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José María Martínez-Sanjuán
Global Head of Fund Selection en Santander Private Banking

Macro overview
Debt Global Market Outlook 2020

Interview
José María Martínez-Sanjuán at Santander Private Banking

Special Insights
10 investment themes

Opinion
Diversity & equal opportunities
Hedge Funds & Alternative UCITS
Behavioral finance

Passive Investing
Artificial Intelligence

Privy to
Florian Gröschl

10 ideas for the next decade

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For more information and to confirm assistance, please contact:

Juan Diego Quílez
Rankia Portugal Manager
juanquilez@rankia.com

Ana Andrés
Business Development Manager
ana@rankiapro.com

In this edition, we try to cover as much ground as possible so you pick up ideas for your clients' portfolios. In our special insight, we ask fund managers and fund selectors to identify macro-level trends. The fund managers tell us about the underlying investments that stand to benefit from the materialization of those trends while the fund selectors tell which funds they prefer to cover certain areas.

José María Martínez-Sanjuán, CFA, CAIA, Global Head of Fund Selection at Santander is featured on our cover and Fund Selector section. He explains how his team selects third party funds for the Spanish giant bank.

We have invited senior women executives to share their opinion about gender diversity. They work for different companies, at different roles, and in different countries. Surprisingly they agree upon many topics. Read more about their take on inequality in business.

You can learn from top alternative and hedge fund analysts which strategies are likely to perform well under different scenarios in 2020, the latest developments in passive offering directly from providers, learn how your peers became fund selectors and explore the mystery box of behavioral strategies.

Finally, we remind you that you are invited to participate in our first **Pan European Fund Experience on the 3rd, 4th and 5th of June 2020 in Valencia (Spain).**

Miguel Arias
CEO of Rankia

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How do we do it

EUROPE, SPAIN & PORTUGAL MAGAZINE WITH TOP INVESTMENT IDEAS AND LEADING OPINIONS

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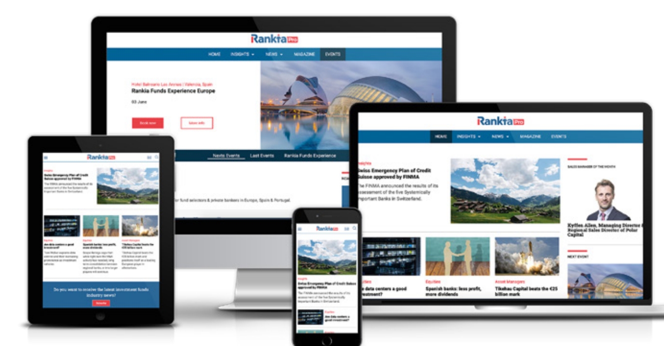
You can access RankiaPro digital magazine anytime and on any media app. Check online and on paper the latest financial news and learn the opinion of global leaders of the asset management industry. In this number, we have plenty of news and in-depth analysis of the major trends in the industry, plus a Special Investment Themes section for the long-term. At RankiaPro we strive to help you in your daily work.



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Horizontal information exchange and peer to peer dialogues are shaping how professionals make their investment decisions. At RankiaPro we have pioneered the democratization of information since the launch of our first magazine in 2017.

At RankiaPro you will find the latest news, investment ideas, market analysis as well as interviews and collaborations from the top players in our industry. Meet your peers of the European investment community.

EVENTS PROGRAMME

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Our aim is to link fund selectors to talented fund managers from all asset classes. We are expanding to the rest of Europe and we hope you could join us and learn about different investment ideas. **Our first Pan European event will take place on 3rd, 4th and 5th of June** at The Hotel Balneario Las Arenas, **Valencia.**

We will be waiting for you!

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Michal Stupavský, Investment Strategist at Conseq Investment Management explains how Behavioral Finance can improve your performance.

Privy to 50

Florian Gröschl, Absolute Return Consulting GmbH explains his journey into finance and interesting experiences along the way.

Movers and appointments

United Kingdom

MINE TEZGUL

Mine Tezgul has been promoted to co-manager of theThreadneedle (Lux) Pan European Small Cap Opportunities and Threadneedle European Smaller Companies funds alongside Philip Dicken, Head of European Equities. Mine joined Columbia Threadneedle in 2018 as an equity analyst in the European equities team.

MATTHEW VAN DE SCHOOTBRUGGE

Matthew Van de Schootbrugge has been promoted to lead manager of the Threadneedle Lux) Pan European Equity Dividend fund, replacing Dan Ison who remains deputy fund manager on the fund. Matthew joined the company in 2011 on a graduate rotation program.

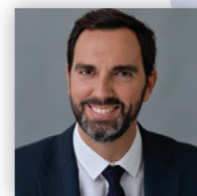
Luxembourg

JEANNE DUVOUX

Amundi has appointed Jeanne Duvoux as CEO of Amundi Luxembourg. Jeanne joins Amundi from Société Générale in Luxembourg where

Iberia

GONZALO THOMÉ



Gonzalo joins Liontrust in response to the growing demand for the Dublin UCITS range and to provide greater local support for fund buyers. The range includes equity, fixed income, and sustainable funds. Prior to joining Liontrust on 2 December, Gonzalo was deputy sales director and senior fund analyst at Banco Inversis in Madrid.

Denmark

POL KOBBERUP

Danish pension fund Danica Pension has appointed Poul Kobberup as the new head of investments. Kobberup runs a 16 strong team and oversees EUR 66.7 billion in pension money.

Germany

STEFAN BAUER

Franklin Templeton Investments has promoted Stefan Bauer as Head of Sales in Germany. Bauer who joined the company back in 2015 was formerly Head of Institutional Sales.

Switzerland

BARRY GILL

Barry Gill has been appointed head of investments for UBS Asset Management, also becomes a member of the UBS Asset Management executive committee.

IVONNE SUTTER

Julius Baer has hired Yvonne Suter as a new Head of Corporate Sustainability and Responsible Investment (CSRI) in order to strengthen the sustainability expertise within the group.

Italy

TOMASSO CORCOS

The new Head of the Private Banking Division will be Tommaso Corcos, This comes after a previous stint with Banca Fideuram. Tommaso is currently in charge of the Asset Management Division.

SAVERIO PERISSINOTTO

The new Head of the Asset Management Division will be Saverio Perissinotto, who, after years of experience in the Private Banking Division, is currently Head of the Division's ISPB Business Coordination Area as well as General Manager of Intesa Sanpaolo Private Banking.

Global Market Outlook 2020

In search of the sources of performance

Jacques Sudre

Portfolio manager
at Amiral Gestion

Fixed income markets continue to benefit from a combination of extraordinary conditions:

- **Monetary policies** globally remain extremely accommodating.
- Inflows in the asset class continue to be massive, both from central banks and institutional investors as well as retail markets.
- **Defaults remain at historically low levels,** aided by the ability of the most fragile issuers to refinance at attractive conditions, or in the case of distressed companies, to refinance at all.
- We, therefore, witness a **global polarisation of fixed income markets,** whereby two extremes are offered to investors:
    - solid balance sheets finance themselves at negligible cost, a striking example being LVMH raising EUR 9.3Bn for the acquisition of Tiffany & Co at a 0.05% cost
    - on the other end, companies in dire need of restructuring or facing tough market conditions in cyclical industries continue to lengthen the maturity of their debt and offer reduced levels of compensation to investors.

Performance in 2020 will be in the ability to navigate these extremes in generating **sufficient yield** whilst **protecting funds** invested by clients. This requires to strike an appropriate balance in terms of risk-reward and to voluntarily abstain from certain risks.

Two ugly alternatives
As a consequence of the previous point, fund managers are faced with two unpalatable alternatives:

- A continuation of the current investment conditions in which fundamental selection offers little short-term value and market participants are compelled to invest with little conviction. For instance, rarely differentials so large have been observed between different pockets of equity markets- value and growth stocks, US and Europe or Small and large companies. In sympathy with bond investors, the rest of the investing community has to continue to purchase hefty valuations hoping it keeps breaking records or be contrarian while vastly underperforming.
- An unforeseen set of events would derail markets as often is the case, the **current pricing for the risk being absent** in all risk assets as is being testified by the muted reaction to the latest expansion of the coronavirus from Wuhan.

Flexibility as a safeguard
In a complex and unpredictable environment, **flexibility** seems ever more indispensable. Our approach in Sextant Bond Picking is to be able to invest in **Fixed Income** markets globally whilst **covering currency risk.** We can also intervene in all sub-segments of credit markets, from senior to subordinate, including convertible, perpetual and complex bonds. Along with this broad focus, we enforce **strict discipline** in selecting only proven fundamental quality that we assess independently, sufficient spread and limited duration. We also use our flexibility to keep a healthy cash portion of **28% invested in short term commercial paper** that does not cost the portfolio negative interest rates. It is an element of comfort to be able to redeploy our liquidity when markets offer us more attractive opportunities.

Where next after the 'rally in everything'

David Riley

Chief Investment Strategist at
BlueBay Asset Management

Bond investors face an **unusual macro backdrop** – one where growth is not so hot as to prompt central banks to hike interest rates but not so cold that default rates rise.

The **easing in monetary and financial conditions** and a moderation in the drag from the US-China trade war should support growth in 2020. In our view, investors remain too fearful of a global recession.

The credit impulse in China is now positive and is likely to be backed by **further fiscal and monetary support** with the inventory cycle in manufacturing turning from a headwind to a tailwind for global trade and growth. Although we expect a more subdued bounce-back than from the 2015-16 slowdown, a positive inflection in global growth should dispel recession fears with meaningful implications for markets.

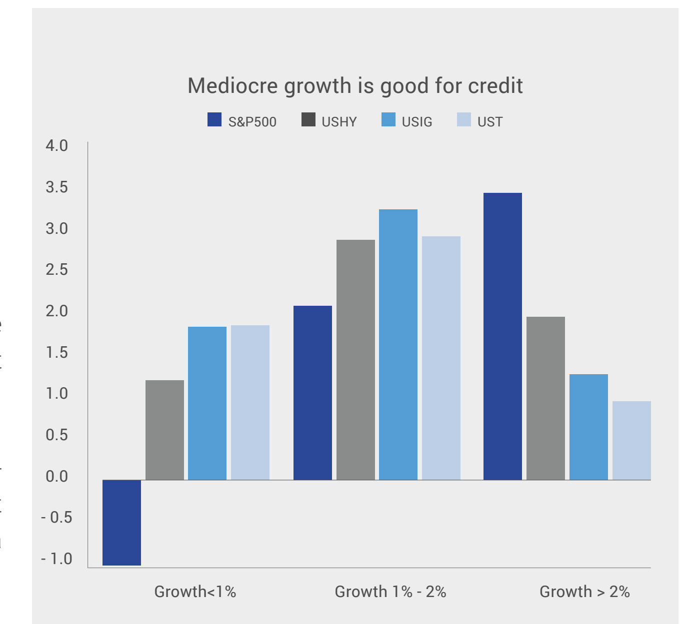
The industrial and auto-led slowdown in Europe has subdued and rising employment and household income underpin the continued growth trend in the US.

We expect **political uncertainty, social unrest,** and **environmental risk** to be reflected in greater dispersion and the idiosyncratic risk this year. For bond investors, we believe these opportunities will be best captured through bottom-up credit selection and from incorporating and monitoring **ESG risks**.

In terms of where we think these opportunities lie, we're seeing **investment potential** across the **fixed income universe.**

Core fixed income should remain an important source of diversification against the growing risk in portfolios, but we believe returns will come from **active management** rather than market beta given **low and rising yields.**

We expect European investors to favour **investment-grade credit** as a relatively safe alternative to core government bonds that at least offers positive, albeit modest, yield and return.
In **mediocre growth environments,** credit has historically generated **attractive risk-adjusted returns.**



Note: average quarterly total returns; USHY (BAML US High Yield Master II, H0A0); US IG (BAML US Corporate Index, C0A0); UST (BAML US Treasury & Agency Index); and S&P500 total return index in the quarter with US GDP growth below 1% (SAAR); 1% – 2%; and above 2%. Latest data for Q3 2019.

The big question for credit investors today is whether 2020 will be characterized by spread compression – in other words, will lower rated credit and more cyclical sectors catch up with high rated and defensive sectors that outperformed in 2019? This is a mirror of the **value versus growth debate among equity investors.**

In our view, value is to be found in **lower-rated credit,** including the **subordinated debt** of investment grade-rated companies and banks. We believe bottom-up credit selection will become more important than ever to preserve capital as well as generate additional returns given greater dispersion and idiosyncratic risk.

Similarly, **emerging market corporate credit,** especially high yield, offers a decent pick-up versus similarly rated developed market credit, in our view.

Leveraged loans and **collateralized loan obligations** (CLOs) meaningfully underperformed other asset classes in 2019. We think investors are rightly concerned by the rise of covenant-lite, EBITDA add-backs and rising leverage on new loans, especially in the US. We believe **higher-rated CLOs** provide enough credit enhancement to mitigate these risks while providing relatively attractive coupons.

With 2019 delivering the 'rally in everything', we believe 2020 will reward the discerning and the brave.

Fund Selector Profile

Adjust it to your clients' needs

José María Martínez-Sanjuán

Global Head of Fund Selection at Santander Wealth Management

Jose Maria Martínez-Sanjuán has more than 22 years of experience in the financial services industry in diverse roles at Barclays Bank, Citigroup, Gesmadrid, Urquijo Gestión, Banif and Santander Asset Management. This past summer, he joined Santander Private Banking as Global Head of Fund Selection, right after serving an 8 year period at Santander Asset Management (from 2011 till August 2019), where he was in charge of the Manager Research & Selection team.

Previously, Jose Maria held several positions as Head of Multi-Manager portfolios at Urquijo Gestión, or senior portfolio manager at Gesmadrid. He holds a Bachelor's degree in Economics from Universidad Complutense de Madrid, a Masters in Finance from ICADE and he is both a CFA and CAIA Charterholder.

From your point of view, is it important to have a market opinion when choosing a product?

It is important, not only to know the dynamics of the market well, that is, the impact that the moment in which we are in the **economic cycle** can have on the different asset classes, but also how the different financial instruments can react according to these dynamics. Unfortunately, economics is not an exact science and there are many factors that interact with each other, sometimes in the opposite way, which makes it practically **impossible to predict the course of the markets** no matter how well-founded opinion one has.

What are the criteria used by the Santander team to select a new investment fund in the model portfolios?

There are quantitative criteria that, added to the qualitative ones, culminates in the final selection of the product and the strategy. To summarize, we try to identify those fund managers who have a **superior ability to generate optimal results** and, in addition, consistently. With this we managed to escape those good results on the surface that actually hide mediocre management or that, even being good, is mainly due to chance.

What are the quantitative criteria that an investment fund must have in order to enter your selection radar?

From a quantitative point of view, we look at the **relative behavior** of the **strategy against its peers.** Additionally, we analyze the quality of the performance, rating highly the one that has been generated with less use of risk in similar circumstances. It is important to note that the consistency in achieving that **performance** is a **critical element** when evaluating the fund manager.

Are you taking into account ESG factors (environmental, social and governance) in the process of analyzing your investments?

Yes, we take into account **ESG criteria**, which are part of the qualitative analysis process. It is complex to isolate the ESG factors and be able to attribute the results to them, but all things being equal in terms of financial matters, we prefer to opt for a strategy aligned with any of these criteria. Additionally, we have a specific list of funds that meet these criteria, covering a good chunk of the asset classes necessary to build a diversified portfolio.

Regarding qualitative analysis, how do you identify a good manager?

It is the sum of analyzing in-depth several aspects: the management team (its capabilities and experience), the investment process (robustness and alignment with the investment philosophy), the asset management company (its resources and alignment of interests with the investor) and performance (quality of it).

How and how often is direct contact with the manager of the selected fund?

As a rule, when a manager comes to Madrid we usually sit with her whenever we have a recommendation in place. Sometimes it is not possible for whatever reason, either because she does not come at the time we would like to discuss, or because we cannot see her due to agenda issues. In these cases, technology gives us the possibility of holding a meeting quickly with the least hassle for any of the parties.

Do you use the same criteria or filters when selecting a national or international investment fund?

Yes, the same, both **quantitative and qualitative.**

What are the process and the average time dedicated to an investment fund before incorporating it into your portfolios?

It is difficult to give a specific period because it depends on several factors. First, if the manager is already known by the **due diligence** teams of Santander, the processes are often shortened compared to a new manager. Keep in mind that there is more than one team involved in the due diligence process. For example, the operational due diligence team is an independent team of ours and with a differential process that focuses on the operational side of things, leaving aside the aspect of investments, which

is where we precisely deepen. I also believe that the difficulty of the strategy to be analyzed plays an important role here. To give you an example, it is not that complex to analyze a "plain vanilla" fund under the **UCIT** directive that invests in European stocks following an index with a low tracking error and making long bets exclusively, than an investment fund under the **AIFMD** directive that invests in **unlisted companies** and that uses a **private equity-style** term investment scheme, that is, with capital calls and distributions, and also with a complex fee scheme that uses different provisions (waterfall fee structure).

What are the main reasons for an investment fund to stop having interest for your portfolios?

Portfolio managers may decide to discard a specific fund for several reasons. One of them can be the result of a **change in asset allocation,** so it would not be related to the fund itself but to a strategy as a whole. It may also be that fund analysts stop recommending a manager. This may be motivated by different causes, but ultimately it would be derived from a fundamental change in any of the aspects analyzed and discussed above when talking about qualitative analysis.

In the daily work of analysis and selection of funds, what technological process, Big Data or Artificial Intelligence do you apply?

We do not apply artificial intelligence or big data.

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Gender diversity

Why gender diversity may lead to better returns?

Gender diversity implies a **balance in representation,** which nowadays means including women more often, however it shouldn't be perceived as pushing men out. Gender inclusion broadens perspectives and can improve decision-making at a portfolio level. Inclusion also has shown positive impacts on corporate policy and in our broader society. It´s pragmatic and profitable.

Nevertheless, we should keep in mind that **gender diversity** goes beyond getting qualified women into top positions. It is about finding a balance between professional and private life. We cannot continue watching leading women in business sacrifice their careers trying to sustain a family and trying their hardest to be equally home-makers and business figures.

Moreover, it is about **investing in products and services** that will help improve women's and children's lives within and outside the investment industry. Whether its enabling hiring procedures to give women equal chance on male-dominant roles, making the career trajectory compliant with maternity leave or trusting women's leadership and management skills, the entire business industry agrees on one thing: having women in leading roles will improve performance.

Léa Dunand Chatellet

Head of responsible investment DNCA Finance

How to empower the next generation of women into senior roles?

This question is at the very beginning linked to the diversity in education. Women are now more represented in financial education than 20 years ago and that should have a natural impact on their representation within the industry. I think the best way to **empower women** is to nominate them because of their **experience, capabilities, and recognition** and not just because of gender diversity. Once a woman is involved in a senior role because she has the best profile there is no question anymore. Otherwise, the story remains the same: legitimacy? Then, another strong driver will be mutual aid and efficient networking between women. From now, women's behavior has been totally different from men, driven by individual and formal recognition more than collective support.

Why are we not seeing more women in senior asset management roles?

It will be **wrong to ignore** the role of women in society when they are prioritizing their families. This is the biggest obstacle in my view. Management roles are time-consuming and need to have large flexibility that is most of the time not compatible with family concerns. Then we cannot ignore the second reason due to men's cooptation as they worry less about involvement from a woman because of their family situation. Nevertheless, men have to trust in those who are willing to be involved at the same level. It exists!

Does diversity bring better decision-making and outcomes?

Definitely yes. From my own experience, I have seen a lot of **differences in the way men and women** implement **investment decisions.** Surprisingly **women are less risk averse** and they have a totally different approach to evaluate a company's' strategy Women also possess a seemingly more innate ability to respond to body language within a business setting. It isn´t merely a question of being more driven in the long run but of possessing a different sensitivity.

Junwei Hafner-Cai

Portfolio manager Global Gender Equality Impact Equities at RobecoSAM

Does diversity on top executive jobs bring better decision-making and outcomes?

It has always been our conviction that gender equality is an indication of a well-managed company which is fully utilizing its talent and human assets to make better decisions that lead to better results. Supporting that, there is academic and industry research that shows a **correlation between important company valuation metrics – such as profitability and/or lower volatility – and female representation at the board and management level.** Thus, gender diversity is a business-strategic goal.

Demonstrating the **organizational benefits of a gender-mixed workforce** is a 2016 Morgan Stanley study which found that companies with higher gender diversity delivered slightly higher return on earnings (ROE), had lower accruals and lower ROE volatility compared with their low diversity or sector peers. Gender research from McKinsey & Co in 2018 finds that the statistically significant correlation between a more diverse leadership team and financial outperformance demonstrated in their 2015 research continues to hold true. Yet, the most recent WEF Global Gender Pay Gap Report 2020 states that (only) '36% of firms have women in senior roles', a **diversity imbalance that is no longer viewed as acceptable corporate stewardship.**

With so much upside in the advancement of gender equality, the RobecoSAM Global Gender Equality Impact Equities strategy was launched in 2015 with the aim of creating financial and social value by investing in gender diversity and equality leaders. Our proprietary Gender Equality Measurement Framework goes beyond compulsory board-level gender metrics to capture a more comprehensive structure of the workplace by analyzing a range of practices within the areas of corporate governance, board diversity, human capital development, and talent retention. This is used to generate a Gender Equality Score which supports investment decisions and enables RobecoSAM to offer asset owners impact measurement of the strategy at a portfolio level and reporting of the impact of their contributions towards SDG 5, Gender Equality.

Natasha Ebtehadj

Portfolio Manager Multi-Asset
at Columbia Threadneedle
Investments

How can we empower the next generation of women in the AM industry to strive for senior roles?

Women do **actually strive for more senior roles** in nearly equal proportion to men (McKinsey, 2017), so it is not a question of desire, but of empowering them to get there. We need to help **clear the obstacles,** which can include entrenched networks, a lack of workplace support and self-selecting out.

One of the biggest obstacles is that women often look for **senior-level opportunities** at around the same time as when they have children, and it is after this point that firms need to be more supportive. Easy wins for firms would be to put in place policies that offer **non-traditional working arrangements,** equalizing paid parental leave, and **improved transparency on hiring and promotion to reduce biases.** These policies should benefit both men as well as women; the supportive role that men play is part of the solution too.

The next step would be to translate these policies into **cultural change,** which can often be a bigger challenge. Role models are key here – women who have benefited from these policies can champion how they have worked for them, which in turn provides a blueprint to others as well as a network to draw on. Hopefully, then we can see the numbers of senior women start to meaningfully move.

Why are we not seeing more women in senior asset management roles?

Women already take on **76.2% of the world's unpaid care work,** more than three times as much as men (ILO, 2018). So when childcare, housework, grocery shopping, doctors' appointments, school bullies, etc are taken into account, more of the unpaid work falls on women's shoulders, even in higher-income households. The burden of unpaid care does not just stop with children but also starts again when elderly parents need caring for when again women take on more of the unpaid care work. **Workplace support can help equalize** this and support both **women and men to have more equal approaches to work** and **home life** and allowing women the mental space to push for more senior roles.

Biases and entrenched networks in workplaces are also problems. In theory, women should thrive in **asset management,** with results being performance-based and long-term in nature, and hence allowing merit to shine through whilst working flexibly. However, social cloning – when those in positions of power seek those similar to themselves – can **limit senior management opportunities to women in the first place**, as can the informal nature and lack of transparency in how those roles are sought.

Does diversity on top executive jobs bring better decision-making and outcomes?

It is well-documented that diversity of all types, not only gender, is beneficial to companies and makes for better organizational performance.

McKinsey (2017) has found a **strong correlation** between the presence of **women in company top management and better financial results.** Of the 300 companies in the analysis, those with the most women on their executive committees delivered **operating margins 55% higher and returns on equity 46% higher** than those with none. This is an astounding difference. BCG (2017) has also found that large companies with more diverse management teams, with gender being one of their measures, were statistically more likely **to boost innovation.**

For all the studies, it should be common-sense that results improve when echo chambers are avoided and outsider-thinking embraced.

Laure Peyranne Rovet

Head of Iberia, LatAM &
US Offshore ETF Business
Development at Invesco

How can we empower the next generation of women in the AM industry to strive for senior roles?

I am quite optimistic as in our industry, there are increasing efforts to improve gender diversity, for example, Invesco has implemented a set of key initiatives with a clear roadmap for attracting, developing, retaining and engaging women talent. Flexible working is a key measure to promote agile work environment to help both men and women to balance career and family responsibilities. I also believe companies must ensure that hiring and promotions are fair, and senior leaders must champion diversity and inclusion so that everyone in the company has a role to play to promote this goal. In Invesco, we decided to implement a global target in 2017 to have 30-40% of women in senior leadership roles by 2020 and I am pleased to say that we have now reached 32% globally and 30% within the EMEA region.

Why are we not seeing more women in senior asset management roles?

It takes time to change mentalities and to overcome "unconscious" biases both with men and women. We still need to challenge societal norms, like women dropping out of the workforce when they have children. Most corporate leaders now understand that in today's business environment, companies must achieve diversity if they want to acquire and retain talent, build employee engagement and improve business performance.

Does diversity on top executive jobs bring better decision-making and outcomes?

Yes, I truly believe a better mix is bringing value to a company and could engender better decision-making and is critical to driving innovation. In fact, there are various studies that demonstrate that companies with above-average total diversity, had both higher innovation revenues and higher EBIT margins, on average. In Invesco, our aspiration is for our workforce to continually reflect the diversity of people and perspectives in today's evolving society which is key to help our clients and employees get more out of life. Diversity means having a respectful and inclusive culture that optimizes our collective expertise, knowledge, and experiences. Additionally, top management women can act as role models to inspire future generations.

10 IDEAS FOR THE NEXT DECADE

We have identified ten investment themes that are likely to generate returns in the long run. Which theme has got the most upside or which one fits better in a portfolio is debatable but you can't deny that these are the forces that will transform our world in the coming years. As Christine Lagarde, director of the International Monetary Fund (IMF) recently said:

> *New technologies, such as artificial intelligence and machine learning, are changing the way people work around the world.*

RankiaPro has invited fund managers specialists in thematic investments to share their insights. To complete the picture, we have asked fund selectors to give their opinion on the theme and explain which manager they have trusted with their money.

RankiaPro

WATER

JB Beckett

Author and Independent Member of the Board
at SVM Asset Management and Royal London

The priceless commodity

One of the great challenges of the climate emergence is the simultaneous melting of the polar and mountain glaciers; leading to flooding, storms and arctic vortices; ('snowball effect) coupled with water inequality; scarcity, drought and fires. **At one side of the planet, fresh and sea water literally has a value of less than zero; at the other end it can be priceless,** literally the difference of life and death.

Rising sea levels and water scarcity

The ratio of saltwater to fresh water stands at about 50:1. Salty oceans cover 70% of the Earth's surface. Meanwhile fresh water consumption is spiralling as the world's population rockets towards 10 billion, or somewhere between 10 to 37 billion litres of water a day, just to allow our populous to survive.

If all the ice on land melts and drains into the sea, it would raise sea levels 216 feet scientists estimate. The Antarctic Ice Sheet covers 8.3% of the Earth's land surface. According to NASA, the **polar ice caps are melting at an alarming rate of 9% each decade.** The thickness of the Arctic Ice has decreased by 40% since the 1960s.

Estimated damages from drought in 2019 were $23 billion, ranking as the 12th highest year for drought losses since 1975. A combination of desertification, bush fires and forest fires bely a growing scarcity in the water table. Millions of hectares of bush, forest and parks burned as drought displaces millions.

Solutions

Water capture off the coasts of Africa, Australia, United States to Middle East, could see tidal sea water channeled through huge slew tributaries into storage reservoirs. It could be targeted to manage sea currents and surges.

Desalination is the extraction of salt from water. The two most common techniques require costly amounts of energy and infrastructure. They create a lot of C02 and potentially toxic "brine", waste that can kill crops and other vegetation and render groundwater too salty to drink. More sustainable technologies are being developed but need more investment.

Pipelines once used to carry fossil fuels, across vast continents, could be reappropriated to carry those vast sea water reserves to meet demand. It was estimated there was 3.5 million kilometres of pipeline all over the world.

With appropriate political impetus, Energy companies become incentivised to convert pipelines from "stranded assets". **The growing number of Water funds could be encouraged to invest.** The NY Times ran a story 'As Fresh Water Grows Scarcer, It Could Become a Good Investment'. Balancing water equilibrium could create vast new temperate regions suitable for reforestation and agriculture. Priceless!

MEDITERRANEAN FUND

LU2039993725

Íñigo Colomo

Portfolio manager March
Mediterranean Fund at March AM

Investment opportunities related to sea transportation, infrastructure and water supply have improved dramatically in recent years. There are plenty of well-founded reasons for this: drinking water is a fundamental element that guarantees life on our planet and the survival of humans; moreover it is also recognized as one of the fundamental rights related to dignity and enjoying healthy livelihoods of households.

As an investment, it is important to note that **water consumption has been increasing steadily at rates of 1% since the 80s of the last century, but without an increase in the available water resources.** Quite the contrary, water supply has decreased as a result of climate change. The reasons for this growth in consumption are a combination of population increase (a world population of 10,000 million people is expected in 2050), socio-economic development (which implies a large increase in the demand for water for the industrial and domestic sectors) and current consumption models.

The use and distribution of drinking water are unevenly distributed. Only 40% of the world's population has access to a supply that is safe and reliable, that is, supervised and accessible on demand. Unfortunately, nearly 4 billion people lack water supply; something that most of us take for granted as it simply implies opening a tap and having quality water for immediate consumption.

The fund invests in companies related to the ocean and water economy investing practically 50-50 in each block and without a beforehand allocation to any of the two broad topics. There are four areas where we can find investment opportunities:

1. **Companies benefiting to exposure to ocean economy.**
2. Those activities related to **availability, storage, surface and underground water management and filtration.**
3. **Sectors involved in supply and distribution.** The cheapest distribution method is through piping systems; for obvious reasons densely populated urban areas benefit from economies of scale for having a safer and wider distribution and sanitation network. Despite this, between 30 and 40% of the US pipe network is obsolete and should be replaced in the upcoming years.
4. Finally, **processes related to the treatment, purification, disinfection, and protection of water.**

Therefore, we believe that in the upcoming years the imbalance between excess demand and water supply shortage will create a clear opportunity for those companies capable of offering solutions related to supply and distribution of drinking water, recycling and reusing, prevention of leaks and in general the improvement on consumption, storage, and distribution.

ROBOTICS & ARTIFICIAL INTELLIGENCE

Richard Benjamin
Chief AI & Data Strategist
at Telefónica

Artificial Intelligence (AI) is a powerful technology, which – although it already exists since the 1950ies – has only taken a huge leap forward in the past decade, mostly thanks to Deep Learning, an improved variant of good old neural networks. According to MMC Ventures1 one in seven large companies has adopted AI, and in two years, two-thirds of large companies will have deployed AI projects. According to the same source, in 2019 there were 1600 AI start-ups, and 1 out of 12 start-ups is about AI versus 1 out of 50 in 2013. According to CB Insights2, in 2019 AI startups received more than $26B of funding, up from $22B in 2018, and totaling about 1900 deals.

The magic behind current popular AI technology is supervised machine learning, and in particular, deep learning. This technology is capable of pattern recognition in images, video, text and in databases with structured data. By feeding the algorithm with huge amounts of data that include the target pattern (be it a cat in a photo, cancer in an x-ray, a translation of a text, customers that churned, …) the algorithm learns to recognize the target so it can be used to classify or predict input it has never seen before.

Deep learning works fine for certain problems and not for others. It works well for problems with data abundance and where the large majority of situations can be foreseen (e.g. several classification or prediction problems). But it doesn't work well for problems that require reasoning before arriving at a solution. Remember that deep learning learns from data through pattern recognition, it doesn't "understand" anything of the domain itself. So, if you invest in AI, make sure that the problem it claims to solve, fits the characteristics.

If you want to invest in AI with less risk from a business perspective, invest in AI startups in the popular sectors, mostly health and finance. There is also less business risk in later-stage startups, which in Europe are occurring more in the UK, France, and Germany.

Beware of the regulations that might apply in the different sectors, which may slow down uptake in the market. In Europe, the European Commission is considering regulating some AI aspects of AI, and while details are still unknown, they might distinguish between high-risk sectors (e.g. health, transport, police, justice) / low-risk sectors, and high-risk (e.g. policing, facial recognition) / low-risk use cases. Regulation would be considered for high-risk use cases in high-risk sectors. Don't invest in startups in those areas until there is more legal certainty.

There is also increasingly more attention to the ethical and societal impacts of AI systems: if not careful, they might discriminate against vulnerable groups or might be opaque (black box) for certain use cases such as automated approval or rejection of social benefits, where transparency and redress are required. You wouldn't want to invest in an AI startup that later gets negative press because it has overlooked those consequences. With start-ups that make a statement about AI and ethics, there is less risk. There might even be some startups that help check other AI companies to certify that their AI is ethical.

For those who want to invest in AI in the long term, **there are still many opportunities for which there are currently only few start-ups.** One is to automate the machine learning process itself. Today, AI is performed by engineers, but there are some start-ups that work on machine learning "out of the box" tools, that allow businesspersons to perform machine learning. Another opportunity is hybrid AI startups. Those try to overcome the limitations of Deep Learning by combining it with logical reasoning and common sense. If successful, that would significantly extend the types of problems that AI can solve. Finally, as we have seen, all current successful AI systems work with data. And in general, more than 60% of the effort to build AI systems is spent on the data: understanding, cleaning, checking, connecting, aggregating, anonymizing, etc.). A start-up that could automate those "pluming" tasks would have a huge market opportunity.

DWS INVEST ARTIFICIAL INTELLIGENCE FUND
LU1863263262

Frederic Fayolle
Portfolio Management
Global Equities at DWS

We see AI as a powerful theme with the potential to transform the world's economy and society in the coming years and even decades. AI is a major technology-driven economic revolution, and **its transformative impact could be of similar magnitude to the two industrial revolutions** (the steam engine, then the internal-combustion engine and electricity) and the computer revolution. A key reason for the importance of AI is that its benefits are extremely wide-ranging, including:

- **Better products and services in all sectors** (ranging from personalized recommendations on Amazon or Netflix to automated vehicles, better medical diagnostics, and even entire "smart cities")
- **Cost and performance optimization** at all levels (e.g. optimal employee selection, product designs optimized for material use and performance to a level a human designer could never achieve, production efficiency, marketing efficiency, salesforce optimization, etc)
- Improved security (physical security --e.g. automation of video surveillance--, cybersecurity, financial security --e.g. fraud detection--).

The variety of AI applications is only limited by human imagination… and potentially government regulation.

AI boom

AI's current boom is made possible by the unprecedented scale of data collectionas well as the tremendous recent increase in computing power which makes it possible to run highly compute-intensive AI algorithms within a reasonable time.

A differentiator of our fund is that it provides knowledgeable **investment exposure to AI in China,** the other AI superpower next to the USA.

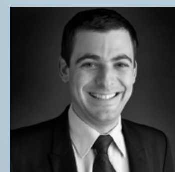
Drivers of performance & risk mitigation
There are 2 characteristics of the fund we would highlight as key drivers of our performance:

- **Strong stock selection focus:** Our investment focus is clearly bottom-up. We add to the detailed evaluation of company fundamentals an "AI assessment" specific to the AI fund, which analyzes how relevant and important AI is to the future growth of the company and to its financial results and whether the company leverages AI in a truly differentiated way vs. other companies
- **Systematic approach to identifying AI investment opportunities** through our analysis of potential investments across our "3 pillars" of AI investment: Data Collection (physical data collection, e.g. sensors, computer vision, but also consumer Internet data analysis by Internet companies), Computing Power (e.g. AI chips, hardware used in AI computing, public clouds, as well as specialized software used to prepare data for AI analysis), and AI Use Cases (we look for companies with important and differentiated applications of AI across all sectors)

Although this fund is growth-oriented, we mitigate risk by being disciplined. We minimize risk in several important ways:

- **Diversification:** We follow of course the mutual fund diversification rules ("10/40" rules). In addition, we voluntarily maintain geographic diversification (our current rule is no more than 60% US exposure) and try to keep a balance between our 3 AI investment pillars Quality focus for **stock selection,** consistent with the approach pursued by the Global Equity team at DWS, to which the fund's 2 co-PMs report. This involves an in-depth review of the sustainability of the company's business model, management quality, growth quality (internal vs. acquired growth; do acquisitions add value?), accounting quality, valuation
- **Position sizing,** reflecting our current view of risk/reward for each stock
- **Sell discipline,** in which we use pre-defined price targets from our internal research

HEALTH CARE



Vincent Morel

Portfolio manager
at Arbevel

We see secular investment themes, such as healthcare, and core holdings within our portfolios. We expect growth potential in the healthcare industry to remain sustainable, driven by demographics (ageing population, increasing old-age dependency and growing prevalence of chronic illness) and innovation (lead by new technologies and SaaS adoption). Although we believe the sector will remain volatile until the US presidential election in November, we consider healthcare as an **appealing investment opportunity in the current market enviroment, given its defensive characteristics and attractive valuation levels.**

In a fast-changing industry, it is crucial to find specialists that are able to think outside the box and understand when disruption takes place. Polar Capital has a strong track record in both, thanks to its in-depth industrial knowledge and unconstrained investment approach.

We have been successfully **invested in the Polar Capital Healthcare Opportunities fund for almost a decade,** and we are convinced that its portfolio manager Gareth Powell and his team should continue to deliver consistent alpha. We perceive their ability to navigate through the entire healthcare landscape as fundamental to manage the portfolio's risks throughout the economic cycle, as well as capture market opportunities across all sub-sectors, geographies or market capitalizations.

Moreover, synergies with Polar Capital technology team add valuable inputs to face future challenges within the healthcare industry. We embrace the house's view that healthcare is a sector in deep mutation, with innovation driven by small and mid-sized companies, aiming to deliver "better healthcare for less money". A view that fits well with our client's will to give greater meaning to their investment.

POLAR CAPITAL HEALTHCARE OPPORTUNITIES

IE00B28YJQ65

Deane Donnigan

Fund manager Polar
Capital Global Healthcare

Warren Buffett has described **US healthcare as the "tapeworm of the economic system",** suggesting that the constant rise in healthcare costs is taking away companies' ability to compete. Further, this is also inhibiting the free movement of talent within the broader workforce.

In 1960, the cost of healthcare per person in the US was $146. Today, it is $10,739. As this represents a move from **5% of GDP in 1960 to nearly 18% in 2017,** employers have pushed some of this cost onto their employees. Now consumers have skin in the game, it is hardly surprising they are pushing back.

It is overly simplistic for politicians and others to place the onus solely on the biopharmaceutical industry. There is a wealth of data to show the opposite – adequately prescribed medications are extremely cost-effective investments. **Healthcare systems are complicated; there is no 'magic bullet' solution.**

The real story is individuals are taking on more responsibility, and cost, for their healthcare yet having to operate within a marketplace that is unfriendly, inefficient and lacks transparency. There is plenty of room for improvement though it is easier said than done. Healthcare delivery systems and related supply chains are complex and highly regulated so, while not impossible, it will take time.

There is a lot of noise on the unacceptable state of healthcare, though the reality is that the healthcare industry, together with regulators and governments, are working to deliver improvements. When speaking about Berkshire Hathaway's healthcare collaborative effort with JP Morgan and Amazon, Buffett readily acknowledges the challenges are great and that there are no easy answers, but it is an area where the private sector tends to lead.

The answers lie in readily accessible data that works much harder than it does today. The good news is that most healthcare systems have transitioned to an electronic system using increasingly cloud-based medical records. While it is a huge step forward it is largely underappreciated as the functionality to date is limited, partly through cost and time to implement the IT systems and partly the limited ability to share data. Ensuring medical information privacy laws, security of data and regulatory requirements are met are mission-critical before patient information can be securely shared.

Previously, investors played an important role and shared in the success of bringing 21st-century treatments to the marketplace. For these to reach those who would benefit most, we now have the opportunity to address the outdated healthcare systems within which patients are assessed and futuristic treatments are administered. While innovative breakthrough treatments and procedures will always be welcomed, patients' greatest unmet medical need today is a marketplace within which they can easily see and readily appreciate the variety of world-class medical options available to them.

SECURITY

Borja Montero de Espinosa

Fund selection equity funds
and at BBVA Quality Funds

PICTET SECURITY FUND
LU0256845834

Yves Kramer

Lead portfolio
manager at Pictet

Feeling safe and secure is a basic need for human beings. Security issues are increasingly important for governments, companies and people around the world. Nowadays, security is ever-present in everyday activities such as switching the heating on, connecting our computer to a network, paying electronically... Besides that, we can give water free of harmful chemicals to our children, buy food that has passed health checks, have an alarm system to prevent our home from being burgled.

In fact, **safe and health themes are present in our daily activity and growing steadfastly**. There are 3 factors that support that growth:

- **Global cybersecurity spending grows at an annual rate of 10% or threefold than the global economy as a whole.** This increase in spending is justified by remarkable examples like when in 2017 US rated company Equifax had stolen confidential information about 200,000 clients by a hacker.
- The regulation is more likely to enhance safety and security.
- The growth of cities requires more infrastructure security.

However, picking up the best security companies is an arduous task; therefore it makes sense to delegate to an expert fund manager. The team behind Pictet Security fund is very experienced. Moreover, Pictet specializes in thematic funds with 40,000 million dollars under management (23% of total assets). The fund invests in 50-80 global companies, predominantly based in the US that focus on 3 activities: cybersecurity, such as the American Paloalto; physical security, such as the Irish Allegion (access control) and security services such as the French SGS (controls and inspections in different industries ranging from food to mining or transportation).

You need to be aware that the fund is not for low-risk investors as it is more volatile than the global stock indexes widely used by the industry. That's because security-related companies concentrate mainly in two sectors: technology and industry; compared to the 11 sectors included in the Global Index. Besides that, they have a greater weight in smaller firms. But the increase of risk has an excellent trade-off on returns; in the last 10 years, the fund has delivered more than 4 times the initial amount invested in euros, while the Global index has only posted 3 times the initial amount over the same period.

For all these reasons, the Pictet Security fund can be considered an attractive long-term opportunity to gain exposure to this area.

I still believe in the growth of our investments. One should be borne in mind that **regulation forces companies to invest in security.** Anyway last year we reached a weight 51% of the portfolio in security-related services, a more defensive segment than the technological and physical security ones. It is the case of secure electronic payment, where companies as German Wirecard AG stand out -we have held it in the portfolio since the beginning of the fund-, or French Ingenico, which benefits from adoption of electronic payments and demand in emerging markets.

Innovation can be also seen in the **automotive industry, where safety content must increase significantly with cameras, sensors, autonomous braking systems, radar, laser and night vision systems,** as well as 5G mobile technology that allows data transfer between vehicles, retrieving information from the "cloud". The automated and assisted driving technology business may reach 57 billion by 2025, up from 6 billion today -a compounded annual growth of 26% in six years and 17% the following decade- with software specialized companies as Autoliv, a global car safety provider in 27 countries.

In addition, Internet will be accessible to five billion people by 2020, with 30 billion objects interconnected and data breaches increased 60% each year. Gartner expects the cost of addressing the Internet of Things security to increase to 20% of the IT budget by the end of the decade, up from 1% in 2015.

In addition, **60% of the world's population will live in urban areas by 2050, exacerbating the security needs** on transportation, critical infrastructures, events and public services, twice as many in emerging countries as in developed countries. In addition, smart city projects for 2020, 14% related to security, are estimated at $3 trillion. **A leading company in the access control industry is Allegion.**

Simultaneously there is a trend towards decentralized architecture, which allows much greater flexibility for new applications and avoids massive investment and expenditure in server infrastructure and maintenance. This is the case of Californian Equinix, a global cloud platform with disaster recovery solutions, as well as Palo Alto Networks, with firewalls that identify and control applications and scan content to stop threats and prevent data leakage.

In addition, the regulation imposes **rules to government institutions, companies, and individuals and favors the industry of testing, analysis, inspection, and industrial certification,** a highly fragmented market that by 2022 may reach 113 billion dollars. This is the case of Eurofins, a world leader in bio-analytical food testing, environment, and pharmaceuticals, with a network of 190 laboratories in 36 countries.

CLIMATE CHANGE

Françoise Martino

Sustainability Manager at ABN AMRO Investment Solutions

Climate change is undeniable. Our planet is rapidly heating from increasing emissions of greenhouse gasses, like carbon dioxide and methane. As a financial institution, we believe we own the responsibility to contribute to the transition to a more sustainable world, and help our clients participate in that transition. Our purpose is "Banking for better, for generations to come". This means we need to take action in line with the Paris agreement.

Investing profitably in thematic investment solution providers, however, is not as straightforward as it may seem. **Thematic investing requires in-depth industry knowledge to fully understand the underlying fundamentals and to take advantage of the opportunities and be aware of the threats.** What seem to be obvious investments very often are not. For example, investments in producers of wind turbines or solar panels have turned out to be less favourable investments at times in the past. Furthermore, sustainable investing increasingly requires solid impact reporting to show concrete results achieved with underlying investments. Think of CO2 emissions avoided, or the number of households supplied with renewable energy. Last, but certainly not least, thematic investments should be part of a well-diversified investment portfolio, to avoid over-concentration.

ABN AMRO Investment Solutions has currently approximately **EUR 2 billion invested in sustainable investment strategies through selected specialist boutique managers.** One of the funds accessible through our sub-advisory platform is ABN AMRO Liontrust European Sustainable Equities.

Liontrust Asset Management's Sustainable Future investment (SFI) team invests in three sustainable transformative trends whilst taking ABN AMRO Investment Solutions' ESG-criteria into account. Liontrust's forward-looking approach and climate-related expertise aims to lead to tangible results. For instance, they foresee that in order to meet the Paris agreement we need much tighter global policies on emissions in the years ahead. And so they take the investment decisions deemed necessary. The sub-fund is currently aligned with a 2° Celsius warming scenario until the year 2036. However, the SFI team is actively engaging with companies held within the fund to explain their strategy to decarbonise their business operations to limit global warming to 1.5 degrees.

They have been engaging with companies on reducing carbon emissions for two decades, with the result that their funds are already up to 77% less carbon intensive than their respective indices and have up to 30% invested in companies accelerating the shift to a lower carbon economy.

ABN AMRO Investment Solutions believes Liontrust is a good showcase of approaching thematic investing in – among others – climate change, as it has a unique expertise in investing in sustainable themes, in combination with a proven track record. We see this as a rare combination in the market, despite the increasing demand for sustainable investment products.

NORDEA 1 - GLOBAL CLIMATE AND ENVIRONMENT
LU0348927095

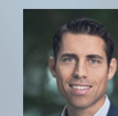
Nordea ASSET MANAGEMENT

Thomas Sørensen

Portfolio manager at Nordea

Henning Padberg

Portfolio manager at Nordea



Our skillset is to identify stocks where the market is underestimating or overlooking the impact from Climate and Environment as a driver of future cash flows. We seek to identify stocks where the current market price implies future expectations that are materially different from ours. We call this the **"Expectations Gap" and it can arise from underestimating future growth from climate opportunities,** failure to value structural impact from regulation correctly, underestimating technology change as a risk or opportunity for a company, failure to incorporate ESG/sustainability aspects in the investment analysis or fading returns on capital too quickly.

Idea generation & investment universe

The idea generation process concentrates on identifying global equities that derive significant future cash flows from their exposure to the Climate and Environment megatrend. A company needs to have at least 20% revenue exposure to the Climate and Environment megatrend to be included in the universe. The threshold is set relatively low to be able to capture companies that are transforming their business into being more focused on climate solutions, but the majority of the investments in the strategy will typically have more than 50% revenue exposure to the Climate and Environment megatrend.

The investment universe is categorized into **three investment** clusters and a range of underlying strategies. The first, **Resource Efficiency,** consists of companies that help optimize the existing resource base and improve efficiency. In the second category, **Environment Protection,** we target companies with strong offerings around protecting the environment and safe-guarding nature. Finally, in **Alternative Energy,** our investments are made up of companies that focus on eco-friendly and innovative technologies to generate cleaner energy. The investment philosophy of Global Climate focuses on Climate and Environment beneficiaries, which we tend to find in sectors like Industrials, Information Technology, Materials (also in Consumer sectors), less so in Healthcare, Financials, Energy, and Telecoms.

BIOTECHNOLOGY

Ruben Smets

Investment specialist
at ING Private Banking

The biotechnology industry is a unique (investment) industry with **high risks and potentially high rewards.** It is therefore very important to delegate your investments to a dedicated specialist and to have a risk-aware manager in this already high volatility industry. In my view the **Polar capital biotechnology fund is a reliable and stable partner to invest in this growth industry.**

The high conviction portfolio is managed by David Pinniger and his team of 6 professionals that have a deep knowledge of the industry and his pitfalls. In our regular contacts we have with the team we appreciate their clear explanation, knowledge and the intelligent positioning in the fund.

The fund is structured bottom-up with a top-down overlay. It is constructed via 5 different bucket types:

1. Diversified earnings
2. Revenue growth
3. Clinical development
4. Technology platform
5. Research tools & diagnostics

Each type has a different risk "beta" profile. This helps the team to steer the portfolio's beta up or down according to market conditions. The bottom-up investment ideas are internally generated from a network of industry expert relationships.

Vis-à-vis its peers and the benchmark the fund is better diversified geographically and really seeks alpha potential across geographies and market caps. The relatively small size of the fund gives the flexibility to the team to invests in mid- and small caps.

We rely on the team to invest in the next generation of market leaders within the biotechnology ecosystem and this is confirmed by the solid risk-adjusted return of the fund: moderate, below-average volatility combined with a nice alpha creation of the fund.

POLAR CAPITAL FUNDS PLC - BIOTECHNOLOGY

IE00B3WVRB16

David Pinniger

Fund Manager Polar
Capital Biotechnology

It is easy for us as investors to lose sight that an investment into a biotechnology company provides financial capital to develop new medicines for people suffering from life-threatening diseases. These companies have achieved incredible things by converting that financial capital into innovative medicines that represent real breakthrough developments for the treatment of a whole range of serious diseases. Last year, the Food and Drug Administration in the United States approved more than 40 new medicines, including highly effective medicines to treat cystic fibrosis in children and young adults, sickle cell disease, several forms of blood cancer, depression in new mothers, and many more.

These **breakthrough medical innovations are improving people's lives and creating new sources of growth and profitability.** True growth has come from the industry's smaller companies in which scientists are developing higher-precision medicines, leveraging their ever-improving understanding of human biology.

However, it is also fair to say that the **biotech sector has suffered from an image problem, driven primarily by negative perceptions of the prices at which new medicines are made available.**

The pharmaceutical and biotech industries are almost continuously called out by politicians and the media as exploiting patients who have no other option but to pay for their expensive products. New medicines, though, are not priced to generate astronomical returns on the capital spent to develop and manufacture them; their price reflects the value they bring to specific patients in specific healthcare systems. **By and large, companies can justify the high prices of their medicines – the problem remains one of affordability.**

Also, access to healthcare is becoming increasingly harder to afford but the cost of medicines is not the main driver of increasing healthcare costs. On average, net prices are trending downwards and spending on medicines seems to remain remarkably constant year on year, at just 10% of overall healthcare expenditure. The problem lies in the complexity of how medicines must be accessed and paid for; it makes it hard for the pharmaceutical and biotech industry to make its case. Also, what is not widely appreciated is that consolidation among the payers and providers of medicines and healthcare in the US, and the intense competition of companies bringing very similar medicines to market almost simultaneously, is driving down prices and controlling overall spending.

Despite perceptions, companies are also behaving responsibly, increasingly working to improve the affordability of the medical innovations they are delivering. We have also seen companies start to offer rebates and discounts if the real-world efficacy of their medicines falls short of that promised by the experience of clinical trials. This is a side of the pharmaceutical and biotech industries that is often lost behind the noise of the current controversies.

HEALTHY FOOD

Toni Conde

Head of asset management at Renta4

renta4banco

Can you lifelive without food? Hardly... as it is an absolute necessity. Not surprisingly, food is a core to our lives and takes up a lot of our time and thoughts. Thankfully, each year life expectancy grows longer. Life expectancy in 1919 was 34 years, while in 2019 it´s 71 (in Spain is up to 83). But it is not only about living longer but living better because of course, we all want to be happy. Aristotle famously said: a happy person is a person governed by good behavior and habits. And what better habit than eating well!

We can affirm that food is essential for humans, not only for survival but for living a fulfilling life. Today worry more and more about healthy food and it is not a passing fashion but a very positive cultural advancement. Denying it would be like claiming that we dress warmly in winter only because of fashion.

Developed and productive societies deploy resources to live to dress with better material, to eat healthier food... It is only natural to devote efforts and resources to take care of our food. Nowadays there are plenty of apps, tv programs, and other media about healthy food. We know the calories and ingredients of each meal.

Taking great care of ourselves is a must. How did we celebrate last Christmas? With family accompanied by dinners and luncheons, for a party we prepare lunch or dinner, for our children's birthday party we celebrate with snacks. Joining cultural events and celebrating with food, but **including healthy meals is the perfect mix for our wellbeing**. Any book about healthy habits will most likely include a chapter on a healthy diet. As I said before, the **trend is here to stay, it strengthens over time**. In the future, we would devote more and more resources to eating a healthy and balanced diet, not only to live longer but to live better.

BNP PARIBAS FUNDS SMART FOOD CLASSIC CAPITALISATION

LU1165137149

BNP PARIBAS
ASSET MANAGEMENT

Elena Armengot

Sales Director Iberia at BNP Paribas Asset Management

BNP Paribas SMaRT Food is a global equity fund that invests in food-related companies that are trying to reduce pollution or simply provide better quality food. The companies that are relevant for the fund's investment universe include those across **the food production chain "From the land to your plate".**

These include: growers and processors, food packaging and ingredients, machinery and equipment, logistics and infrastructure as well as those that engage in food safety and distribution. Ultimately the fund invests in those companies that promote healthy and natural food, waste reduction, sustainable packaging and reduced usage of fertilisers amongst others.

The fund excludes companies with unethical practices like land grabbing, commodity trading or poor labour management as well as producers of genetically modified organisms (GMO), first generation biofuels, palm oil and inorganic fertilisers. The fund complies with BNP Paribas Asset Management's Sustainable Investment Policy, which takes into account Environmental, Social and Governance (ESG) criteria in the investment process of the fund. For a company to be considered for inclusion in the portfolio at least 20% of its earnings should come from this theme.

Why should you consider investing in sustainable food?

It is estimated that by 2050 there will be nine billion people living on earth. Feeding all of these people without polluting the planet is a major challenge that will require substantial capital. **Today's food production, particularly meat, is harming the environment as well as our health.** This is through artificial fertilisers and pesticides, hormones in meat production, deforestation to make way for farms, pollution from transporting food or air pollution, and therefore increased global warming, from methane emissions at factory farms.

The growth of the population, urbanisation and limited natural resources are putting pressure on environment around the globe. This combined with an increasingly strict regulation and a change in the mindset of consumers that are no longer willing to consume anything and seek naturally produced and quality food provide winners and losers in this sector.

EMERGING MARKETS

Davide Alfano

Managing director at
Kaleidoscope Capital

Although we rely on a bottom-up investment approach and our focus is more on selecting strategies which are expected to outperform independently of the prevailing macro environment, we like **Emerging Markets as an investment theme, and we believe it may fit a long term investor allocation.**

In a world where a sustainable economic growth looks rare, despite the astonishing equity markets uptrend of the last few years, Emerging Markets represent a well-defined, understandable and evolving growth story.

The richness in natural resources of some of those markets and the ability to produce goods at a better cost than competitors operating in more developed economies have always played a crucial role in the success of the Emerging Markets story. However, the focus seems to have now more substantially shifted to other drivers; in particular, to the favorable demographic trends supporting Emerging Markets.

An increasing number of domestic customers having access to expanded spending power and better consumption capabilities looks as the real driver of the current leg of growth in Emerging Markets. This is now driving the consolidating successful story of China, a previously emerging economy, and, as a consequence, the whole area of Southeast Asia, whose economies are closely linked to the Chinese economy, usually as a new hub of outsourced production driven by lower costs of production and a less expensive wage structure.

We **think that history tends to repeat itself and, whenever a favorable demographic trend is supported by increasing consumptions capabilities, this usually leads to a self-reinforcing economic path of growth.**

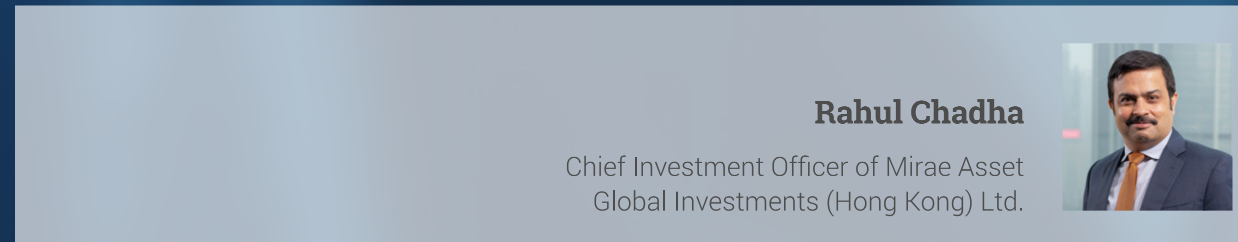
Asia rather than other EM

In terms of portfolio allocation, we prefer equity as an asset class, although we have a marginal but structural exposure to high yields and corporate credit.

We also typically play the theme through portfolio managers which are very focused on a specific domestic market, rather than through strategies with a broader exposure to different Emerging Markets. The geographic component still plays an important role in the EM space, more than in US or in European markets; different dynamics are specific to each country and the economic cycle of each economy can be desynchronized from the others.

We have a preference on Asia, rather than on other Emerging Markets. We like the concept of having exposure to Frontier Markets, but we prefer illiquid or semi-liquid investment solutions as a more effective way to get exposure to the same.

On a final note, we have been recently starting the due diligence on a systematic manager with an alternative perspective on EM investing and a well-defined industry allocation approach.



Rahul Chadha

Chief Investment Officer of Mirae Asset
Global Investments (Hong Kong) Ltd.

Globally markets are sanguine on back of improving PMIs, a function of inventory restocking demand and expanding Central Bank balance sheets.

The Coronavirus has been an unforeseeable black swan event that has pushed investors around Asia into a bearish sentiment. **The market's panic over the epidemic has triggered sell-offs** hurting in particular hospitality, leisure and travel sectors in China. It is no surprise the virus has consumers on high alert and it is anticipated this will dampen their willingness to travel and forgo gathering in crowded public venues.

There have been differing opinions around how long the virus will last with bull case: peak in mid-February according to Chinese professor Dr, Nanshan Zhong considering the national segregation efforts taken extensively; and bear case being peak in April/May based on the estimate of Professor Gabriel Leung from HKU. Once the authorities believe that the spread of the virus is controlled and allow factories and offices to resume, markets should bottom. We **believe that normalisation should be sharp as global supply chains are running on low inventory** and should rush to place new orders once manufacturing normalises.

We would look for any significant pullbacks to add to our existing positions of consumer, education and healthcare in China. For India our long-term view is still positive, with a forecasted recovery in place, we position ourselves with an **overweight exposure in consumer discretionary and healthcare sector**. We are expecting rural demand recovery and with increased compliance post GST, this should lead to high growth for organized sectors.

5G network roll out remains a key growth driver for Korean and Taiwanese companies and should lead to significant product upgrades across the value chain in coming quarters.

We believe with improving global growth outlook and reduced trade war uncertainty; **part of US$200bn which was redeemed from global equities in 2019 would be reinvested.** Emerging markets which are underweight and are likely to show higher growth vs their Developed market peers would benefit more in 2020.

Largely overpriced but...

We believe that though parts of market are overpriced, but there are still positive growth opportunities. In India a cyclical recovery is starting to emerge and we see financials, industrials (particularly the cement sector) benefiting from this correction. Deep value exists in some of state owned enterprises in energy & utility space, should government pursue the much articulated path of privatization of these assets, meaningful upside can be realized in next 12-18 months.

As for China, **we see the Coronavirus scare as a good opportunity to see through to fundamentals.** In the short term markets will negatively price in hospitality, travel and leisure sectors but in the medium to long-term we believe the correction will see these areas benefit.

With the 5G rollout being pushed through we see demand for semiconductors DRAM & NAND returning in the next few quarters benefiting Korean companies like Samsung Electronics and SK Hynix. Another space we are watching is EV battery. The expectation is for EV battery players to break even in 2020, the strong response on Tesla's Model 3 is likely to push traditional car makers to move forward their EV launch targets.

Special Insights

REAL ESTATE

Paulo Monteiro

Director at
Banco Invest

Financials markets valuations are currently stretched. In the equities markets, prices got ahead of earnings growth and the gains were made on top of multiples expansion. There are some exceptions, mainly in some European and Emerging markets, but, in general, markets are historically expensive. And there's another problem: yields and credit spreads are very low, forcing investors, especially the more conservative ones, to assume risk that usually they were not willing to. The main support for all this situation seems to be the central banks, keeping real interest rates in the negative territory, given investors a sense of 'no alternative' to equities and credit, especially high yield bonds.

In this context, **diversification is key and the thematic equities** funds gains an increasing role. In alternative to passive investing in equities indices, which valuations are not the most compelling, investors should consider gaining exposure to the markets through specific themes and sectors, globally diversified and actively managed.

At Banco Invest we are very enthusiastic about this thematic approach, combining, in our clients' portfolios, passive and active (thematic) strategies. One of the themes that we recently added to our portfolios is 'Smart Cities'.

In a world of low interest rates, **this theme combines yield, from its real estate exposure, and growth, from the emergence of business opportunities** around the urban development, and all this means in terms of infrastructures, technology and sustainability.

The fund **Schroder ISF Global Cities Real Estate complies with the above mentioned features.** It invests in real estate globally, although with a focus in the US, where the valuations seem less demanding and the yields are relatively high. Also important the sector has little exposure to trade tensions and can benefit from the urbanization trend and its challenges. More buildings will be needed (houses, offices, schools, leisure centers) in an increasing number of emerging countries, and changing consumer's tastes will require new infrastructures, technologies and services. Some examples of these trends are the growth in higher education globally, fueling the demand for student accommodation, and the 5G technology, which will change the way people work, consume and move in cites. On the other hand, from a portfolio construction perspective, adding real estate contributes for more efficient portfolios in terms of risk-return, in a low for longer yield world.

SCHRODER ISF GLOBAL CITIES REAL ESTATE

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Schroders

Tom Walker

Co-Head of Global Cities
at Schroders

Global Cities index

Cities are responsible for more than 70% of global CO2 emissions and how they respond to the demands of rapid global urbanisation, as well as environmental and social concerns represents both a challenge and opportunity for policy makers, residents and investors. That is why at **Schroders we developed the Global Cities Index, an index that ranks cities according to three impact scores:** the Economic Impact Score (EcIS), the University Impact Score (UIS) and, for the first year, the Environmental Impact Score (EIS).

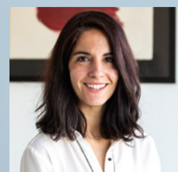
Greener and dirtier cities

Based on this ranking, Los Angeles has retained its position at the top of Schroders' Global Cities Index for the fourth year in a row. London remains in second place because, despite the uncertainty generated by the Brexit and the resulting political environment, the underlying fundamentals remain attractive to investors. Its economy continues to attract multinational companies and highly skilled talent and, thanks to a wealth of green spaces, clean and safe water, energy and public transport, London has maintained its popularity with investors.

On the other hand, cities with poor Environmental Impact score are those that require a stronger policy response to secure their future. Indeed, some are already at the forefront of sustainable urban policies. We expect many of these cities to improve their score in the coming years,, in particular the Chinese cities. Whilst **China's greenhouse gas emissions are approximately 27% of the world's total,** they are lower in per capita terms than those of the United States. We believe that the transition to renewable energy and the growing use of electric vehicles will help Chinese cities' emissions decline rapidly.

The Global Cities Index is a valuable tool that supports the analysis and investment process of our Schroder International Selection Fund Global Cities Real Estate, as this fund invests in the companies that own the best real estate in the most global cities. In this sense, when choosing the companies that make up the portfolio, **we prioritize those that invest in those cities, which will register continuous economic growth and that meet sustainability credentials.** With all this, this fund provides exposure to the global real estate market with lower transaction costs than those involved in direct investment in physical real estate assets, with the liquidity of investment funds and with a guarantee of sustainability.

CIRCULAR ECONOMY



Patricia Justo

Head of fund selection
at A&G Banca Privada

There is no doubt that the circular economy is a hot issue nowadays, both socially and at the level of investments. However, is it a long-term trend? Will it become a long-term trend capable of delivering positive returns and having an impact on the economy?

For an investment theme to become such and not a fad or fashion it needs to meet a number of requirements. Let's analyze those requirements first and later move on the theme:

- **Global and intra sectoral impact.** From consumer goods to manufacturing companies, raw materials, large brands, technology platforms or waste management companies. In any case, this change in the economic model can introduce new sources of growth for companies that know how to anticipate. We can find 3 types of companies mainly: the producers, those that facilitate the change to the new trend and those that benefit from it.

- **Social trigger.** Society demands that companies serve a social and environmental purpose and those companies that fail to show any kind of contribution will be judged negatively regardless of their financial benefit. Today, there is a mobilization in society towards the reduction of plastics and the responsible use of resources, which is generating a real impact on consumption and the way of producing and selling many products.

- **Economic trigger.** The current "catch-produce-discard" model is not only not environmentally sustainable, but it is not very economical. Those companies that adapt in some way to a production / consumption model that allows to extend useful life, recycle at a lower cost, share, reuse or produce less waste, will be clearly favored by consumers and investors alike.

- **Regulatory Trigger.** In just two years, China has gone from being the major global importar of global waste to one of the countries that least import due to specific regulations. Many of the countries that absorbed these imports are now moving towards similar regulations, forcing them to generate less waste and find more efficient ways to recycle them.

Therefore, it seems obvious there is a case for a long-term investment theme, with the advantage of **being in its initial phase,** with a still very interesting journey both from the financial point of view and due to the positive impact that It will generate socially and economically.

Today, it is difficult to know the real exposure that companies or industries have to this issue, or to differentiate the beneficiaries from the injured. But **BlackRock, led by the Ellen McArthur Foundation** (founded in 2010 with the aim of accelerating the transition from a linear economy to a circular economy) has launched a fund that actively selects a concentrated portfolio of companies that will know how to position and benefit This trend has only just begun: BlackRock Circular Economy Fund.

Martin Todd

Portfolio managers co-portfolio
manager at Federated Hermes

The Hermes Impact Opportunities Fund aims to generate long-term outperformance by investing in companies generating value by creating positive and sustainable change that addresses the underserved needs of society and the environment. In this way, it focuses on tomorrow's leading companies, today.

The Fund identifies companies within its nine impact themes aligned with the UN Sustainable Development Goals (SDGs), with around 8% of the Fund invested in the 'circular economy' theme.

The global economy today follows a 'make-use-dispose' mode of consumption, generating 2bn tonnes of solid waste annually. This is forecast to increase by 70% to 3.4bn tonnes by 2050. Investing in the circular economy is one way of enhancing resource efficiency and waste reduction while generating value by creating positive, sustainable change.

There are a growing number of companies that are capitalizing on the opportunities this presents. **One area of focus is plastic.** In the 50 years to 2014, plastic production increased more than 20-fold, from 15m tonnes to 311m tonnes. Over the next 30 years this figure is expected to triple. In addition, plastic packaging waste represents an $80-120bn loss to the global economy every year. When identifying companies exposed to this theme, we have found technological innovation has been a key enabler in developing circular business models. One such company is Tomra whose sensor-based solutions help tackle the global problem of plastic pollution by improving recycling and collection rates of single-use plastics. Tomra are a leading manufacturer of reverse vending machines, with more than 82,000 installations across 60+ markets. Countries that have adopted Tomra sorting solutions through a deposit scheme have seen recycling rates increase to above 90%, vastly higher than in those countries without a scheme. In addition, the company's sorting solutions have the capability to sort plastics to a purity level of at least 95%, enabling the recycling of more plastics and thereby supporting a circular economy.

Huge investment universe

Our proprietary SDG Taxonomy **enables the team to translate the aspirations of the UN SDGs into potential investment ideas and provides full traceability back to the nine impact themes.** The taxonomy has identified >1000 stocks, across a range of different industries, which gives the team a rich seam of potential investment ideas and offers sufficient diversification, while staying true to our purpose.

Portfolio construction and risk control

Each holding should offer exciting long-term growth potential as a result of a clear purpose that addresses unmet needs in society, bought at attractive valuations. **The portfolio is, therefore, built considering risk in absolute terms with the team agnostic from a sector, country or thematic viewpoint.** While the Fund is unconstrained from the top-down, the team ensures that it is not overly reliant on a handful of best ideas. As such, none of the 30 holdings has an active weight of more than 5%, ensuring a balanced portfolio. We believe this focus, combined with the team's willingness to hold these stocks for longer than the typical investment horizon, will reward these risks. To ensure a greater probability of success, ongoing and active engagement with the companies in which the portfolio is invested is conducted.

Hedge Funds & Alt UCITS

Funds & Strategies for 2020

Manuel Yutaro

Senior Fund Analyst
Alternative and Multi-Asset
Strategies, Allfunds Bank

I have no crystal ball whatsoever, but I will share several what-if scenarios with you that could have massive impacts on markets. These macro scenarios are a summation of sentiments within the community on what could cause massive reverberations within our global economy.

Most fund manager houses are in **'Case A', a gentle and low global growth supported by dovish Central Bank policies as inflation risks remain muted so far.** Some also pointed out the push from accommodative fiscal policies to appease discontented voters to get re-elected. Therefore one interesting strategy is carry, which can clip coupons from different risky assets such as emerging markets. Multi-strategy/macro managers, including fixed income ones, are generally the best suited to implement these views. In equities, the outlook remains moderately positive hence we would select equity long/short strategies with some directional bias. Commodities (and related assets such as currencies) would be supportive within a macro manager portfolio. All in all there is a big chance of having short-lived trends if we have this scenario, so **CTA strategies should work well.**

The **'Case B' is where, despite the healthy state of the global economy, behaviour and technicals will drive market prices.** Shocks triggered by trade tensions between US and the rest of the world, the impact of the Coronavirus in the global economy, superpower geopolitical tensions played through third countries (EG: Huawei, Iran,..), UK-EU future negotiations, etc. All these issues will make markets volatile with unstable short-term sectors and styles correlations triggered by market rotations. With this in mind, even alternative strategies might face certain instability. However stock-picking equity market neutral strategies with strong portfolio construction capabilities can play a significant role to stabilise investors' returns. Directional volatility can be tactically used although the negative cost of carry can be a drag to the performance of the portfolio. **We also favour alternative assets, uncorrelated to public markets, which have other embedded risks such as catastrophe bonds or real asset investments.** These can provide a stable stream of income to pay for the hedges or take opportunistic trades.

The last environment, with not many supporters **('Case C') is a recession alongside a big market correction in 2020. In recessionary periods, CTAs have proven resilience alongside most Relative Value strategies.** Unfortunately most relative value strategies also include carry and correlation components that can be extremely sensitive to sharp market movements. Also, we have to keep in mind that Central Banks might intervene changing the rules hence swinging between case A and B.

'Optimal' depends on the risk appetite and how Alternative strategies fit into the existing portfolio. Alternative strategies do not have a good benchmark and therefore they are not fully comparable, which makes our life interesting but also challenging. However wherever there are not many available options, the chance to find an 'optimal' choice decreases exponentially. In UCITS format, macro, fixed income arbitrage, equity long/short market neutral and some other niche strategies are the most difficult for an optimal choice.

Marc de Kloe

Partner, Strategy
& Investments
at Theta Capital

We look for returns that are driven more by idiosyncratic events than by general market moves. As a result, returns tend to be uncorrelated as the timing for these events to play out is less dictated by general market moves and more by specific events. **This leads to more predictable returns; rather than being at the whims of the market,** our managers pick their bets meticulously, only taking directional risks in situations where they believe they have a real edge in predicting and often steering the outcomes. We think of this in terms of 'quality of returns' as we prefer our results to be achieved with more certainty and with less downside risk.

With ever increasing valuations in equity- and bond markets, we believe this focus on high quality returns is becoming more and more relevant. At the same, such opportunities for achieving high quality returns are becoming much more prevalent when prices depart from fundamentals on either side and are typically abundant at both the end and the beginning of a cycle. We see opportunities in the following:

Idiosyncratic events

Such as the severe price dislocation in Argentine bond prices that resulted from the indiscernible market panic in August. Two of our managers were able to uncover some fundamentally strong credits trading at deeply distressed prices. Buying bonds from forced sellers at 35cts on the dollar with an expectation of full repayment while earning 20%+ USD coupons, is a clear example of what we mean with high quality returns. With a little bit of more clarity around the new government's policies, we are starting to see a recovery in those prices. We expect, this has much further to go.

Shorting

Shorting cost money in 2019. But it is clear that there are considerable opportunit ies here due to the ever-rising prices, the majority of which is driven by multiple expansion. We expect that shorts will make an important contribution in the coming years given the extreme prices of some stocks and sectors. In corporate credit our managers find a multitude of shorts with a very asymmetrical profile: limited downside but lots of upside.

Opportunities in distress

The volatility in corporate credit will inevitably increase, which, as stated, will be good for the shorts. However, the real opportunities lie in providing liquidity as volatility increases and dislocations start to occur. Due to the impact of bank regulation, this will be even more than in the past, which is the natural playing field for distressed debt hedge funds. We see this as one of the major themes for the coming years.

Consumer credit with focus on U.S.

The rise in house prices, historically low interest rates, stricter lending and far-reaching regulation means that managers can achieve attractive returns in consumer-related credit instruments such as ABS and RMBS. Due to the strong foundations and structure of these markets, they are well protected against both an economic downturn and the excesses we believe exist in the corporate credit markets.

We find this bifurcation in credit markets (an attractive stable return on the fundamentally strong consumer side while we are waiting for distressed opportunities with more upside on the vulnerable corporate side) such that we have set up a specific strategy for this.

RANKIA FUNDS EXPERIENCE | Lisboa 2020

28 of MAY 2020

Rankia Funds Experience is the leading event in the Spanish fund industry that aims to strengthen networking between fund selectors and asset management professionals.

This is an event that has made Lisbon a meeting point for wealth management with the assistance of fund selectors from across Portfugal and the presence of national and international managers.

You can get more information our events at:
www.rankiapro.com/rankia-funds-experience

PROGRAM

08:30 - 08:40	Attendees reception
08:40 - 09:15	Inaugural conference
09:15 - 10:50	One to Few
10:50 - 11:05	Coffee Break
11:05 - 13:40	One to Few
13:40 - 15:00	Networking lunch
15:00 - 17:00	One to One

For more information and to confirm assistance, please contact:

Juan Diego Quílez
Rankia Portugal Manager
juanquilez@rankia.com

Ana Andrés
Business Development Manager
ana@rankiapro.com

Passive offering

Artificial Intelligence passive solutions

Investors are willing to rely on many of the long-term mega-trends exposed in our special. However many would like to gain exposure via cheaper solutions that at the same time gives them full transparency about the companies where they have exposure.

Speaking plainly, asset owners want to tap the mega-trends via passive strategies. ETFs usually attract money for broader asset classes where alpha generation is elusive. Could the ETF providers successfully replicate an investment theme that has a truly global investment universe? What is the limit for smart-beta development?

In order to answer those questions at RankiaPro, we have invited Amundi ETF to explain how they have designed a passive solution for a theme so specific as Artificial Intelligence. Find out the answer yourself by reading our following article.

Matthieu Guignard

Global head of product development and capital markets at Amundi ETF, Indexing and Smart Beta

Investing in Artificial Intelligence with ETF?

Investors are increasingly looking for ways to latch on to the long-term "mega trends" which will act as growth drivers in the future. In the ETF market, we can see a clear trend of emerging products targeted at automation, robotics, and artificial intelligence.

The main challenge for investors is to assess whether these new ETFs provide accurate exposure to a given mega-trend, which is a particularly difficult task for nascent technologies like AI. Investors also need to look closely for diversification to avoid bias and concentration on too few countries, sectors or stocks.

In response to these challenges, Amundi partnered with Stoxx, a leading index provider, to launch Amundi Stoxx Global Artificial Intelligence UCITS ETF. Drawing from a broad Developed and Emerging Total Market Index universe, **Stoxx determined a method for ranking stocks according to which firms are most likely to be at the forefront of wave of innovation in AI.**

Our AI ETF, offered with ongoing charges of 0.35%, therefore provides targeted exposure to companies that are most likely to benefit from AI's potential growth opportunities, on both developed and emerging markets, and across a broad of sectors.

The **systematic selection process** analyses stocks according to two metrics:

- **AI exposure:** measured as the proportion of AI-related patents granted to the company over three years compared to the total number of patents granted to that company over the same period;
- **AI contribution:** measured as the number of patents granted to the company over three years relative to all AI patents given to all companies over the same period.

Taking a closer look at the constituents of the AI index underlines the importance of this technology for all regions of the world, across every industrial sector and for all company sizes. This Amundi ETF is a powerful tool for investors who want to take advantage of one of the most compelling megatrends today. This fund allows investors to add a thematic strategy to a core portfolio of more traditional assets.

With innovation in our DNA, we are always looking for new opportunities for investors. To expand our ETF thematic range, with our Artificial Intelligence ETF, we recently launched a Smart City and a Smart Factory ETFs, to help investors to capitalize on two other major themes which are shaping our future.

ETF construction and index selection

As a major European ETF provider, it is our fiduciary duty to select index providers that have a solid financial base and a recognized market experience, while meeting all regulatory requirements, such as:

- **Diversification:** Does the index comply with the "ESMA" Guidelines "20/35" ratio?
- **Representativeness:** Is the underlying market well represented through a clear and systematic methodology?
- **Independence:** Is the data calculated by an independent source?
- **Transparency:** Are the index value, methodology, composition regularly disclosed?

As a leading solution provider, and thanks to our scale and 30 years' experience in indexing, we serve a wide variety of clients with different needs. We are working with various equity and fixed income index providers to develop our ETF and index funds range. To meet clients' needs, we have several options when launching a new ETF:

- Select indices which already exist among the index providers' offer, and often represent well-established benchmarks.
- Customize these existing indices to take into account specific client requests, for example the S&P for the daily hedged methodology that we have extended to the Topix & Nasdaq Work with the index provider to co-develop a "tailor-made" index in response to client needs, for example our Low Carbon index developed with MSCI.

Amundi
ASSET MANAGEMENT

Mind Tricks: Behavioral finance

How to take advantage of the mind tricks

The concept of behavioral finance became mainstream with the financial crisis. A short review of market inefficiencies blatantly put in evidence that efficient-market hypothesis is just that: a hypothesis at least in its strong form. Few observers would deny the weight of emotions in investment decisions and will define themselves as fully rational and disciplined investors.

The developing field of behavioral finance attempts to find systematic irrationalities in financial behavior, proving theoretically as well as empirically that markets do not always get it right, at least for a while.

A growing number of funds are promising to integrate behavioral finance insights into their investment strategy. But can fund managers successfully put these theories to work in their portfolios?

Michal Stupavský

Investment Strategist
at Conseq Investment
Management

Fight your behavioral biases

After stellar year 2019 when all assets thrived with profound returns I am quite cautions regarding the investment outlook for 2020 because valuations of both equities and bonds have become rather lofty.

"Behavioral finance can help investors a lot to stay on the cautious side."

Firstly, investors have to realize that **most sell-side economists and analysts, including the international supranational institutions like IMF or OECD, are usually just trend followers** that do not want to spread any negative sentiment. In my previous role as an equity fund manager I liked betting against the crowd of sell-side analysts. For example when analyzing a stock of any company, if analysts are overly bullish, i.e. the great majority of investment recommendations are a BUY, it is a sign that they could be suffering from over optimism bias.

Generally my equity positions performed on average quite well when I was betting against a consensus BUY. And on the contrary if analysts are overly bearish it is a sign that they might be suffering from the opposite extreme. In the same vein, generally my equity positions performed on average quite well when I was betting against a consensus SELL as well. Therefore a **herding bias is very dangerous** and investors should rather invest against the crowd. In my opinion this will definitely pay off in the long-term horizon.

Secondly, **I usually regarded a HOLD recommendation as an excuse for SELL.** There are indeed behavioral factors behind this idea, such as the fact that investment banking divisions might be doing business with the covered company. It cannot be overstated that investors should always check what is the relationship between the broker or investment bank and the covered company. It is connected to framing bias which says investors can make strikingly different choice when the same problem is presented in a different way. That is why investors should always check the vested interests of sell-side analysts and vested interests of their employers.

Thirdly, **investors should beware of anchoring bias** which says that any data, proposals and information act on us as anchors, despite being totally irrelevant sometimes. On the other hand when new relevant fundamental information appears, adjustment of judgments is often very slow and rigid. For example if a share price is 100 dollars and investor's fundamental intrinsic value calculated based on his DCF model is 150 dollars, the investor might be inclined to buy the stock.

However, if some very important negative fundamental information appears, e.g. when the company loses its highly important patent, intrinsic value of the company will likely go tremendously down. Updated DCF model might yield a new intrinsic value of 50 dollars. The investor might be nevertheless quite often stuck on the previous price target of 150 dollars. He might be extremely slow to adjust her his views about the company. Thus he is – anchored – on the previous price target.

Moreover there is also **confirmation bias which says that investors generally look only for supportive evidence and disregard any contradictory evidence.** That is why the investor might hesitate to adjust his price target accordingly. If the share price goes down to 75 dollars, based on the new fundamental intrinsic value of 50 dollars he should sell the stock. Despite this fact the investor might be inclined to keep the stock in his portfolio, only to realize even higher losses in the future when the price retreats to the updated fundamental value of 50 dollars.

I am convinced that good knowledge of behavioral finance can help investors a lot with their fight against many behavioral biases. I have just mentioned a few of them above. I strongly believe that behavioral finance can make you much better investor.

Milling the market

Florian Gröschl
Managing Partner at
Absolute Return Consulting

Florian Gröschl joined Absolute Return Consulting GmbH in 2011, started the absolute return fund of fund mahi546 in October 2012 and became a member of the board of ARC as Co-CEO and CIO in January 2013. Before ARC he worked for LGT Bank Österreich AG as a portfolio manager and member of the Investment Committee, managing various Absolute Return Portfolios for High Net Worth Individuals. Prior to working for LGT Florian was a fund manager for fixed income and absolute return at Bawag PSK invest. He started his career in his family business taking care of asset management issues. Florian holds a degree in International Finance from the Vienna University of Economics and Business and qualified as Certified Portfolio Manager (CPM) in 2005.

How did you get to the financial sector?

Fifteen years ago I would probably have said by luck, now it looks more like coincidence. My family was running a mill and from the early seventies of the last century onwards the flour production in Austria was regulated like a state controlled cartel. So we were basically producing flour for other mills who then rebranded it and sold it to the end customer. Actually a **very profitable low risk business** we could have enjoyed had not there been other projects… But that is a different story.

However with the entry of Austria to the EU looming, things completely changed and my family decided to sell the production rights and close the factory. Taking care of the proceeds became not only a necessity but also an interesting field of occupation to me. Fortunately, bonds being available at a 9+% yield left enough time to get educated…

Not having found anything more challenging and more exciting than being on the markets, somehow **I have been working in the industry in various roles and occupations** ever since.

What is the best investment decision you ever made? And the worst?

Let's start with the worst. This was a decision where I lost most of my capital invested. **I bought a mutual fund invested in internet stocks in the early 2000s and lost literally a hundred percent.**

The best investment decision I have ever taken was to **buy 50% of the firm I am with.** I have been with this firm since 2011 and purchased my portion in the middle of 2017. We have followed this up with some amazing years since my acquisition. However, the beginning of 2020 has proven to be a bit more challenging than we would have wished for. I am still confident saying this though because we are only one month into the year and there is much room for improvement.

Which one was the strangest strategy or fund manager you ever met?

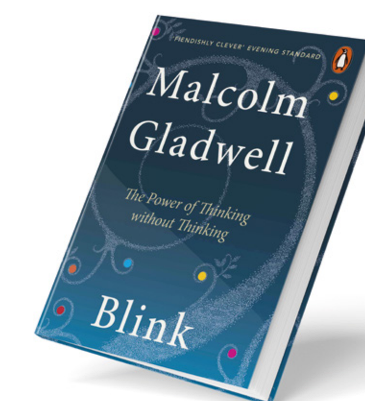
In the moment I cannot think of a manager in particular, but over the years you meet a couple of interesting figures in the industry. What I always found difficult were – especially young guys – that came up with a fund/ an idea and try to convince anyone that they a) either invented the whole thing (which was very, very rarely true) or b) that they exactly know that they cannot fail, because they know exactly how the market works and that they can´t do anything else than making money. Needless to say that the industry lost a high proportion of those a long the way….

Unfortunately the whole area of ESG brings up a similar kind of pattern with some managers.

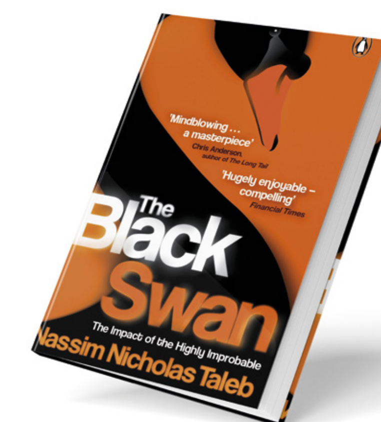
Favorite financial books

Honestly I have not read too many financial books since I left business school, because I think it's of utmost importance to keep your mind open to the things happening outside of your main area of occupation.

Having said that I did/do like the **Black Swan** because it serves my default mindset as a bear, having grown up in 2000 and lived through 2008, that the next catastrophe is basically just around the corner.



Another great book a very experienced hedge fund manager once gave to me and I learned a lot from especially selecting funds is **Blink by Malcolm Gladwell.**



Credits

Collaborations

Jacques Sudre, portfolio manager at Amiral Gestion
David Riley, chief investment strategist at BlueBay Asset Management
José María Martínez-Sanjuán, global head of fund selection at Santander Wealth Management
Léa Dunand Chatellet, head of responsible investment DNCA Finance
Junwei Hafner-Cai, portfolio manager Global Gender Equality Impact Equities at RobecoSAM
Natasha Ebtehadj, portfolio manager Multi-Asset at Columbia Threadneedle Investments
Laure Peyranne Rovet Head of Iberia, LatAM & US Offshore ETF Business Development at Invesco
JB Beckett, author and IMB at SVM Asset Management and Royal London
Íñigo Colomo, portfolio manager at March AM
Richard Benjamin, Chief AI & Data Strategist at Telefónica
Frederic Fayolle, portfolio manager Global Equities at DWS
Vincent Morel, portfolio manager at Arbevel
Deane Donnigan, fund manager Polar Capital Global Healthcare
Borja Montero de Espinosa, equity fund selection at BBVA Quality Funds
Yves Kramer, lead portfolio manager at Pictet
Françoise Martino, sustainability manager at ABN AMRO Investment Solutions
Thomas Sorensen & Henning Padberg, portfolio managers at Nordea
Ruben Smets, investment specialist at ING Private Banking
David Pinniger, fund manager Polar Capital Biotechnology Fund
Toni Conde, head of asset management at Renta4
Elena Armengot, sales director Iberia at BNP Paribas Asset Management
Davide Alfano, managing director at Kaleidoscope Capital
Rahul Chadha, Chief Investment Officer of Mirae Asset Global Investments (Hong Kong) Ltd.
Paulo Monteiro, director at Banco Invest
Tom Walker, co-Head of Global Cities at Schroders
Patricia Justo, head of fund selection at A&G Banca Privada
Martin Todd, co-portfolio manager at Federated Hermes
Manuel Yutaro, senior fund Analyst Alternative and Multi-Asset Strategies, Allfunds Bank
Marc de Kloe, partner, Strategy & Investments at Theta Capital
Matthieu Guignard, global head of product development at Amundi ETF, Indexing and Smart Beta
Michal Stupavský, Investment Strategist at Conseq Investment Management
Florian Gröschl, managing partner at Absolute Return Consulting GmbH

Editorial Team

Miguel Arias
CEO of Rankia
miguel@rankia.com

Amparo Sisternes
Head of RankiaPro
amparo@rankiapro.com

Ana Andrés
Business Development of RankiaPro
ana@rankiapro.com

Leticia Rial
Content Editor of RankiaPro
leticia@rankiapro.com

Dario Molina
Marketing of RankiaPro
dario@rankiapro.com

Jesús Segarra Sobral
Investor Relations Manager
jesus@rankiapro.com

Liliana Varona
Investor Relations Manager
liliana@rankiapro.com

Carson Jester
Chief editor
carson@rankiapro.com

Juan Diego Quilez
Head of Rankia Portugal
juanquilez@rankia.com

Samuel Izquierdo
Fund Analyst
samuel@rankia.com

Rafa Cardós
Magazine Design Layout
rafacardos@rankia.com

Aitana Castellanos
Magazine Design Layout
aitana@emergia.net

RankiaPro

(+34) 963 386 976

Twitter @RankiaPro

C/Serpis 66, Entrresuelo B
46022 Valencia | Spain

rankiapro.com/es

RANKIA FUNDS EXPERIENCE | Europe 2020

3-5 of JUNE 2020 | Hotel Balneario Las Arenas, Valencia

Wednesday 3rd June

20:00	Welcome dinner

Thursday 4th June

08:45	Attendees reception
09:00 - 09:45	Inaugural conference
09:45 - 11:30	One to Few
11:30 - 11:45	Coffee Break
11:45 - 13:00	One to Few
13:00 - 13:50	Cocktail
13:50 - 15:30	One to Few
19:30	Dinner

Friday 5th June

10:00 - 11:15	One to Few
11:30 - 12:30	One to One
12:30 - 15:00	Show cooking

Discover all **RankiaPro**'s events for professional investors and register your interest in attending at events website: www.rankiapro.com/events or contact with Jesús Sobral.

For more information and to confirm assistance, please contact:

Jesús Sobral
Investor Relations Manager
jesus@rankiapro.com

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Jesús Sobral
Investor Relations Manager
jesus@rankiapro.com

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