

INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

INVESTMENT EUROPE

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Understanding complexity



Transparency required by Commerzbank's Blokland

Italian inflows

The bittersweet story of AM growth

Solid foundations



Claes Ahrel on Telia's foundation objectives

Dutch equities

How Add Value sees inefficiency opportunities



VIEWPOINT

Focus on bonds

EVENT REPORTS

- MILAN
- STOCKHOLM
- PARIS

CONSIDERING ALTERNATIVES

Kairos' Fabio Bariletti and other selectors review allocations to alternatives

open
door
media

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April 2015

CONTENTS



COVER STORY

- 10 **Considering alternatives**

COUNTRY FOCUS

- 14 **Italy** Bitter-sweet success for asset managers
16 **Germany** Are wealth managers losing faith in active products?
23 **Italy** M&G sees inflows
24 **Nordics** RAM seeks to build on its Nordic presence
26 **France** Natixis moves on DNCA

FUNDS

- 17 **Equities** Mandarin Gestion's German success
20 **Equities** Dutch prospects look good to Add Value Fund
22 **Real estate** Invesco sees opportunities in Italy
25 **Alternatives** Hedge specialist NewAlpha goes long only

EVENTS

- 27 **Paris** Forum GI
32 **Stockholm** Pan-Nordic Fund Selector Summit
36 **Milan** Fund Selector Bond Focus Italy



10 Fabio Barletti



24 Juliette Chevalier



42 Jamie Hammond

REGULARS

- 2 **Leader**
Pondering property
30 **VIEWPOINT**
Bonds in focus
41 **Research**
Bank of America Merrill Lynch analyses the two sides of the Spanish story
42 **Business development**
Multi-asset in frame for Franklin Templeton Investments
45 **Observations**
The prisoners of game theory
46 **Data**
Portugal and the Lipper World 50
48 **Review**
Routines and Orgies, a biography of Peter Cundill

COMMUNITY

- 4 **Fund selectors in the news**
Marcus Stahlhacke, Allianz Global Investors; Stefan Keitel, Berenberg; Lutz Welge, Julius Bär; Marta Campello, Abante Asesores; Lorenzo González, Bankia; David Karni, Bcc Risparmio & Previdenza SGR; Robin Blokland, Commerzbank
6 **People & Funds**
Bright ideas coming to market
18 **Allocator profiles**
Commerzbank portfolio manager Private Clients Robin Blokland seeks openness and transparency
28 **Telia Pensionsstiftelse's** managing director Claes Ahrel
38 **Upcoming events**
44 **Editorial Board**
InvestmentEurope's new Editorial Board; its members and objectives



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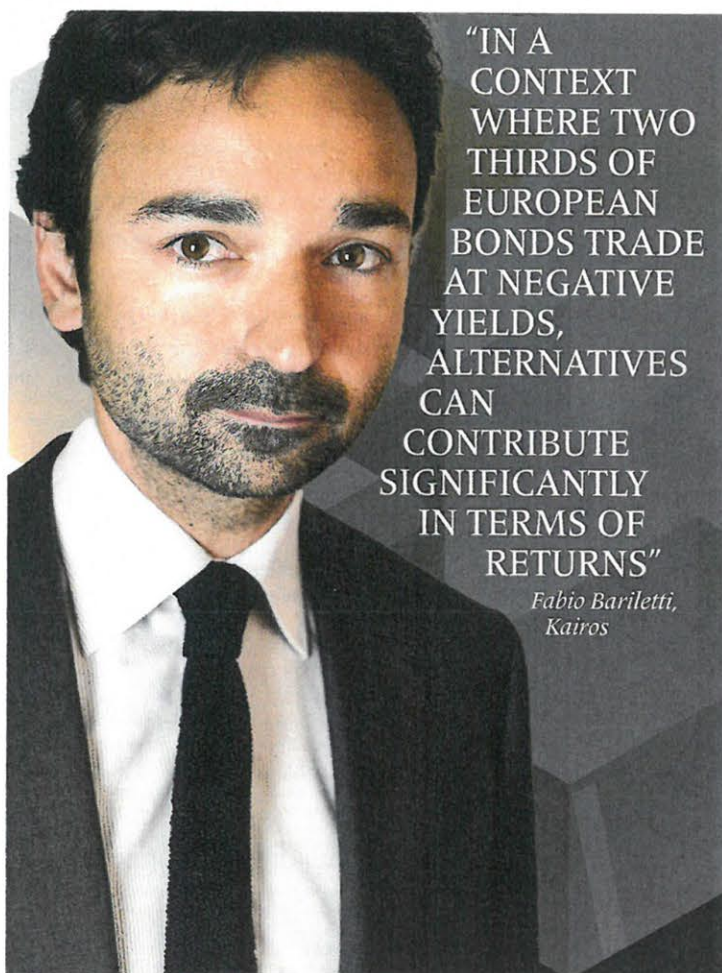
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5% French share of international arms exports 2010-14

Considering alternatives

The search for reasonably priced equity and decent fixed income yields is taking investors towards alternatives. **Jonathan Boyd**, **Viola Caon** and **Mona Dohle** report



Investors gated by hedge funds during the global financial crisis of the noughties may scoff at the idea of alternative investments becoming more attractive relative to traditional assets.

However, for those struggling with record low interest rates and yet more quantitative easing – which in Europe threatens to significantly skew demand versus supply of risk free assets in secondary markets – the benefits are becoming increasingly attractive.

German 10 year Bunds traded at a yield of 0.28% around the middle of March, while the US 10 year Treasury at 2.1% was well below a historical median estimated at 3.9%, according to one data set.

Regarding equities, the S&P 500 P/E ratio was around 20x in mid March, or some 13% higher than the multiple reported a year earlier.

In Europe certain estimates put the Cac 40 average close to 23x, and the Dax around 22x – even as these indices have traded close to 52 week highs.

Meanwhile, evidence is mounting that more investors are seeking out alternatives.

The Alternative Investment Management Association (Aima) said in a recent report – *KPMG/AIMA/MFA Global Hedge Fund Survey – Growing Up – A New Environment for Hedge Funds – March 2015* – that "More than half (54%) of all fund managers with AUMs of between \$500m (€467.6m) and \$1bn (€935m) said that they expect corporate pension funds to be their primary source of capital by 2020 – versus just 23% of their larger competitors.

ATTRactions

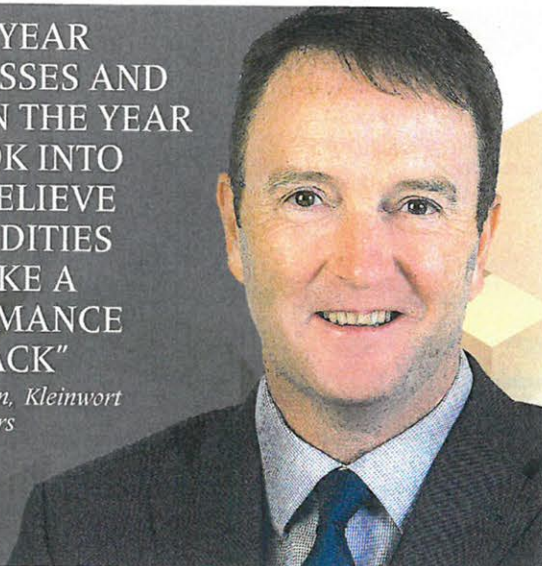
Elsewhere, the European Public Real Estate Association data points to the attraction of property. It notes the FTSE EPRA/NAREIT Developed (Global) index figures published for the end of February this year suggesting that on a global basis returns over one year were 43.4%, compared to 15.3% from global equities, and 7.7% from global bonds. The index counts 311 constituents, repre-

44.6 million People on French
electoral roll in
March 2015

COVER STORY

**"AS THE YEAR
PROGRESSES AND
LATER IN THE YEAR
AS I LOOK INTO
2016, I BELIEVE
COMMODITIES
CAN MAKE A
PERFORMANCE
COMEBACK"**

Noel O'Halloran, Kleinwort
Benson Investors



senting a free float market capitalisation of more than €1.16trn.

From a policy perspective, alternatives are also gaining credence. For example, the European Private Equity & Venture Capital Association (EVCA), responded to the European Commission Green Paper, *Building a Capital Markets Union*, by noting that "between 2007 and 2013, our industry invested more than €307bn in 25,000 companies, employing more than 8 million people in the EU."

"To unlock more of this essential financing, the EU should aim to free up the enormous pool of capital sitting with institutional investors, enabling it to flow across borders to companies that desperately need it. With this critical initiative to enhance the single market, the Commission is taking a key step to growth," said Dörte Höppner, EVCA chief executive.

The EVCA itself estimates that there is some €12trn in relevant institutional investor capital across Europe.

Individual investors themselves will continue to push the trend towards alternatives also. Norges Bank Investment Management, which manages Norway's Govern-

ment Pension Fund Global, Europe's biggest investor, had 2.2% of its portfolio in property as of the end of December 2014. Its target is a 5% exposure.

WELL POSITIONED

For those running multi-asset funds the attraction of alternatives in context of the above is, then, well founded.

Noel O'Halloran, director-chief investment officer at Kleinwort Benson Investors in Dublin says that alternative investments will feature increasingly through 2015 in his firm's asset class exposure.

"With fixed income and cash investments increasingly almost yielding zero – and negative in many instances – and equities at all time highs, I believe alternative investments are well positioned to provide competitive returns and particularly in a diversified multi asset fund."

Hedge funds, commodities, property and currency are all worth considering, O'Halloran says.

"I believe they will provide a competitive return versus other asset alternatives. In particular I like hedge funds and currencies. As the year progresses and later in the year as I look into 2016, I believe commodities can

make a performance comeback. In general, as we are living and investing in a volatile and uncertain world I prefer liquid investments that trade daily, so would remain shy about investing in illiquid alternative assets. Property has historically been in this bracket."

The view is echoed in Italy.

Fabio Bariletti, general director at Kairos in Milan says: "In a context where two thirds of European bonds trade at negative yields, alternative asset classes can contribute significantly in terms of returns as well as portfolio diversification. For this reason, we are already considerably invested in the asset class."

"We prefer equity long/short funds and multi asset funds with focus on debt instruments offering positive real returns. As a matter of fact we have recently launched a fund that pursues this strategy."

Also in Milan, David Karni head of fund selection and advisory at BCC Risparmio e Previdenza, expects to increase exposure to alternatives through the year.

"We are keen on hedge funds strategies as well as commodities."

In Spain, Marta Campello, fund selector at Abante Asesores in Madrid, says: "We have been investing in alternative funds for many years, but



**"BEING SELECTIVE
AMONG MANAGERS AND
STRATEGIES IS KEY"**

Marta Campello, Abante Asesores

we feel that in an environment of very low interest rates and increasing volatility – this should happen sooner or later- they are gaining prominence. Being selective among managers and strategies is key."

"We use them for two different reasons. On the one hand, we look at them as an alternative to cash or fixed income funds, as investors need some return in the most conservative part of their portfolios. The most important point here is the level of volatility you are able to assume. Longer track record and experience of the management team – especially through stressed markets – are key. In this sense, we like managers with a capital preservation approach. On the other hand, we use alternative investments as a source of alpha, diversification and decorrelation."

Hugo Soares, associate portfolio manager, Asset Allocation at BPI Gestão de Activos in Lisbon also expects alternatives to play a more important role through this year, adding: "We are mostly interested in long-short equity products in Ucits format."

"We see them as strongly uncorrelated assets with the rest of our portfolios, thus providing positive expected returns with important diversification effects. I can say we have both a risk and return view there."

DIFFERENT TAKES

In Norway, Georg Skare Lund, head of Fund Selection at Storebrand Asset Management, takes a slightly different view.

"We do not expect any massive shifts towards alternative investments in 2015 but expect absolute return strategies to become gradually more popular as the interest rate level probably remains very low," he says.

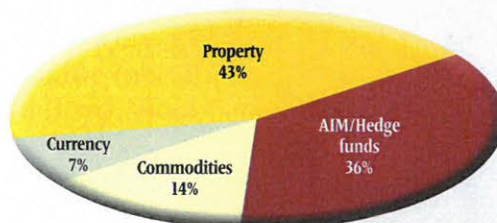
"Storebrand has a long and good experience with investing in private equity and real estate on behalf of our clients. This exposure is part of both our DB and DC plans. On our fund platform in Sweden we have included some absolute return strategies which also have been included in some of our balanced portfolios there."

PROPERTY TOPS POLL

As noted by the recent poll that ran on www.investmenteurope.net, property was the alternative asset class found to be most attractive among respondents.

The question asked was: "Which alternative asset class do you find most attractive?"

Responses were:



Stefan Keitel, CIO at Berenberg in Germany notes alternatives as substitutes for fixed income, and says that it is not clear bonds are necessarily a danger to investors, but rather simply look "unattractive".

"The other question is how exactly we define alternatives. For example, although we make use of currency hedging strategies, we would not consider currencies as such an alternative asset class."

"Illiquid asset classes are still attractive but only valid as a satellite. Hedge funds have suffered a lot since 2008. I believe one of the problems was

that they were inadequately sold as all in one solutions when they were actually quite dominated by equities ending up with equity bias. Well positioned and explained these strategies could add value for total return concepts sustainably preferred by private and institutional clients as well."

"Last but not least, residential real estate is still a flashpoint within alternatives. In cities such as Düsseldorf, Munich and Berlin the story is already quite expensive, but we often say 'what is expensive can stay expensive and even become more expensive'."

Uwe Rieken, founder and managing director/CEO, and Thomas Bargle, managing director/COO of Faros Fiduciary Management suggest that it is not necessarily straightforward replacing traditional with alternative assets.

Bargle notes that investors have been in a world where 80% of assets are held in fixed income, suggesting allocation strategies will have to change dramatically in response to the low interest environment.

"We believe that in this context, real assets will become increasingly important because they combine active returns with a stable cash flow, a crucial balance, particularly for institutional investors." ■

"ILLIQUID ASSET CLASSES ARE STILL ATTRACTIVE BUT ONLY VALID AS A SATELLITE. HEDGE FUNDS HAVE SUFFERED A LOT SINCE 2008"

Stefan Keitel, Berenberg

