

# Kairos takes centre stage again as European equities stable flies high

The stunning first-year performance of the firm's new Pegasus event-focused long/short equity fund in 2014 underlines the positive momentum at Kairos – the London, New York and Milan-based group that is one of Europe's longest-established alternative investment firms – both in terms of performance and also in terms of the broader growth of its business.

The group is running assets under management in excess of €7.5 billion – spread among a number of UCITS funds and a select offering of offshore funds – with a focus on long/short European equity strategies, unconstrained European fixed income and multi-manager funds. The eye-catching start in 2014 by the Pegasus strategy also comes at a time when the 15-year-old Kairos Group is expanding its business in some new and ground-breaking directions.

Following the acquisition in May 2013 by Swiss private bank Julius Baer of a 19.9% stake in Kairos, the two firms now operate a joint wealth management business in Italy called Kairos Julius Baer – which aims to build on the strong relationships with investors in Italy that Kairos has nurtured ever since its formation in 1999, and which also incorporates Julius Baer's Italian operation – and the combined group plans to start a private bank in Italy.

At the same time as planning a major expansion of its wealth management activities, the performance of the Pegasus fund – which won the EuroHedge Award for best new equity fund in 2014 – has put the group firmly on the radar of global hedge fund investors after a period in which the company reorganised its long/short European equity-focused business to concentrate on liquid alternative UCITS funds.

The Kairos Pegasus strategy, launched in January 2014, took the EuroHedge new equity fund award at a canter after returning an astonishing 53% – with an equally striking Sharpe ratio of almost 4.5 – in a year when many other European equity managers struggled in tricky and often fast-changing underlying market conditions in Europe and elsewhere.

Kairos managers say the fund benefited from a variety of trades driven by hard catalysts, and also generated a meaningful portion of the profits on the short side.

Run in London by portfolio manager Federico Riggio, who had previously been working as an analyst/portfolio manager in the group's Italian equities team – and with additional

## The soaring success of its new Pegasus long/short equity and event hedge fund strategy in its first year of trading in 2014 highlights the renewed momentum building at one of Europe's absolute return pioneers – the 15-year-old London, New York and Milan-based €7.5 billion Kairos Group

risk management oversight and guidance being provided by Kairos' founding partner and CIO Guido Brera – Pegasus outperformed its long/short equity peers in Europe last year by a margin.

The fund runs a concentrated and conviction-based long/short equity strategy that is focused on soft-catalyst special situations and corporate actions – mainly targeting mid and large-cap European securities, but also allocating to global markets on an opportunistic basis.

The fundamental, research-driven strategy – which targets 'value with a catalyst' stock-picks – focuses on some five to 15 core themes or 'stories', with active risk management and hedging designed to smooth the overall volatility of the portfolio and enabling the managers to hold onto core positions until the event or catalyst has played out (usually over a fairly near-term timeframe of around three to 12 months).

Despite having made more than 50% in its opening year largely as a result of several anticipated events coming to fruition earlier than expected, the annual return target for the fund is much lower – at around 10-15% – and the annualised volatility of the performance has so far been in line with its tight target of less than 10%.

The Pegasus fund – which is run from the London-based investment management arm of the Kairos Group – is already managing assets of almost \$150 million. It is the latest addition to the range of single-strategy hedge, multi-manager and absolute oriented long-only strategies run by Kairos – which was one of the pioneers of the European hedge fund industry, launching its first long/short European equity fund back in 1999.

The firm has grown to manage over €7 billion of assets since its inception 15 years ago by a group of ex-Warburg equity specialists

led by founder and overall CEO Paolo Basilico – with some 140 employees spread across its offices in London, Milan, New York, Lugano, Rome and Turin.

Besides still being virtually the only major alternative investment management operation with a significant presence in Italy that is independent from the banking sector, Kairos has from the outset had a major base in London – operating from the same offices on Cornhill in the City where it first set up shop in 1999.

It was from there that the group launched its inaugural Kairos Fund – a long/short European equity strategy run by co-founders Roberto Condulmari and Brera, who is now the firm's overall CIO, that was one of the first wave of European-based hedge funds in the early days of the industry's evolution in Europe.

That first flagship single-strategy hedge fund grew to be one of the largest and most successful long/short European equity funds – reaching almost €2 billion at its peak and being hard-closed for a few years in the mid-2000s.

The Kairos Fund was shut down in 2013 when Condulmari decided to retire from active hedge fund management, after an impressive 14-year run in which the strategy returned almost 160% at a compound annual rate of some 7% – during a period when the MSCI Europe was down more than 6%.

The closure of the earlier flagship fund provided the group with an opportunity to re-engineer its European equity offshore offering. Since its early days Kairos has always been active in launching new strategies and giving the best managers, traders and analysts within the group the chance to run their own portfolios.

Besides the new Pegasus long/short equity strategy, Kairos also operates a range of other single-strategy absolute return funds –



Paolo Basilico



Guido Brera



Stefano Proserpi



Federico Riggio

both in the hedge and long-only space – that are focused both on pan-European equities and also on Italian equities, where the firm has built a large dedicated business from its Milan base.

On the long/short European equity side, most of the other funds are run under the Kairos International SICAV (KIS) umbrella UCITS platform – with Kairos having been one of the earliest adopters of the UCITS onshore format for both its single-strategy and multi-manager funds.

The flagship KIS Selection fund has been going since October 2010 and is a deliberately low-volatility, low-risk long/short equity strategy that has achieved around 6.5% annualised return with a vol of about 4.5% and runs around \$700 million.

The fund invests predominantly in pan-European equities and combines a fundamental approach with a trading overlay with the aim to create a stable stream of returns in any market environment.

The fund has not experienced any down year since its inception, including the year of major stress for European markets in 2011. Last year Kairos launched a twice-levered version of the Selection strategy with the aim of offering investors a punchier risk/return profile.

Also run under the KIS umbrella are two other funds: the \$350 million Kairos Equity Yield (KEY) strategy – a thematic fund concentrated on high dividend stocks primarily in the infrastructure sector, which has performed very well since its launch in June 2013, annualising at over 25%; and the \$400 million KIS Italia fund – which is managed by the firm's Milan-based Italian equities team under the leadership of Massimo Trabaton and which is also annualising at nearly 25% since its inception in July 2013.

Within the firm's \$1.8 billion European equities unit are also long-biased strategies such as KIS Europa and KIS Small-Cap – while the \$1.3 billion Italian equities business also includes mandates for the one of the largest European sovereign wealth funds, which has returned more than 100% since its incep-

tion in 2010 during a period when the Italian benchmark equities index has produced a negative return.

In addition to the European equities and Italian equities funds, Kairos also runs two unconstrained total return long-only funds in the fixed-income space – KIS Bond and KIS Bond Plus – that manage around \$1.5 billion of assets and invest across the capital structure, moving dynamically across sovereign bonds, corporate bonds and financials.

In addition to the main pooled funds, Kairos also manages customised accounts for a number of leading global institutional investors. Besides the sovereign Italian equities mandate, the group also runs customised mandates for a major bank, one of the largest Italian pension funds and two leading European insurance groups.

From the outset, Kairos has always been something of a hybrid organisation – blending single-manager and multi-manager expertise, being partly Italian and partly global as a firm, managing both onshore and offshore products, spanning long/short and long-only equity investment approaches and offering both asset management and wealth management services.

Besides the pioneering absolute return ethos that has driven the Kairos culture and investment philosophy ever since its launch, a core strength of the firm over the years has been

the continuity of its senior personnel – a reflection of its strong partnership culture.

With the exception of Condulmari, all of the founders and early members of the Kairos team are still with the group – and the collegiate atmosphere that runs through the firm is striking.

“Over the last 15 years we are very proud of what we have achieved in becoming a leading European alternative specialist, an area that after a few years is finally gathering lots of interest from global allocators,” says Proserpi.

“Our goal is to be one of the leading European asset managers and, together with Julius Baer, to build on our wealth management business to become the leading private bank in Italy.”

He adds: “Our business is based on a simple philosophy: first, that we are independent and completely aligned with our clients' interests; and second, that we are focused exclusively on absolute return.”

With Julius Baer's minority investment in the firm reinforcing its institutional stature and solidity in the eyes of investors around the world, Kairos looks well-placed to expand its investment management business globally.

Besides creating new opportunities and products for other members of its investment team – whether in London, New York, Milan or elsewhere – the firm is also well plugged into developments and trends across the wider asset management world.

“Over the last 15 years we have established a vast network of contacts and we have great insight into what is happening in the markets and in our industry,” says Proserpi.

“That all helps us constantly to adapt and improve our own business. We have built a very strong institutional framework and infrastructure over the years, and now we see a lot of capacity and opportunity to attract new clients, develop new areas of expertise and expand our range of products.”

In Greek mythology, Kairos was the personification of opportunity, luck and favourable moments. “I could not think of a better Kairos moment for us,” concludes Proserpi.

### Kairos Group: at a glance

**Established:** 1999

**Assets under management:** €7.5 billion

**CEO:** Paolo Basilico

**CIO:** Guido Brera

**Offices:** London, New York, Milan, Lugano, Rome, Turin

**Headcount:** 140

**Activities:** asset management (single-manager and multi-manager; long/short and long-only; European and Italian equities, fixed-income); wealth management