

# Navigating uncertain times through high conviction, diversified investing

Monday, 05/07/2018

The early months of 2018 have been challenging for investors across asset classes. Stretched equity valuations exacerbated declines in global stock markets in February and early March, while talk of interest rate hikes has continued to put fixed income markets under pressure.

Historically, investors and asset allocators have been able to move between fixed income and equities to navigate changing market conditions, but today, this approach is challenged as correlations between equities and bonds have been less predictable and diversifying. Moreover, with bonds offering little by way of returns, investors have been forced to look to equities despite elevated valuations. Should more February-like market dislocations occur, investors could soon find themselves facing sizable losses.

A more dynamic investment approach that considers not only top-down and broad asset class diversification, but additionally relative valuations and risk management is needed to not only protect capital in these volatile times, but also generate returns over the long-run.



**Hartwig Kos**



**Maurice Harari**

*Senior Portfolio Manager*



**Michalis Ditsas**

*Investment Specialist*

When markets decline, of course investors want capital protection, but over the long run, the goal is to generate attractive returns - this is why investors take the 'risk' to invest in capital markets in the first place. In order to address these needs in this new market paradigm, investor will have to look beyond traditional balanced or popular risk-parity solutions to generate the risk/return profile they seek.

To better navigate financial markets today, the multi-asset portfolio managers at SYZ Asset Management benefit from a robust idea generation framework known as the Investment Strategy Group ("ISG"). The ISG serves to bring together all our multi-asset, credit and equity investment professionals so as to look at risks and opportunities across multiple vectors. This group analyses opportunities at a global, regional and sectoral level in addition to looking specifically at 23 different countries for investment ideas. The result of this broad research forum is that our multi-asset investment team is able to find and implement investment ideas (for both generating return as well as controlling risk) regardless of the market environment.

While our research and idea generation process serves to support our multi-asset portfolios managers, it is the implementation of these ideas where value is created and what has contributed to our strategies producing attractive returns over time. In the case of our Multi Asset Diversified strategy, we have for many years achieved to balance the objective of attractive returns within a tightly controlled risk framework.

Data shown from 01.05.2015 to 31.04.2018. OYSTER Multi Asset Diversified data represents the I EUR PR share class and is shown net of all fees. Past performance is not an indication of future results. Please note that neither the fund or share class shown may be registered for sale in all markets. Information is provided for informational purposes only and not as marketing of the fund or its specific share class. Please refer to [www.syzassetmanagement.com](http://www.syzassetmanagement.com) for further details. \*Peer Group shown is the Lipper Global Mixed Asset EUR Flex Global.

Last 3 Years	OYSTER Multi Asset Diversified Fund	Peer Group*
Ann. Return	2.80%	0.43%
Ann. Volatility	6.35%	7.38%
Shape Ratio	0.48	0.09
Ranking	15	-
Max. Drawdown	-9.88%	-11.04%
Beta to Equities	0.43	0.46

#### Where the rubber hits the road

We believe that we have a very strong approach to managing multi-asset solutions. This expertise goes back to 1999 when our multi-asset solution was established with the launch of our Multi Asset Diversified strategy. The proof however is in the results - and in particular when times are difficult. Going into 2018, both the ISG and Hartwig Kos, the Lead Manager of the Diversified Strategy, were conscious of the risks in both equities and bonds. It was quite clear to us that valuations were stretched in not only absolute, but also historical terms. At the same time, markets were moving steadily higher. Such dichotomy can present a portfolio manager with a tricky proposition. To reduce risk too early may mean falling behind less risk-adverse peers, while keeping risk unchanged can result in potentially calamitous losses should markets dislocate. The table below shows that during the recent period of market volatility, the bulk of flexible global multi-asset portfolio managers did not manage their risk and have been hurt with their clients suffering larger drawdowns as a result.

Data shown from 01.05.2015 to 31.04.2018. OYSTER Multi Asset Diversified Fund data represents the I EUR PR share class and is shown net of all fees. Past performance is not an indication of future results. Please note that neither the fund or share class shown may be registered for sale in all markets. Information is provided for informational purposes only and not as marketing of the fund or its specific share class. Please refer to [www.syzassetmanagement.com](http://www.syzassetmanagement.com) for further details. \*Peer Group shown is the Lipper Global Mixed Asset EUR Flex Global.

	Max Drawdown- Last 3 years	Max Drawdown- 2018 YTD
OYSTER Multi Asset Diversified Fund	-9.88%	-4.69%
Peer Group	-11.04%	-5.04%
Degree of risk reduction	+1.16%	+0.35%

A strong investment process is paramount to generating good and steady investment returns. The SYZ approach is based on high-conviction - both in our idea generation process as well as in how we build and manage portfolios. In large part, this conviction is based on our strong risk management approach, as well our research process that challenges investment ideas for robustness.

#### What specifically have we done/have we been doing in the portfolio in 2018:

1. Modest equity allocation & defensive where we have exposure.

Recognising that equity markets had come quite far, most of the portfolio changes during the year have been largely of a defensive nature. For example, one of the biggest risk allocations has been to U.S. equities, which are comparatively more defensive than other developed market equities due to their relatively lower risk contribution and their less cyclical market composition. They also benefit from a lower US dollar. Sector allocations have also mirrored this shift in a defensive equity stance. The long standing positions in banks and energy have been accompanied with positions in telecommunications, pharmaceuticals.

2. Lower bond duration to start the year, including very little credit exposure.

We have had a generally negative view on fixed income assets for a while. That said, the most recent rise in US treasury yields has once again started to bring value back into this market. Hence we have started to become more constructive on 10YR US Treasuries due to both our view that US rate hikes are already largely priced into the bonds and their strong safety profile in the event of a strong market dislocation. Another position that we expect to work quite well for us and has been mispriced is the 30YR Italian Government bond, which today is yielding around 1% more than the 10YR – quite a wide gap. We expect the Italian curve to eventually flatten, making the 30YR an attractive place to be and at current yield levels wait for spread tightening. Finally, as we were throughout most 2017, we continue to like emerging market debt. The yields are attractive and the risk, in our view, is quite acceptable given the pickup vis-à-vis developed markets.

3. Idiosyncratic ideas – uncorrelated returns.

This allocation has and continues to be meaningful in the portfolio. We seek out attractively valued and uncorrelated positions that should be marginally impacted by broader market moves. Such positions include commercial aircraft leasing, direct lending and distressed debt servicing. The allocation to these ideas is perfectly in line with our risk management approach, seeking to build a balanced portfolio of positions that have attractive return potential, but also strong diversification profiles. Such an active and dynamic management style is nothing new and has been a feature of the Multi Asset Diversified strategy over time. It is no accident that the strategy is ranked among the top 14th percentile of similarly managed portfolios since Dr. Kos joined SYZ. While the recent performance and actions taken by the manager have helped limit drawdowns, in the recent past, the manager has also taken active, high-conviction and often contrarian views to generate performance and manage risk.

4. Japan.

The Portfolio Manager was keen on Japan before it became an increasingly consensus trade. Benefitting from SYZ's in-house expertise in Japan, we were constructive on the Japan turnaround story and profited from being a first mover in Japanese equities.

5. Emerging Markets.

While this space has been hot recently, our fixed income selection has also been strong. Allocations to countries like Brazil, Turkey and Russia at times when they were not consensus trades have been strong contributors to investment performance. Despite investor fears, our rigorous macro and valuation analysis allowed the investment team to develop a strong investment thesis behind our allocations, and generate good alpha. Moreover, by selecting among both local and hard currency bonds, we have been able to be very tactical in our selection, adding further value and, quite importantly, being able to better balance portfolio risks.

6. Special opportunities.

As in the recent period, over the past few years positions here have been strong contributors to returns and sources of uncorrelated risk. Positions have ranged from listed equities to funds or commodities such as gold. The team has not been constrained to any style or strategy and has used this freedom effectively.

## Conclusion

Without a doubt, the recent market environment has been tough to generate returns, with most investors focused on mitigating losses. The problem is that the traditional risk management approach of reducing (equity) risk in favour of bonds is not working. We believe that an active and dynamic asset allocation approach, with a clear and core focus on risk control in the portfolio will lead to the protection investors need. Moreover, by looking beyond the old drivers of returns to uncover unique sources of returns and risk management, SYZ have been able to find attractive pockets of returns while not compromising on risk management.

---

## Disclaimer

This marketing document has been issued by Bank Syz Ltd. It is not intended for distribution to, publication, provision or use by individuals or legal entities that are citizens of or reside in a state, country or jurisdiction in which applicable laws and regulations prohibit its distribution, publication, provision or use. It is not directed to any person or entity to whom it would be illegal to send such marketing material. This document is intended for informational purposes only and should not be construed as an offer, solicitation or recommendation for the subscription, purchase, sale or safekeeping of any security or financial instrument or for the engagement in any other transaction, as the provision of any investment advice or service, or as a contractual document. Nothing in this document constitutes an investment, legal, tax or accounting advice or a representation that any investment or strategy is suitable or appropriate for an investor's particular and individual circumstances, nor does it constitute a personalized investment advice for any investor. This document reflects the information, opinions and comments of Bank Syz Ltd. as of the date of its publication, which are subject to change without notice. The opinions and comments of the authors in this document reflect their current views and may not coincide with those of other Syz Group entities or third parties, which may have reached different conclusions. The market valuations, terms and calculations contained herein are estimates only. The information provided comes from sources deemed reliable, but Bank Syz Ltd. does not guarantee its completeness, accuracy, reliability and actuality. Past performance gives no indication of nor guarantees current or future results. Bank Syz Ltd. accepts no liability for any loss arising from the use of this document. (6)