FUND SELECTOR
MIDDLE EAST

Making the most of open architecture to grow a good vintage

Profiles
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Dubai expansion plans as Swiss-owned family firm's asset management arm wins mandates

When he's not immersed in the world of asset management, Nicolas Faller enjoys spending some weekend time at his family's 10-hectare vineyard in the Alsace region of France which produces mainly white wine.

Now run by his sister, he goes there as often as every fortnight, helping the business in quite a different way to his day job.

"You cannot live with the trends. You're dependent on the quality of your product every day. You have to cope with the climate, and with fierce competition, and every single day, you have to question yourself if it's good or not."

The tangible and grounded nature of growing grapes, and making a real product from it, gives him a refreshing counterpoint to the more abstract financial markets which need to be put into perspective.

"We are living in a world which can sometimes be a bit artificial. You could be very proud about doing a good job, but if you take the market out of the equation, the job you are doing is maybe not as good as you think."

That is not to detract from the work he does as co-chief executive officer of asset management at Union Bancaire Privée (UBP) which focuses on wealth management for private clients, and asset management for institutional clients.

His global view that currently "there have never been as many opportunities for asset managers to play their role in providing solutions for both institutional and private clients".

Here, he highlights the baby boom generation who should be making their money gradually more liquid in order to get a nice retirement.

"There are numerous solutions regarding dividends and income that also require a lot of technology and sophistication from asset managers."

"At the same time as we are facing opportunities, we are also facing a number of challenges such as very low interest rates, increasing regulation which have an impact on costs, risk management, compliance, and IT systems. All in all, it's a very interesting time, for the next 10-15 years."

UBP operates in twenty locations worldwide, including Dubai where it has had a presence for over a decade, with one fund currently Securities and Commodities Authority (SCA) regulated, the Global High Yield Solutions Strategy.

"For quite some time our institutional business, for the MENA region, was managed out of London, but two years ago, we decided to do so from Dubai, which has proved successful, so we have recruitment plans in the coming months."

Partnering with managers

The overarching business strategy is a longstanding tradition, "reinforced over the last four years" of partnering with managers who are highly specialised in an asset class.

"If we believe we cannot do very well internally, we try to find the right partner. We now have a very strong track record, because we have been working with very good, sophisticated managers."

By contrast, he says many other mid-sized asset managers tend to do everything themselves.

In-house, the fund range covers almost the whole fixed income franchise, except private debt, so covering global fixed income, high-yield investment grades, emerging fixed income and convertible fixed income.

On the equity side, it's essentially European equities, Swiss and global equities, Asian equities and Chinese equities, as well as hedge funds, which are also an important part of the business.

Last but not least, UBP internally manage "cross assets", he explains: "It's a solution that is allowing us to provide overlay solutions, short bias solutions, as we believe that more and more clients are looking for such offerings."

US equities, Japanese equities, mortgage, some loans, some cat bonds and some private debt strategies are delegated to external managers.

There are two aspects to the way UBP delivers the open architecture part of its offering, which is conducted entirely from the Geneva-based headquarters.

The team there provides a list of recommended products for the private bank, involving a classic approach where best of breed products are selected and managed by such big names as Pimco, M&G, Pictet, or smaller boutiques for specific needs.

As for the partnerships, these are not at all open architecture: “They consist of long-term relationships. We work together with managers in order to build solutions, realise that we can work together in order to build solutions, and they delegate to us the capacity to promote products, but also to promote solutions, or even to get some segregated mandates with institutional clients.”

On the open architecture side, a typical starting approach for fund selection is with a quant approach, looking at different aspects of the fund, regarding the size, the liquidity, the fees, and the track record adjusted with the volatility.

Afterwards, it goes into the qualitative selection: meeting the product specialists, the managers, and spending an extensive amount of time on monitoring the fund.

“Sometimes, the performance which is outstanding could also be an amber signal that the manager is taking too much risk and could well find himself on the other side a few months afterwards. We all expect the manager to be transparent.

“We try also to have different types of strategy. For instance, if we think about European equity or US equity, we don’t have one or two products. We have six or seven, because we want to address all our clients’ needs, and to build innovative and customised portfolios.”

Compared to some other firms, we might tend to have slightly less products, but the more products you have on the shelf, the riskier the follow-up is, given the increased data you have to analyse.

The open architecture list totals between 70 to 100 funds, with a yearly turnover running at between 15% and 25%.

Some external databases are used, especially to do the quant screening, but everything which is qualitative is done in-house.

Responsible investing strategy

Turning to its responsible investment approach, Faller explains this has been defined and in place for more than two years, using a three-step process.

Step one consisted of implementing an exclusion list which defined three areas where they would like stocks to be excluded: “Everything which is linked to controversial weapons, production of nuclear weapons, and thermal coal extraction.”

“This results in a list of 80 companies that are excluded from every recommendation made for clients, every fund we are managing, and every fund a third-party manager is managing as a partner for us.

While this is not currently imposed on the open architecture funds, he says this is being contemplated for the future.

Step two consisted of compiling a watch list of 41 stocks or companies in a given sector which have a weak ESG score and hence “we are not acting with some very specific sectors which could be, potentially, a danger going forward”.

“We ask the manager to provide very strong assessments on why they would like to buy the company. It’s usually quite short-term. It’s very rare that you will have a company in the watch list that will be a strategic bet in a portfolio.”

Step three is the flipside recommended list, which comprises companies which are very conscious about all the important challenges they face, and “top notch in their sector”.

Outlook for 2019

Faller predicts a combination of several factors could well be very positive for emerging markets this year, highlighting how China is managing its slow-down well and cheap valuations in Latin America can drive the market back up, after two disastrous years.

The house view also pinpoints Japanese markets as very attractively valued, at near 2008 lows making it the best mature market in terms of equity returns, compared to Europe and the US.

“Overall, we take a slightly positive outlook on equities, especially in Japan, and even more so on emerging fixed income. This is due to a more stable macro environment, as we can see that the dollar is stabilising and the election agenda is less intense than last year. 2019 could well be a very interesting year for emerging market fixed income.”

Last but not least, he says their strategy, as volatile markets unfold, is to buy asset classes that are long volatility.

“Convertible bonds are certainly one asset class with a naturally long volatility, that could give some convexity, meaning getting more upside than the downside of the market. That’s another asset class we really like, currently.”

Family business

Given Faller’s family background in vineyards, it is not surprising that he feels very comfortable with the stable, family-owned nature of the UBP business, which he says appeals to clients too, as this avoids taking uncalculated risks since the business is built to last for generations.

“We’ve been able to get a very large mandate, from very sophisticated investors, some of whom are in the top 10 to 15 biggest institutional clients in the world, simply because they recognise the Bank’s stability.

“We are pretty small compared to other firms and clients recognise the fact that we are highly dedicated to our business. At the end of the day, being part of a family business is very important for us.”