Multi-management head: the problem with successful strategies

By **Terri-Ann Williams** / 12 Feb, 2018 at 08:40

Fund selectors are facing up to the reality that, despite having huge and growing investment universes, the actual true difference in strategies is too limited.

That is according to Banque de Luxembourg Investment's head of multi-management, Fanny Nosetti.

'When some strategies, often in the Alt Ucits area are successful, they tend to close quickly; which is very much appreciated. The existing investor is assured of the durability of the process but therefore the investment universe is no longer as vast as it seems.

'The universe shrinks again if one, as we do, requires a good quality investment communication and a high degree of transparency on portfolio construction.'

Another example, Nosetti said the team has seen lately is the frequent mergers across asset management companies.

'Therefore teams disappear because duplicates cannot be preserved. Finally, the ETF ‘tidal wave’ worsens this situation: five different ETFs on the S&P 500 are not five different investment propositions.

'We use ETFs modestly, opportunistically, mainly when we want to take a tactical position on a sector or style. We are not fans of smart beta ETFs,' she added.

Best of 2017

Nosetti said an equity overweight along with a reasonable geographical allocation, as well as high conviction funds, paid off during 2017.

'The Asia ex-Japan/emerging funds performed well, but the very strong performance of the MSCI Emerging Markets was hard to capture. For the other regions, Europe, the US and Japan added great value.

‘At the top of our selection in Europe, the Alken European Opportunities fund delivered 26.6% compared to 10.2% for the MSCI Europe NR, and 10.0% for the average of the asset class Lipper Global - Equity Europe.’

In the US, Nosetti said the Alger American Asset Growth fund benefited from its strong exposure to the technology sector.

‘It generated 15.2% compared to 6.2% for the S&P 500 NR and 6.0% for the average of the asset class. The **Coupland Cardiff Japan Alpha** fund had an excellent year with a 25.7% return versus 10.7% for the Topix NR and 12.8% for the average Lipper Global - Equity Japan performance.’

MiFID II

Moving away from selecting mandates and to the grind of regulation, Nosetti said MiFID II hasn’t actually changed her day to day job.

'The desire for transparency in general and on cost structures in particular, which is a well-intentioned objective, has turned into a hunt for cost. Active management has been questioned, and ETFs have taken market share.'

Nosetti added that markets have been in a strong uptrend for several years, which is also a challenge for active management.

'As a result, the pressure to reduce costs, which always pleases clients, was also justified by the questioning of the usefulness of active management. In other words and being a bit provocative, it feels like low cost equals quality.

'I am a big believer in active management. I do not think that passive is the panacea in terms of investment even though this point of view is sometimes hard to defend. Yet, I deeply believe that open architecture is relevant for end clients. Costs and transparency are necessary but not sufficient.'