

## Selector snapshot: three debt sectors to explore

By Dalvinder Kular / 27 Jun, 2017 at 08:30



*Sometimes managers need to move out of their comfort zones to find the best yields in a time of low interest rates. In the latest edition of 'Selector Snapshot', one selector shares which areas he is doing more analysis on.*

**Selector:** Matteo Santoro

**Company:** Kairos Investment Management (Italy)

We are looking at volatility, emerging market and distressed debt managers. These are the three main areas where we are doing more work.

We have seen constantly lower levels of volatility and we think there is an opportunity in being long volatility. The managers in this asset class are almost at their bottom in terms of AUM. We are looking to increase the exposure in this area.

In distressed debt, we do not believe we are at the beginning of the cycle yet but we want to do some pre-emptive work in order to scout the best managers ahead of the cycle.

We believe that interest rates will eventually rise and that it will be difficult for many companies to re-finance especially if they operate in sectors disrupted by technology or policy changes.

It is not yet the case but we think we could definitely generate interesting returns in the future. The managers we are looking at are currently increasing their cash exposure, therefore underperforming in this market environment.

However, we believe it is the right positioning ahead of higher volatility in the future. We do not think managers are holding too much cash.

We are looking at emerging market managers because they operate in inefficient markets and therefore they are able to generate more alpha. We are looking particularly at China, India and Brazil.

Macro is an area where it has been always difficult to find good funds outside the top players in the industry given the lack of outstanding emerging managers.

Another area is illiquid credit, but the problem in this asset class is that the most interesting returns can only be achieved by funds with very restrictive liquidity terms.

We are preparing for MiFID II and we think the largest shops are doing the same. We believe that MiFID II will bring more selection in the industry given the pressure on fees.

Managers will need to deliver superior results in exchange for higher fees and this will be the major challenge for the product makers. The pressure on fees is good for what we do as investors.