth means more performance.

It is also an area where active management will continue to do well versus, say, passive ETF approaches. The breadth and depth of the universe that consists of stocks that may be quite illiquid is hard to replicate in indices, he says. ■

35x Average ratio of indebtedness to income in Rheinland-Pfalz

Worldwide investment fund assets declined slightly in Q1 2018, reaching €44trn, but in Germany investment funds raised €5.5bn and property funds managed record holdings. Ridhima Sharma reports

Germany defies global decline

In the latest international statistical report published by the European Fund and Asset Management Association (Efama) investment fund assets worldwide decreased by 1.3% to €44trn by the end of the first quarter of 2018. In US dollar terms, worldwide investment fund assets increased 1.5% to stand at $54trn.

On a euro-denominated basis, equity fund net assets decreased 2.1% to €18trn. Bond funds decreased slightly to €9trn. Balanced/mixed fund assets decreased 1.7% to €7.7trn, and money market fund assets remained stable at €4.9trn.

GLOBAL PICTURE

Looking at the worldwide distribution of investment fund net assets at end Q1 2018, the US and Europe held the largest shares in the world market. Overall, five European countries ranked among the top ten largest fund domiciles: Luxembourg (with 9.5% of worldwide investment fund assets), Ireland (5.5%), Germany (4.6%), France (4.4%), and the United Kingdom (3.7%).

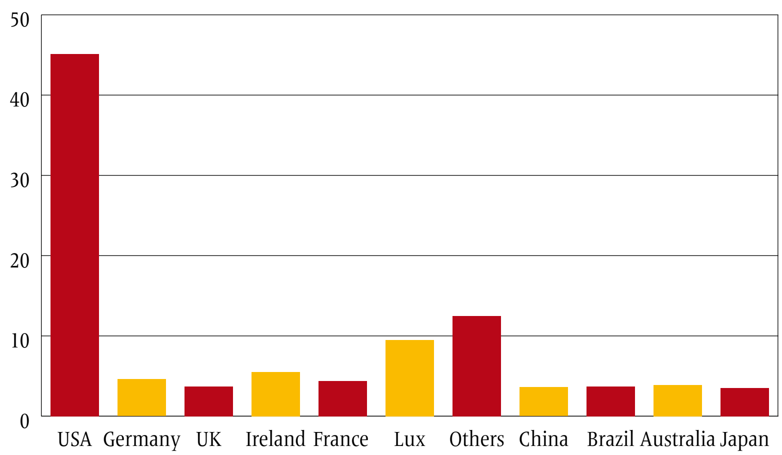
Net sales of regulated open-ended funds reached €223bn in Europe. In Europe, long-term funds attracted net sales of €227bn, up from €190bn in the fourth quarter of 2017.

Equity funds recorded net sales of €85bn, compared to €69bn in the previous quarter. Bond funds recorded net sales of €24bn, compared to €39bn in in Q4 2017.

Net sales into balanced/mixed funds amounted to €71bn, up from €63bn in the previous quarter.

Money market funds recorded net outflows of €3.6bn, compared to net outflows of €3.4bn in the last quarter of 2017.

TOP 10 DOMICILES OF WORLDWIDE INVESTMENT FUND ASSETS



As at end of Q1 2018 Source Efama

THE GERMAN EXCEPTION

According to the German Investment Funds Association (BVI), investment funds raised €5.5bn net, with the lion's share of €5.1bn having been contributed by *Spezialfonds* in April.

Retail funds recorded inflows of €0.3bn, after having registered outflows in the amount of €1.3bn in Q1.

At €2.1bn, balanced funds once again topped the sales chart. Equity ETFs saw outflows of €2bn while actively managed equity funds collected €0.1bn.

Discretionary mandates registered outflows totalling €1.9bn. Year to date, total new business of investment funds in Germany amounted to €43.5bn, while discretionary mandates recorded outflows of some €8.8bn.

As per Q1 2018 data, companies managed assets totalling €3trn.

Since the end of 2007, net assets under management in open-ended property funds rose from €105bn to their current level of €172bn in Germany.

At €91.6bn and €80.3bn, respectively, property retail funds and property *Spezialfonds* saw record holdings. Property *Spezialfonds* in particular grew strongly, quadrupling their assets over the past 10 years.

A spokesperson for the BVI said: "*Spezialfonds* dominate the market as they deliver customised solutions for institutional asset management.

"This also includes asset-liability-management as well as professional risk management and reporting solutions."

Property retail funds proved resilient to the market turbulences of recent years.

While open-ended property retail funds that temporarily suspended unit certificate redemption or were in liquidation accounted for approximately 25% of assets at the end of 2012, funds in liquidation now make up only 3% of assets. ■

3.3% April YoY rise in Italian construction sector output

Italian push with German flavour

Acatis Gané Value Event Fonds was made available for retail investors in Italy in May 2018, on the verge of its 10th anniversary. Eugenia Jiménez reports

Acatis Gané Value Event Fonds was born in Germany in December of 2008 as a result of the union of Gané Acatis Investments KVG mbH with Acatis Investments – a German asset manager based on a value investment philosophy since 1994, whose founder and fund manager for some of the strategies is Hendrik Leber.

Gané AG was founded by Uwe Rathausky and Henrik Muhle in 2007. The two managing directors of Gané AG had previously worked together at DJE Kapital. They then separated and joined different ventures. Muhle moved to Acatis, a move that would later give rise to the partnership of Gané with Acatis in 2008, resulting in the launch of Acatis Gané Value Event Fonds.

A MERGER OF STYLES

The Gané Value Event Fonds, a mixed strategy advised by Gané and managed by Acatis, merges the two investment styles of value and event-driven investing. It aims to reduce the fundamental risks in the selection of the fund's positions by focusing on companies with strong business qualities which, according to Gané AG refers to those companies standing out for their sustainability, their ability to defend an existing competitive advantage, and their capacity to generate high free cash flows.

The fund invests in shares and bonds that are comparable with each other through a payment-flow-oriented approach and with an eye to time-weighted returns. For the fixed income part, it does not manage either duration nor interest rates. Currency is also ignored in both the fixed income and equity exposures.

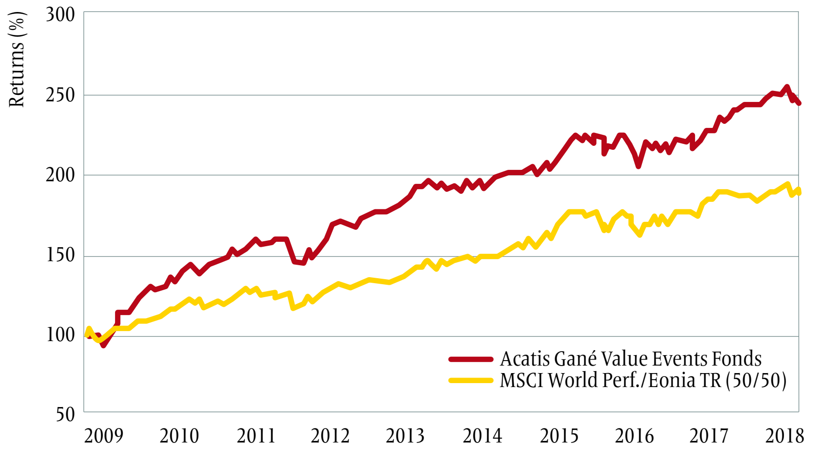
The fund's allocation comprised 63% shares, 12% bonds and 25% liquidity as at the end of May 2018, and can invest up to 35% in public debt and loans of promissory notes of the Federal Republic of Germany. The fund's exposure to fixed income normally averages 20-40% but recently has been just 12%.

Although the use of derivatives is allowed in the fund's prospectus, it has not been necessary to date, according to Eva Zaragoza, Acatis head of institutional sales for Iberia, Italy and the UK.

The fund had €2bn in assets under management and achieved an annual return rate of 2.5% in May. Since the beginning of the year, this latest figure was of 3.7%. For 2017 the return was 8.9%.

Key stocks driving returns recently include Apple and Novo Nordisk, the Danish pharmaceutical group.

PERFORMANCE SINCE LAUNCH



As at end of Q1 2018 Source Acatis Gané Value Event Fonds

NEW MARKETS

The Gané Value Event Fonds entered Spain in 2013. Positive feedback from that development has been cited as a reason for the expansion to Italy.

Zaragoza says: "In 2013, Spanish investors were more oriented to fixed income products – among other reasons – because they were concerned about Europe and the permanence of the euro. Then, as investors realised Europe was in a stronger position than they had previously thought, they started paying some attention to equities. Balanced funds were in demand, at the time Acatis Gané Value Event Fonds already had five years track record and started raising the interest of investors."

Although the fund was registered for retail investors in Italy in May, it was already present there for institutional investors. "We saw a growing appetite of Italian investors for balanced funds, so we offered institutional investors a first taste," says Zaragoza.

"We were known by institutional investors in Italy but we lacked access to retail clients because the fund was not registered for sale. Acatis Gané was already available in Allfunds Bank, the appetite for balanced funds in Europe was growing, it was time to expand the scope of the fund in Italy." ■

>€9.6m May Spanish gov't contribution to contributory pensions

Horos Asset Management landed in Spain in March, raising to six the number of new asset managers recently launched in this market. Eugenia Jiménez reports

'We eat what we cook'

On the same date that Spring arrived, Spain's private equity firm Qualitas Equity Group launched Horos Asset Management, in which it owns a stake consisting of individual investments made by every partner of Qualitas who manages their own money.

Horos' investment team – led by Javier Ruiz working with portfolio managers Alejandro Martín and Miguel Rodríguez – comes from Metagestión, as does the firm's CEO and partner José María Concejo. At Metagestión they applied the same investment philosophy currently used, for a period of six years; the formula worked to the extent that the Metavalor fund, managed until recently by the investor trio, gained 15.7% annualised over five years.

Born with a long-term view and linked to the value investment philosophy, the firm takes its name from the etymological origin of the word "horos", which means horizon, and which was used by the Greeks to refer to the limit where heaven and earth seemed to come together.

THE PERFECT RECIPE

Although Horos' investment team achieved success at the former house, its members lacked what they consider the third ingredient for "cooking" the perfect recipe in value investing, as famous value investor Warren Buffett's partner Charlie Munger stated.

Munger noted that there are three basic ingredients in the recipe required to achieve satisfactory returns over time in a competitive industry: a correct investment philosophy, a well-furnished head and belonging to an organisation that reinforces the previous two.

"Getting the third ingredient to the level that we understand it should be may not be so simple," says Horos' Ruiz.

"Possibly the only way to achieve this is with a project also owned by its management team in order to be fully aligned with investors. Although we have always co-invested in the funds we managed, we did not control the project.

"We are grateful for what we learnt at Metagestión, but it was time to move a step forward. Now, Horos' priority is the fund's performance."

CEO Concejo adds: "We only have performance goals, not AUM or profitability goals. This is why we are so confident when we invest our own money."

FIVE PRINCIPLES

Currently, all assets managed by Horos come from retail clients, something the firm expects to change soon.

The investment process follows five principles: to invest only in companies that are within the firm's circle of competence, which have a competitive advantage, that are well managed, that have low or no debt, and that trade at attractive discounts from what they believe is their real and fair value.

"These principles are not unique to Horos AM, we are aware of this. However, the difference with other managers is that we conduct our own independent analysis and we do not rely in other opinions. Clearly, this is time consuming, but we know it is worthy," says Concejo.

"We do not favour any particular sector. As stock pickers, we have found good opportunities in almost every sector. Currently it is being hard for us to find value in the financial sector and we do not like the capital management of many of them. However, we are not closed to any sector." ■

From left to right: Alejandro Martín (red tie), Miguel Rodríguez, Javier Ruiz, José María Concejo

THE FUNDS

Thus far, Horos AM has launched two equity funds – one Iberian and one global – as well as a pension fund, all of which can be acquired through the manager itself, Allfunds Bank and Tressis.

- Horos Value Iberia can invest up to 20% in Portuguese equity and up to 80% in Spanish equities. It can invest up to 10% in either Spanish or Portuguese companies trading in other markets. It also invests in Horos' global equity fund.
- Horos Value International can invest in most stock exchanges worldwide. The investment fund focuses on forgotten emerging market shares,tech platforms and UK firms presenting interesting opportunities after Brexit.

CHF1.11trn Assets managed in Swiss funds as of end May 2018 (Sfama)

CÉDRIC ÖZAZMAN AND JONATHAN COHEN

Cedric Özazman (left) has been head of Investments and Portfolio Management at Reyl & Cie since 2010. Prior to that, he was head of Discretionary Portfolio Management at KBL (Switzerland). His team includes Jonathan Cohen (right), portfolio manager responsible for traditional long-only fund selection at Reyl & Cie since 2015. His previous roles were with Merill Lynch and KBL (Switzerland).

Background picture: Shutterstock.com

CHF4.3bn Outflows in Swiss bond funds in May 2018 (Sfama)

In Reyl's niche credit buy list

Jonathan Cohen, portfolio manager in charge of traditional long-only fund selection and Cédric Özazman, head of Investments and Portfolio Management, reveal Reyl & Cie's fixed income bets to Adrien Paredes-Vanheule

Two of Geneva-headquartered private bank Reyl & Cie's nine or so investment professionals are responsible for – respectively – long-only fund selection and liquid alternatives fund selection.

Each brings expertise on a particular asset class hence gets involved in fund selection decisions as, for example, is the case for European equity funds with Reyl's head of Investments and Portfolio Management Cédric Özazman, a specialist in the segment.

"We have a concentrated buy list of 15 to 20 funds, quite the opposite of a shopping list that encompasses all segments. It is a way to implement our convictions. Though the model carries some limits, we try to find the adequation between our human resources – one cannot follow 40 funds at a time – and clients' needs which can differ from our convictions," says Cohen.

"Fund selection at Reyl is first aimed at matching the various client investment profiles and needs we have to fulfil for portfolio construction. It logically includes allocation to classical funds in the US or in Europe on the equity side for instance.

"Now, given our model, we can bring added value by selecting funds that fall into the niche category and stand out from the rest of the market. As an example, we have conducted funds research on Nordic credit," he adds.

"WE HAVE A CONCENTRATED BUY LIST OF 15 TO 20 FUNDS, QUITE THE OPPOSITE OF A SHOPPING LIST"

CONVICTION

Funds are generally kept in the portfolio for over a year. A three-year track record is required for the portfolio manager as well as $100m in assets under management for a minimum fund size. Though Cohen pinpoints these rules can be circumvented if the team has a strong enough conviction on a manager.

The use of ETFs? A rarity in Reyl's allocation grid says Özazman, whose team utilises passive funds when active ones cannot fit the team's allocation view – for example, to obtain exposure to a specific theme.

"We currently hold an ETF focused on US medtech. There are, perhaps, active healthcare equity fund managers maintaining a US medtech bias, but it remains hard to find. Sometimes a sectorial ETF will do the trick. Obviously, we also use ETFs for tactical purposes on a limited investment horizon – 6-9 months," he says.

SUB DEBT FAVOURED

In the fixed income bucket, the Geneva bank's investment unit avoids currently European government bonds, since the European Central Bank's first interest rate hike is not expected before mid-2019 and returns do not look appealing.

"Nordic debt forms an interesting alternative. Once we are hedged against currency risk, we perceive more returns compared to eurozone debt," Özazman argues.

Cohen adds that subordinated debt has long been a favoured play of the unit, especially through a fund from Algebris.

"Subordinated debt suffered a bit last year, but not as much as US credit. We are raising the question of whether it has become overcrowded or not. We are beyond the mid-cycle point and need to be more cautious on the asset class at some point," Cohen assesses.

Özazman notes: "European banks took measures long after their US counterparts, but at least they have acted to resolve structural issues. These issues haven't been resorbed fully yet in some countries like Italy. Banks in Spain, France are being well recapitalised. Their balance sheets are robust enough to avoid systemic risk off sovereign debt.

"The asset class has recorded high levels of net inflows in recent years. As a result, positions taken by subordinated debt funds are quite large. There is perhaps a need to bring more granularity and diversification. We look at corporate hybrid bonds, which carry a less aggressive profile and are even more niche."

Another strong credit bet over the last couple of years has been emerging market local currency. Cohen says the unit took profits on the asset class at the end of last year and that the idea is to reallocate this bucket to another part of the EM debt spectrum, namely increasing the bucket of EM high yield corporate bonds. ■

A longer version of this article is available on www.investmenteurope.net.

600 Spanish funds taking on research costs as of 21 May – CNMV

Four groups took part in *InvestmentEurope*'s Barcelona Roundtable 2018, introducing four quite different views on asset classes and strategies. Eugenia Jiménez reports

Investment ideas in Barcelona

InvestmentEurope's most recent event in Spain took place on 31 May at the Hotel Majestic, where the Barcelona Roundtable 2018 brought together some 30 Spanish fund selectors.

Collectively, they were treated views ranging from currency markets to European fixed income, to emerging markets and US equities.

Anthony Beevers, portfolio manager at First Trust Global Portfolios, kicked off the event by outlining a new approach to yield divergence, the carry trade and currency risk premia – as implemented by the manager's FactorFX fund and ETF – that looks to deliver total return by exploiting carry, value and momentum factors within global fixed income and currency markets.

The fund tracks a basket of between 20 to 30 currency pairs through forward FX contracts, futures, money market instruments and short-dated sovereign debt. The ETF vehicle goes long on higher-yielding and undervalued currencies, while going short on those overvalued and lower-yielding. It aims to deliver total returns by focusing on the yield differentials and exposure to currencies which are showing positive momentum.

EUROPEAN FIXED INCOME

Beevers was followed by Flavio Carpenzano, senior portfolio manager – fixed income at AllianceBernstein, who presented arguments why European fixed income investors should look closer to home when considering investment opportunities.

"Over the last few years European fixed income investors globalised their portfolios to escape the negative/low yield environment of euro investments. However, today the annual cost of hedging a dollar-denominated investment into euros is around 2.8%," said Carpenzano.

"A bond yield may look attractive in dollars, but if European investors hedge these back to euros to avoid currency risk, they shave off the vast part of the income paid."

The senior portfolio manager shared his views on how a mix of carefully selected euro government and corporate bonds can still deliver a yield of around 2.5% with an average investment grade portfolio rating.

Carpenzano also outlined how to select tactical opportunities such as European financials' subordinated debt, which can still offer attractive valuations alongside firm fundamentals of the banking sector.

Carpenzano introduced the AB European Income Portfolio, which seeks to deliver both income and potential for capital appreciation through top-down and bottom-up country, currency, interest-rate and security selection strategies, derived through the combination of quantitatively and fundamentally driven analysis.

He also considered the AB Financial Credit Strategy, a global bond fund that invests in subordinated debt of financial institutions, including additional tier 1 bonds used to shore up capital adequacy.

EMERGING MARKET EQUITIES

Paulo Salazar, senior equity analyst – Emerging Markets at Candriam, exposed his views on the asset class while expounding the Candriam Equities L Emerging Markets fund, which aims to generate alpha by combining stock-picking with a thematic overlay.

Mostly invested in equities of EM countries in Asia, Latin America and Central and Eastern Europe, the fund is looking for long-term capital appreciation, based on companies that exhibit sustainable growth and profitability.

"With growth patterns less dependent on developed markets, companies operating in EM countries offer numerous opportunities in the most traditional sectors, as well as in megatrends related sectors, like technology and demography," Salazar commented.

US EQUITIES

T. Rowe Price portfolio specialist Eric Papesh closed the roundtable by addressing the risks and opportunities in current markets – closer to the end of the expansion than to the beginning – with a special focus on US equities. Papesh supports T. Rowe Price's US Smaller Companies Equity and US Large-Cap Equity strategies offered in the Europe, Middle East and Africa and Asia-Pacific regions.

Highlighting where his team finds the most attractive investment ideas, he cited sectors in the US such as healthcare, energy, industrials, consumer and technology.

Regarding the US healthcare sector, Papesh described areas such as life sciences, medical devices companies and hospital suppliers as being interesting opportunities given strong earnings growth from new products, innovation and in some cases the realisation of benefits of consolidation.

Papesh said: "At nearly nine years old, the current expansion of the US business cycle is the second-longest running on record. Over the same period, the US equity market has advanced by over 240%. More recently, anxiety over accelerating inflation and higher levels of interest rates have resulted in a meaningful pickup in market volatility, making investors wonder what they should focus on today." ■

Speakers

Anthony Beevers is a portfolio manager at **First Trust Global Portfolios**. Prior to joining FTGP, Beevers was a senior analyst in the Portfolio Management team of FQS Capital Partners, a specialised quantitative investment firm investing in hedge funds across fixed income, FX and equity markets.

Flavio Carpenzano is a senior portfolio manager for fixed income at **AllianceBernstein**. Joining AB in 2017, Carpenzano represents the market views and investment strategies of the firm's fixed income portfolio management team, focusing on credit-related strategies. With 12 years' experience, Carpenzano previously worked at PIMCO. Prior to that, he worked as an analyst for the Bank of England and as a trader at Citigroup.

Paulo Salazar is an emerging markets equity research analyst at **Candriam**. Prior to joining Candriam in 2015, Salazar was a private equity associate at The Riverside Company based in Brussels and, formerly, he worked with equity research for GWI Asset Management, Equitas Investimentos and Banco Itau in Brazil covering several industries in Latin America and the US.

Eric Papesh is a portfolio specialist in the US Equity division of **T. Rowe Price**. Papesh supports T. Rowe Price's US Smaller Companies Equity and US Large-Cap Equity Strategies offered in the Europe, Middle East and Africa (EMEA) and Asia-Pacific (APAC) regions. He has 22 years' financial experience, two of which have been with T. Rowe Price.

3.7% April seasonally adjusted unemployment rate in Norway



EM, factors, fixed income and convertibles

Four key areas of investing were in focus at the Oslo Roundtable 2018. Jonathan Boyd reports

InvestmentEurope marked its return to the Norwegian capital on 7 June with the Oslo Roundtable 2018, which took place at the Grand Hotel.

Six participating asset management groups brought alive ideas around emerging markets, factor-based investing, developments in fixed income, and the opportunities in convertible bonds.

Those taking part included Acadian Asset Management, AXA Investment Managers, Fisch Fund Services, GAM Investments, Mirae Asset Global Investments and T. Rowe Price.

Starting proceedings was Tim Love, investment director, Emerging Market Equities at GAM, who went through the reasons why investors should not only consider exposure to emerging markets, but also do so through an active approach, which can be used to identify quality stocks that can be bought cheaply.

The heterogeneity of the full EM universe also means that it is possible to take advantage of ongoing themes. Love outlined examples such as looking to Brazil and Russia on positive carry trade opportunities; to India and China for key alpha trades; and to Vietnam, Argentina, Romania and Pakistan for 'frontier plays'.

Gideon Smith, European CIO, AXA Investment Managers, presented the second session on factors and their role in investments, particularly as implemented when considering global equities.

He noted that with the impact of factors having long been established as a way to improve equity market returns, it makes sense to use them. However, he also noted that individual factors may perform differently, meaning it is important to consider blends of low volatility, momentum, value and quality factors.

FIXED INCOME

Stephane Fertat, portfolio specialist at T. Rowe Price, brought the Roundtable audience around to the area of fixed income, and the particular role that it can play in the current environment, in which countries, both emerging and developed, are in different parts of the interest rate cycle; with some likely to see rates go down, others likely to see rates remain stable, and others still see rates go up.

With geopolitical risk pervasive, volatility expected to remain high, and central banks looking to taper down their purchases in areas including corporate bonds, it is important to gain an understanding of which fixed income sectors still offer good investment opportunities, he noted, for example, comparing US and European corporate bonds, EM corporate bonds and leveraged loans.

Malcolm Dorson, portfolio manager at Mirae Asset Global Investments, also presented from the perspective of emerging markets. However, he brought a view of the asset class that differed from others in that it also included an outline of how to co-manage portfolios.

The point, he explained, is to use locally based investment professionals as far as possible to gain deeper understanding of how companies are faring in local markets. This information can be shared with colleagues in other offices around the World to leverage up the value of such information. Such an approach also supports the bottom-up fundamental research used to produce recommendation lists and the portfolio construction, in which different portfolio managers have responsibility for different 'sleeves' but need to collaborate for the good of the overall portfolios.

Scott J. Brymer, senior vice president, portfolio manager at Acadian, introduced the firm's systematic

2.3% May annualised CPI inflation in Norway

approach to European equities.

This was another presentation highlighting the use of factors, albeit focused on the full market capitalisation range of regional equities more so than global ones. Brymer provided a demonstration of the quantitative tool used to gauge individual stock performances, also against peers and their own sectors.

In this way, ongoing monitoring of some 6,000 European equity securities can be done in an efficient way, with the insight gleaned leading to identification of alpha opportunities.

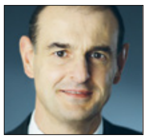
BENIGN ENVIRONMENT

Providing a bridge between the equity and fixed income universes was Martin Haycock, senior product manager at Fisch Fund Services, who outlined developments in the convertible bonds market.

With 2018 thus far shaping up to be a stellar year from an issuance perspective, this has created a benign environment in which to consider individual securities against a backdrop of monetary policy and inflation questions alongside questions of multiples that have been seen on certain stock markets of countries deemed to be further along the business cycle than others, such as the US.

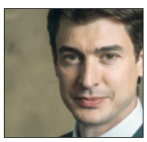
Haycock noted the historical performance of convertibles at times of rising yields, with the data suggesting that the asset class outperforms corporate bonds or balanced portfolios of equities and bonds. ■

Speakers

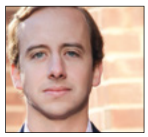


Tim Love is investment director, Emerging Market Equities at **GAM Investments**, responsible for emerging markets equity strategies. Before joining in 2012 he worked at CQS/Oceanwood, Cazenove Capital Management, Deutsche Bank, SG Securities, ING Baring Securities, BlackRock (MLIM) and HSBC Asset Management.

Gideon Smith is European CIO at **AXA Investment Managers**, co-heading the London office. He joined the group via AXA Rosenberg in 1998, since when he has held a number of roles including Europe deputy CIO, director of client services and head of strategy engineering for Europe.



Stephane Fertat is a portfolio specialist, Fixed Income at **T. Rowe Price**. He joined the firm in 2007 and has over two decades of experience. Previously he was a European fixed income manager with Fischer Francis Trees and Watts, and has also worked at Societe General Fimat Investment Management.



Malcolm Dorson is a portfolio manager at **Mirae Asset Global Investments** focused on emerging markets ex-Asia, managing portfolios investing in Brazil, Russia and Emerging Europe since 2015. Previously, he was lead Latin America investment analyst at Ashmore Group. Before that he worked at Citigroup and Deutsche Bank.

Scott J. Brymer is senior vice president, portfolio manager at **Acadian**, which he joined in 2006. A member of the Portfolio Management Team, he is focused on portfolio oversight and research. Previously, he was on the Portfolio Construction Group, specialised in simulation-based research, portfolio analytics, optimisation and trading.

Martin Haycock is senior product manager at **Fisch Fund Services**, where he supports the Convertible Bond portfolio management team as a senior Convertible Bond specialist. Before joining Fisch AM in 2015 he worked at UBS for 20 years. He led the sale of the UBS Convertible Indices to Thomson Reuters in 2014.

1.5% Increase in total number of passenger vehicles registered for road use in Germany on 1 January 2018

Nine groups discussed key investment ideas at this two-day event, particularly around emerging markets. Ridhima Sharma reports

Challenging emerging markets

The *InvestmentEurope* DACH Summit Munich 2018 kicked off in the afternoon of 15 May at the Hotel Bayerischer Hof welcoming fund selectors from across Germany.

The forum offered two days of informative boardroom sessions, presented by nine asset management groups including Azimut, Baillie Gifford & Co, Candriam Investors Group, Columbia Threadneedle Investments, Edmond de Rothschild Asset Management, Invesco Powershares, RobecoSAM, First Trust Global Portfolios and Mandarine Gestion.

Mike Gush of Baillie Gifford was one of those discussing an emerging markets (EM) investment philosophy, noting that the manager has always been active and has focused on hard currency growth and eager to exploit the inefficiencies of short-term that still persist in markets.

Gush talked about the gradual transition within EM as the sector moves from a period of narrowly confined growth to a broadening out of the opportunity set within the EM universe. He explained why the company invests in EM equities and what excites about the asset class when looking ahead to coming years.

Also sharing views on EM was Jan Boudewijns of Candriam, who pointed out that investing in this asset class gives access to capturing a greater share of growth in the global economy than relying on developed markets.

Vanessa Donegan, head of Asian Equities, EMEA and fund manager at Columbia Threadneedle focused in on Asia's quality growth transformation. She talked about the positive implications of the structural shift for stockpicking in China, including Chinese listed A-shares, and outlined the current strategies for Asian region as a whole.

Stéphane Mayor, senior fund manager, Emerging Markets at Edmond de Rothschild AM took the discussion of EM into the realm of debt. According to him, while EM generally has recovered in the past two years, it remains important to be selective on a geographical and sector basis, because EM covers so many different situations. EMD can help investors to capitalise on these differences without being directly exposed to equity market volatility, he argued.

BETA

Stefano Mach, fund manager at Azimut talked about beta exposure via an option strategy. The Azimut AZ fund 1

82,291,300 Current population of Germany as of 27 June 2018

Equity Option fund gives exposure to the main equity indices (S&P and Eurostoxx) via an option strategy with an average market participation of 40/70% in rising markets. The strategy invests in volatility of the underlying indices.

According to Mach, the strategy is normally implemented via a systematic approach with the selection of the expiration and strike price of the option being based on the skew and volatility analysis.

There were also two ETF providers outlining ideas to selectors in the DACH region.

Gregg Guerin of First Trust Global Portfolios highlighted investments in the eurozone as a hot topic of discussion for investors. FTGP's AlphaDEX methodology scours European markets looking for the best value and growth stocks, and he highlighted a detailed review of the performance and attribution of EU stock market returns this year so far.

Invesco Powershares' Nicolas Samaran put the spotlight on US high yield bonds and preferred securities in the US domestic market. The PowerShares US High Yield Fallen Angels Ucits ETF tracks the performance of 'fallen angels' – bonds which were previously rated investment grade but then subsequently downgraded to high yield. On the other hand, the PowerShares preferred shares Ucits ETF tracks performance of fixed rate US dollar denominated preferred securities.

Turning back to Europe and the opportunities in the small and mid caps space, Diane Bruno of Mandarine Gestion outlined ways to invest in this universe – as done by the Mandarine Unique fund, which looks to companies in niche markets with high growth potential. Bruno noted that such companies can enjoy substantial market share, hence strong pricing power, and reducing sensitivity to cyclical growth.

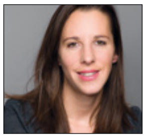
FUTURE MOBILITY AND DIGITAL

Delegates were treated to views on digital developments and related opportunities that also touched on climate change.

As a theme, RobecoSAM's Pieter Busscher considered 'e-mobility' as it has become clear that the internal combustion engine's days are numbered, with the weight of economic and environmental evidence mounting in favour of electric vehicles. Pressure from governments over carbon emissions together with accelerating technological advances in energy management and materials are paving the way for e-mobility on the road in future.

Meanwhile, the event keynote was delivered by Sandro Gaycken, director of the Digital Society Institute at ESMT Berlin. He has published five scientific monographs, including three on cyberwarfare, along with more than 60 other publications. Gayken is a technology- and security-researcher, exploring the nexus of digital technology, economies and politics. His research focus is on cyberwarfare, cyber defence, cyber intelligence, and high security IT. He shared his thoughts on hacking and the general state of governmental cybersecurity. ■

Speakers



Diane Bruno joined **Mandarine Gestion** in 2009. She is lead portfolio manager of Mandarines' small and mid- cap fund Unique. Prior to that, she worked for Joëlle Morlet-Selmers' small & mid cap team at Axa Investment Managers.

Stéphane Mayor, joined **Edmond de Rothschild Asset Management** in September 2007 as Emerging Markets investment manager. Mayor has been working in the financial services industry since 1989 and has been involved in emerging markets research and portfolio management since 1997.

Pieter Busscher is a senior portfolio manager at **RobecoSAM** and is responsible for managing the RobecoSAM Smart Materials Strategy.

Mike Gush joined **Baillie Gifford** in 2003 and worked in the UK and Japanese Equities teams before moving to the Emerging Markets Equity team in 2005, where he is an investment manager. He is co-manager of the Emerging Markets All Cap strategy and the manager of Baillie Gifford's Greater China fund.

Nicolas Samaran has been head of Product Development for **Invesco PowerShares** in EMEA since August 2014. He is responsible for developing a range of ETFs for the European market.

Jan Boudewijns has been head of Emerging Markets Equity Management for **Candriam Investors Group** since 2003. He joined Candriam (formerly Bank BACOB) in 1984 and became fund manager in 1988 and senior fund manager in 1990.

Gregg Guerin is senior product specialist for **First Trust Global Portfolios**. Prior to working in London, Guerin was a member of the First Trust Institutional Team.

Vanessa Donegan joined **Columbia Threadneedle Investments** in 1994 at its formation as an executive director and was appointed head of Asia ex Japan Equities team in September 1997. She is currently head of Asian Equities, EMEA.

Stefano Mach is a senior fund manager with **Azimut** since 2008 holding also various positions within the organisation as board member as well as in the investment committee.

Approaching events

InvestmentEurope's autumn schedule kicks off with a Roundtable in Reykjavik and the inaugural Sub-Advisory Summit in Milan

NEXT EVENTS

INVESTMENT EUROPE
REYKJAVIK ROUNDTABLE 2018

REYKJAVIK, 13 SEPTEMBER

The *InvestmentEurope* Reykjavik Roundtable 2018 takes place 13 September at the Grand Hotel Reykjavik in the Icelandic capital.

Targeting some 20 locally based fund selector delegates, the event features presentations from up to five speakers representing groups such as DWS and Mainfirst. It will be as broad reaching as last year's event, which saw ideas outlined around global equities, emerging and frontier markets opportunities and consideration of ESG risk factors.

Delegates will also have the chance to network with peers and representatives of groups present through the registration and breakfast, and later on the coffee break.

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

INVESTMENT EUROPE
PAN-EUROPEAN SUB-ADVISORY SUMMIT MILAN 2018

MILAN, 4-5 OCTOBER

InvestmentEurope's inaugural Pan-European Sub-Advisory Summit Milan 2018 takes place 4-5 October at the majestic Palazzo Parigi, and is set to be *the* must-attend event of its kind this year.

Estimates suggest that some €200bn of net flows could migrate to sub-advised funds over the coming five years, with key markets in the region including the UK, Italy, Ireland and France.

Headline Partner to the event is Goldman Sachs Asset Management, with event Knowledge Partner instiHub, and Associate Partners in the form of Columbia Threadneedle Investments, Invesco, Janus Henderson, Jennison Associates (PGIM), Lord Abbett, Natixis, Pictet Asset Management, Pimco and Wellington Management.

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

There are plenty of networking opportunities with peers, including lunches, a networking dinner and coffee breaks.

To register your interest in attending, contact Vanessa Orlarey at vanessa.orlarey@odmpublishing.com or +44 (0) 7473 934 144.

TAKE PART IN THE DISCUSSION

Delegates to the Reykjavik Roundtable 2018 and the Pan-European Sub-Advisory Summit 2018 in Milan are encouraged to connect ahead of the events by tweeting using the hashtags #IEREYKJAVIK and #SASUMMIT respectively.

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

LOOKING AHEAD

INVESTMENT EUROPE
PAN-EUROPEAN SUMMIT
HAMBURG 2018

InvestmentEurope's other major event taking place in October is the Pan-European Summit Hamburg 2018, which will be hosted at the Hotel Sofitel Hamburg Alter Wall on 17-19 October.

Targeting over 70 fund selector delegates from across Europe, this is a sister event to the Lausanne Summit that took place in April, and offers access to three days of in-depth presentations, a keynote, and plenty of opportunity to network with peers from different markets.

Breakfasts, lunches, dinners and coffee breaks all contribute to the networking opportunities.

Groups participating include Candriam Investors Group, Danske Invest, Eurizon Asset Management, Invesco, Janus Henderson Investors, and Tokio Marine Asset Management, collectively covering both equity and fixed income assert classes, different geographies and thematic approaches.

Providing the keynote this year is Iain Duncan-Smith, former leader of the Conservative Party in the UK, and who as Secretary of State led the Department for Work and Pensions from 2010-2016.

To register you interest in attending, contact Patrik Engstrom at patrik.engstrom@odmpublishing.com or +44 (0) 20 3727 9940; Borja Diaz at borja.diaz@odmpublishing.com or +44 (0) 20 3727 9921; Arzu Qaderi at arzu.qaderi@odmpublishing.com or +44 (0) 20 3727 9936; or Luisa de Vita at luisa.devita@odmpublishing.com or +44 (0) 20 3727 9932.

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

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

EVENTS CALENDAR 2018

13 September	Reykjavik	Roundtable
InvestmentEurope returns to its most northerly event in Iceland's capital for a second year, to present international investment ideas to local fund selectors	 	
4-5 October	Milan	Pan-European Sub-Advisory Summit
17-19 October	Hamburg	Pan-European Summit
The twin-sister event to the Lausanne Summit earlier in the year, this event also caters to 72 fund selectors from across the region with a bias towards Northern Europeans		 
25 October	Madrid	Forum
30 October	Copenhagen	Roundtable
13 November	Zurich	*Pensionskassenforum*
20 November	Milan	Forum
27 November	Tel Aviv	Forum
4 December	Stockholm	Forum
6 December	London	Fund Manager of the Year Awards
The last event of 2018 will see InvestmentEurope play host to portfolio managers and fund selectors alike as the latest annual awards are handed out, recognising talent on both the sell and buy sides		 

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

64 Countries with SharingAlpha members

The latest addition to the services offered through the SharingAlpha platform include the ability to see aggregated asset allocation by country peers

Getting countrywide comparisons

The continued growth in numbers of users of the SharingAlpha platform is also facilitating the rollout of additional services that can be used by fund selectors who may be keen to generate a rating of their own as financial professionals.

So far, the platform counts some 1,648 vetted fund professionals from 64 different countries that have joined its community.

Most recently, they have been offered the ability to see the aggregated asset allocation in their respective countries, explains Oren Kaplan, CEO and co-founder.

"This feature will complement the community buy list which we have been showing for the past few months," he said.

"Hence, members will now be able to not only compare their top rated funds with that of their peers but also compare their asset allocations – expressed in their virtual fund of funds – with that of their fellow professionals."

Kaplan believes the additional level of transparency – provided to vetted members – should continue to increase the interest surrounding the SharingAlpha platform even further.

RATINGS CHANGES

One of the key facets of the platform is that as more users provide more ratings of more funds, it is able to reflect the collective wisdom of the fund selector community in the form of updated tables of high rated funds & providers, most popular funds & categories, funds rated by categories and highly rated hedge funds.

The latest monthly update of top 10 most highly rated funds has highlighted the Oppenheimer Developed Markets, Invesco Global Leisure and H2O Moderato as new entrants.

These funds have pushed their way into the top five, with scores that suggest they offer a strong proposition on the key factors of people, price and portfolio.

The scores represent the 'wisdom of the crowd', as they are based more on qualitatively derived expectations of fund selectors rather than backward looking quantitative filtering. ■

SharingAlpha

HIGHLY RATED FUNDS

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

Fund name	Domicile	Average rating	Raters	Move from prev
Liontrust European Income Fund	UK	5	7	◆
Oppenheimer Developing Markets Fund	US	4.92	5	New
Invesco Global Leisure Fund	Lux	4.89	5	New
Valentum FI	Spain	4.88	5	▼
H2O Moderato	France	4.86	6	New
Magallanes European Equity FI	Spain	4.83	19	▼
Sextant PEA	France	4.82	15	▼
Cobas Selección FI	Spain	4.81	7	▼
Vanguard US Opportunities Fund	Ireland	4.8	6	▼
Schroder GAIA Two Sigma Diversified	Lux	4.8	15	▼

As at June 2018 Source www.SharingAlpha.com

0.2% May rise in Switzerland Producer and Import Price index

Controlled steps

M17 remains focused on maintaining an annualised volatility level while making sure both long and short books generate enough alpha, as it seeks to grow the business in a controlled manner. Ridhima Sharma reports

M17 is a relatively young organisation and has not undergone any M&A activity.

So explains Markus Matuszek, managing partner and chief investment officer of the Pfäffikon and London based organisation.

"In the run up of our launch of the M17 European Market Neutral Ucits fund, we had several discussions with investors who were interested in an equity stake or in providing working capital, yet we felt that most offers were not compelling as they required us to give away too much of the economics or wanted to take advantage from the more difficult asset raising in the early stages of an asset manager."

As a result, the business has hitherto been self-funded, Matuszek notes.

"One of the consequences of this was, and still is, that we are keen on ensuring that costs for both the Ucits fund and the asset manager are kept as low as possible while maintaining an institutional setup. LRI Invest, our Luxembourg based 'Manco', has been instrumental in this effort.

"Initially we wanted to use another company name. However, when we approached investors with it, we learned that the name was already associated with existing asset managers in other countries. Also, our legal counsel strongly suggested not to go ahead as the potential ramifications were simply too high.

"That day, I mentioned the situation to my wife Natalia who came back to me after some time and suggested using the combination of a letter of my initials (M) and my lucky number (17) as a brand, as she explained that true success only comes from hard work (M) and a bit of luck (17). The entire team found this unique and liked the philosophy behind it," explains Matuszek.

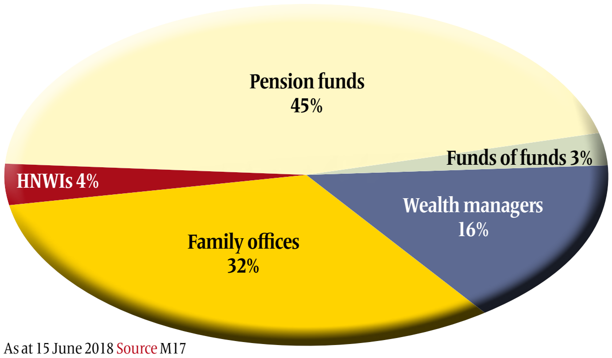
The M17 European Market Neutral Ucits fund was launched in February 2018. Six weeks into the launch, the business stood at €45m, with subscriptions continue to come in on a weekly basis, enabling the closing of the founders share class by the end of June.

"The investor base consists of European onshore investors although we are in discussions with several Asian investors and thus hope to broaden the investor base over coming months," Matuszek says.

"We have institutional and qualified investors only as we decided to wait with offering the fund to retail investors. Our mix is quite broad, consisting of pension fund advisors, fund of funds, single family offices, wealth/asset managers and high net worth individuals."

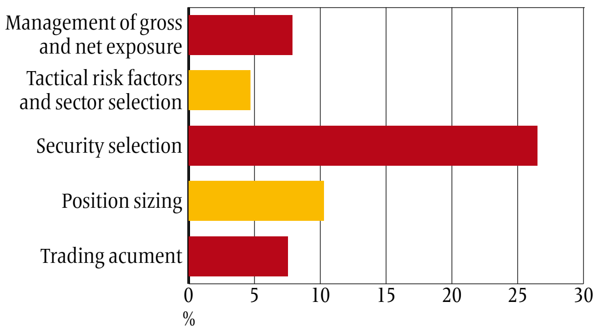
The company currently only manages the M17 European Market Neutral Ucits fund which is an absolute return equity long/short market neutral product.

M17 EUROPEAN MARKET NEUTRAL UCITS INVESTOR COMPOSITION



As at 15 June 2018 Source M17

RETURN ATTRIBUTION PER INVESTMENT SKILL



Source Novus Partners

LOCATION

M17 has offices in Pfäffikon (near Zurich, Switzerland) and London. These offices are not profit or cost centres like at other, bigger asset managers but serve investment and operation teams to conduct their work, explains Matuszek.

"The organisation is quite process driven and is based on a high frequency of interaction between the respective team members to discuss research findings, analyse scenarios, risks, etc. Since M17's investment approach is quite fundamental, the office locations and other serviced

8.1% YoY rise in Switzerland secondary sector production

MARKUS MATUSZEK

Matuszek is managing partner and chief investment officer at M17 Capital Management since 2016. Prior to that he was working for Hermes Capital as managing director and chief investment officer from 2013 to 2016. He was also non-executive vice chairman of the supervisory board at Lionsquare Capital from April 2012 till 2016. Matuszek has also worked for Gabelli and Partners as managing partner and Centurion Group as managing director.

offices serve as bases whenever the investment team is visiting companies or conducting other research activities.

"Our focus is to maintain an annualised volatility level of around 6% while making sure both our long and short books generate enough alpha so that we finish the year with good performance. For our strategy, investors expect to receive 8-15%, depending on the type of investor.

"On the client segment side, we want to ensure that we have a well-diversified portfolio of investors, be that geographically, type of investors as well as concentration," he adds.

"As mentioned before, we are currently raising capital for our M17 European Market Neutral Ucits funds and that keeps us extremely busy with around 20 investor meetings per week."

KEY DEVELOPMENTS

M17 is not developing any new products for the time being, although it frequently receives queries about whether the same strategy is offered in an offshore version or in a managed account format.

Matuszek believes that it is only a matter of time until the business secures a European investor who wants to invest in the strategy but is also willing to be an anchor investor for an offshore version. However, this is not being actively pushed.

The other key development is that some larger institutional investor are conducting due diligence on the operations.

"We currently don't plan to expand our physical presence, nor do we want to significantly expand our investment universe. You cannot be the master of all trades but have to stick to industries and regions you already understand very well," comments Matuszek.

Prior to launching the Ucits fund, the company carefully considered how and when they will grow their team.

Matuszek adds: "We have a specific plan in place for all areas of the firm, be it in terms of analysts, risk and operational roles. While most of those considerations are confidential, we implemented in our DDQ a review mechanism which is triggered at certain AUM levels to ensure that M17 as an asset manager has all the required people, systems and processes in place before aiming to raise more capital.

"Put differently, we will suspend capital raising until our organisation is ready to make the next step as we want to ensure that we grow in a controlled and sustainable manner." ■

InvestmentEurope's Editorial Board members give their views on cash holdings and active versus passive ETFs

Ideas generation

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

FILIPPO STEFANINI

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

Do you see portfolio managers building up cash holdings?

The low level of interest rates in developed markets has determined an asymmetric nature of the investment opportunities in government bonds and corporate bonds.

The search for yield is a difficult exercise because the level of carry is in many cases too low compared to the potential losses an investor can face in volatile times. How many years of carry are necessary to recover a loss when one invests in a low yielding government bond?

Of course, there are pockets of value in some areas of the fixed income space and that's why there are more and more portfolio managers that are using a barbell approach in portfolio construction. In a barbell approach, risky assets are balanced directly with cash to obtain the desired level of volatility.

BERNARD AYBRAN

CIO Multi Management
Invesco
Paris
www.invesco.com

Do you see ETFs as passive only vehicles, or offering both passive and active opportunities?

A handful of asset managers have packaged actively managed funds within an ETF wrapper. With a couple of exceptions, the initiatives remained mostly un-noticed by investors and the inflows remained limited. While this might change going forward, the benefits of an ETF format remain unclear.

First, from the fund manager point of view, it usually means an increased and quasi real-time transparency, which can be an issue. Then, from the end-investor point of view, the ETF format means paying creation and redemption fees when he buys or sells on the market.

The only clear benefit can be for investors who are not allowed to, or badly equipped for, investing in regular mutual funds.

THOMAS ROMIG

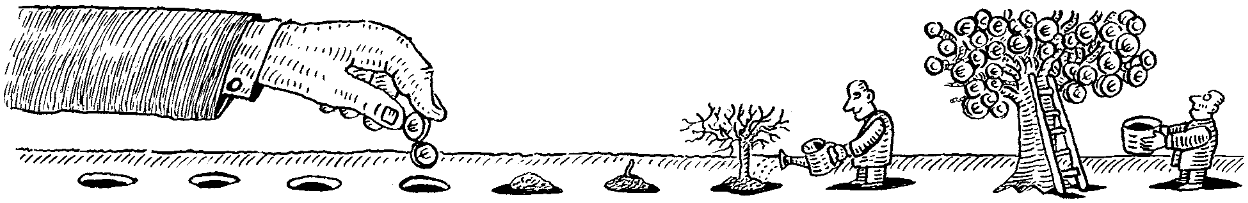
Managing Director
Head of Multi Asset Portfolio Management
Assenagon
Frankfurt
www.assenagon.com

Do you see ETFs as passive only vehicles, or offering both passive and active opportunities?

The main advantages of classic ETFs are high liquidity and small spreads. The main basis for these characteristics is a well working cash and derivative market. Given these prerequisites passive ETFs, which track a certain market index, are instruments that allow investors to invest in an index with low cost. Of course, very specific ETFs covering small markets or less developed regions do not always offer these attributes.

Active ETFs often invest in instruments that have lower liquidity on the cash market and sometimes also lack of a related derivative product. This makes the portfolio management and also the entire vehicle less efficient and liquid.

At second glance, and given these conditions, active ETFs cannot offer the main benefits of classic ETFs, which follow a passive approach.



A Gettysburg moment for professional fund investors

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

Here is a clue to the meaning of being a professional fund investor (PFI): the rise of indexation, the ETF wave, statistical arbitrage, deep learning quants, rising regulation, asset inflection, inducement rules, increasing technology, narrowing information advantage – and throughout it all a simple lack of universal standards, aims or voice.

Yet when I travel I am struck just how motivated local pockets of fund selectors are. But still, in pockets they are, confined to parochial communities, unable to share global best practice. Worse, they are often isolated from colleagues in their own firms; non-PFIs have no idea how challenging the role can be. Those in Stockholm have more in common with those in Cape Town than might be first apparent.

I can also observe that different markets bring unique perspectives and all the time without truly supportive qualification, training or accreditation. Step forth the Association of Professional Fund Investors (APFI).

Is this, then, fund selection's Gettysburg? Where we make a stand and fight? Perhaps.

“WHEN I TRAVEL I AM STRUCK JUST HOW MOTIVATED LOCAL POCKETS OF FUND SELECTORS ARE”

THE APFI

The APFI is dedicated to building a fund buyer community, increasing professionalism and lobbying the voice of professional fund investors globally.

Our approach is collegiate whilst empowering local leads to be entrepreneurial and evangelical in their markets. The Advisory Board is to help champion the APFI, offer good counsel and to help steer the direction of the APFI. As a non-profit organisation we must align this aim to a fairer, sustainable and more transparent world that delivers the best possible outcomes for investors.

Created by and for its membership in 2011, the Association enables professional fund investors to share ideas, ensure best practices and network with their peers.

The APFI:

- Is dedicated to the advancement of the interests of professional fund investors and voicing the collective perspective of its members concerning key topics and trends within the global asset management industry;
- Serves as a forum for its members to drive the development and the exchange of global best practices in the areas of research, analysis, due diligence and selection of asset management products;
- Seeks to build strong collegiate relationships among its members through a global networking framework;
- Advances the voice and perspective of the professional investor to industry dialogues on product development, regulatory and distribution topics concerning the global asset management industry;
- Strives to enhance the competitiveness and overall quality of asset management products in the marketplace through its members continuously demanding exceptional quality from asset managers;
- Seeks to ensure first class client servicing, reporting and transparency from asset managers;
- Acts to ensure the continued recognition of the importance of professional fund investors and advance their role within the asset management industry;
- Believes that the investors' viewpoint is crucial to the sustainable growth of the asset management industry.

The APFI is independent of commercial interests and is owned and controlled entirely by its members.

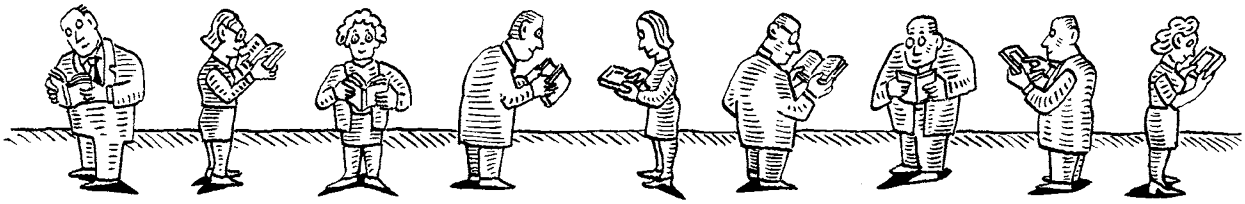
OUR PHILOSOPHY

There are some simple truths that APFI members have seen as central:

- Funds are bought by professional fund investors, not sold to them;
- Hot concepts are the basis for short-lived bubbles; APFI members seek to isolate funds and their managers that have sustainable investment merit;
- A strong competitive environment for funds is crucial, open architecture is a key to this;
- A well thought out, sophisticated approach to fund research is forward looking and past performance is only a limited aspect of the selection process;
- There is no 'right way' to analyse and select funds – APFI members utilise a range of techniques and methodologies;
- Professional investors work most effectively in an environment of independence and objectivity.

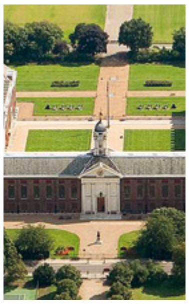
To progress these aims (and more) the APFI is currently engaged in the following workstreams: DOOR – E-DDQ platform; accreditation and training, including leading on a new accreditation programme in South Africa; regulatory liaison and consultation on issues such as Brexit, Mifid II and RDR; development of a diversity policy; transparency supported by best practice for fund analysis and due diligence; identifying best practice for fund selectors considering ESG and sustainability; opening up new markets to membership; and developing a Member's Charter to support professionalism and accreditation. ■

For further information visit www.profundinvestors.com.



Ridhima Sharma talks to Sarah Price, designer of the M&G garden, a gold medal winner at London's annual Royal Horticultural Society Chelsea Flower Show

A celebration of colour, texture, light and shadow



Chelsea Flower Show was held 22-26 May at the Royal Hospital Chelsea, Royal Hospital Road, London SW3 4SR

Once again M&G Investments was the main sponsor of the Royal Horticultural Society's Chelsea Flower Show, the horticultural fair that takes place in May at the Royal Hospital Chelsea in London.

2018 marked the ninth consecutive year that fund provider M&G Investments has sponsored the RHS Chelsea Flower Show. The event itself has been going since 1862, having been hosted in two other locations before starting its run at the Royal Hospital Chelsea and 1913 – and it remains the most prestigious such event in the UK.

This year, M&G Investments commissioned award-winning Sarah Price as designer of its garden put forward in the competition against others' gardens. The design plumped for was an imagined sanctuary that expanded on the idea that a wall, tree and seat can create an intimate, sheltered and beautiful place of repose.

MEDITERRANEAN INSPIRATION

Price and her team won a gold medal for their efforts, for a design which, to this author's eyes, looked even more fantastic in the evening light.

Taking inspiration from the Mediterranean, the garden celebrated the beauty and simplicity of the region's unique landscape through the use of modest and sustainable raw materials and a vibrant planting palette.

To bring this story to life, Price used Mediterranean flora and raw materials dug directly out of the earth – red aggregates, clay and terracotta – to provide a sense of warmth and richness. Textured, rammed earth walls and stacked tiles framed the spaces, through which there were views of

twisted wisteria stems, Lagerstroemia trees (Crepe Myrtle), scented thyme, and, in the heart of the garden, the rugged form of two mature pomegranate trees.

The M&G garden was full of contrasts: subtle and dazzling colour; flowers and grass.

The garden's composition hinged around the branching forms of Pomegranate trees, which commanded space and created reflections in the pool that was also integral to the design; it also included ground hugging scented herbs punctuated with taller, wispy, diaphanous flowers. Many drought tolerant plans were also included – intended to reflect London's warming climate.

Overall, Price described the design as a "...romanticised haven that celebrated the expressive and sensual language of colour and texture, light and shadow." ■

For further details visit:
ww.rhs.org.uk/shows-events/rhs-chelsea-flower-show.

KEY FEATURES

- Rules of the RHS Chelsea Flower Show forbid the use of coloured sculptures, which means garden gnomes are banned.
- Three firms that exhibited in 1913 are still showing: Kelways, McBean's Orchids, and Blackmore and Langdon.
- The Great Marquee, used first in 1951, covered 3.5 acres (1.4 hectares); when replaced in 2000, the remains were cut up and made into 7,000 bags, aprons and jackets.
- A limit on the number of tickets sold to attend the Show has been in place since 1979, to avoid overcrowding.
- Flower arranging has appeared every year since 1948.

Source RHS

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