

## WE DO IT THE CONTRARIAN WAY! “TALK WITH OUR EXPERT”

### SUMMARY

Europe is becoming a more attractive place to do business. That's why investors must have European stocks in their portfolios. But tracking down the right stocks isn't easy in such an extensive and far-flung region. Michael Clements has a consistent track-record of doing so. Get to know more about Michael and his team with the following interview.



**Michael  
Clements**

**Head of European Equities  
Portfolio Manager**

*“We focus on high-quality companies that are temporarily distressed or are in the midst of a turnaround.”*

### MICHAEL CLEMENTS, LET'S FIRST TALK ABOUT YOUR INVESTMENT PHILOSOPHY. HOW IS IT APPLIED TO THE FUNDS YOU AND YOUR TEAM MANAGE?

First and most importantly, we rely heavily on a team approach. After extensive primary research and fundamental analysis we target a few stocks. We do so based on contrarian investment ideas with an investment horizon of three to five years. We focus on high-quality companies that are temporarily distressed or are in the midst of a turnaround. To minimise downside risk on share prices it is essential to be very familiar with the companies in question and their market environment and to analyse various scenarios in order to assess the impacts of all negative events. The portfolio is set up in such a way as to take advantage of investment opportunities over a full investment cycle.

### YOU JUST MENTIONED QUALITY IN COMPANIES. HOW DOES THIS FIT INTO YOUR CONSIDERATIONS?

These are companies whose business models are based on a sustainable competitive edge. For example, strong, well-known brands that often possess market dominance or pricing power. They are also endowed with a solid balance sheet.

### WHAT MUST A CONTRARIAN PAY ATTENTION TO?

To beat the market you either have to possess better information, which is hardly realistic in most market segments, or a long enough time horizon for good investment ideas to play out. Buying low is easier said than done. Patience is essential there, as well. First, you have to do your homework and then wait for the right entry point. And then you have to wait again – often for years – until the broader market changes its mind and recognises that this company is an attractive investment. Another key is to avoid so-called “value traps” – shares of companies that are cheap for a reason, i.e., because their general operating conditions are worsening on a structural basis. Asset managers must also be familiar

with each stock's performance drivers and the quality of the company's balance sheet and to be able to simulate worst case scenarios.

### UNFORTUNATELY, QUALITY COMPANIES THAT GENERATE HEAVY CASH FLOW DO NOT GROW ON TREES.

That's certainly true. That's why it is essential to understand why a company looks inexpensive at a given moment. This is usually due to any of three reasons. It could be that investor sentiment has turned against a certain country or sector, as was the case in Spain after 2008, for example. Negative moods can also be cyclical in nature, for example, when investors desert the equity markets in a flight to safety. A third reason involves companies and their business models, as I detailed earlier.

### LOOKING AT THE INVESTOR SENTIMENT CYCLE, WHAT FACTORS STAND OUT?

Some examples of a receding phase occurred with Brexit or the Italian economy. Another example can be found in emerging markets, which are slowly pulling themselves together and can once again be considered to be on the rise. The same goes for the oil price or companies related to the European construction industry. A contrarian sees selling signals when the investor sentiment cycle has peaked. This most often happens when a sector or a market in general is positively valued or when equities are generally seen as fairly valued. We currently see the automotive sector as being in such a situation.

## AND HOW DO YOU GENERATE INVESTMENT IDEAS?

This is another example of the importance of teamwork. The team members generate ideas from industry conferences they have attended, meetings they have had with companies, or research they have carried out, for example, in value creation chains or, of course, balance sheets. The latter raises the question of whether a company can generate cash throughout an entire cycle, whether its balance sheet is stable over a long period, and whether the company is an active player on its market. We also get some important indicators from hedge fund managers' short lists'. Once we have successfully carried out the second-stage filter, we begin a detailed analysis, including valuation and, hence, downside risk.

## WE SUPPOSE THAT YOU ALSO EXERCISE STRICT RISK MANAGEMENT IN SO-CALLED HIGH-CONVICTION PORTFOLIOS.

We do indeed. We focus tirelessly on the risk of loss, which requires an in-depth understanding of a company, its business model, and its market environment. Stress tests and the aforementioned worst case scenarios are also a part of valuation analysis and the matter of whether a given price is justified. In the case of stocks already in the portfolio, there is naturally the question of when to get out and portfolio risks, such as undesired correlations and correlation risk are, of course, a point of interest.

## TO WRAP THINGS UP, LET'S LOOK AT AN INVESTMENT CASE.

OK. Let's take Burford Capital as an example. Burford is a leading supplier of litigation finance. In concrete terms, Burford provides financial support to law firms and/or their clients in cases of litigation and, in case of success, receives a share of damage awards. Since 2009 more than USD 600 million has been "invested". We regard Burford as currently undervalued. Its market segment is narrow and growing and offers returns that are uncorrelated with the portfolio's other stocks. At 71%, return on invested capital is very high, and the team is highly experienced. True, the business model is capital-intensive, but Burford can raise the capital it needs on relatively favourable terms. When we got in, P/E's were relatively low and Burford's success have now raised them to the attractive level of 14x. It is now trading at a price-to-book ratio of 1.65x. Its business model risk is no doubt subject to false litigation claims, aggressive law firms, and shifts in regulations.

## ABOUT YOUR FUNDS...

### MICHAEL CLEMENTS, YOU AND YOUR TEAM MANAGE FOUR DIFFERENT OYSTER FUNDS WITH A FOCUS ON EUROPEAN EQUITIES.

That's right. Our largest product, with about EUR 900 million in AuM, is the OYSTER European Opportunities Fund. In all, we manage about EUR 600 million in the OYSTER European Selection Fund, while the OYSTER Continental European Selection Fund excludes UK stocks and OYSTER European Mid & Small Cap Fund excludes large caps. Both funds have exceeded the EUR 100 million hurdle by far. In managing the funds, Claire Shaw – the manager of the Mid & Small Cap Fund – and I are backed by a team of five analysts. In addition, we ourselves research individual sectors.

### WHAT IS THE DIFFERENCE BETWEEN THE TWO FUNDS, OYSTER EUROPEAN SELECTION AND OYSTER EUROPEAN OPPORTUNITIES?

First let me talk a little more about what they have in common. Both seek to generate alpha through fundamental analysis and skilful stock picking from a universe of companies of all sizes. In addition, both vehicles take a contrarian approach, with an intense focus on downside risks. The European Opportunities Fund is more broadly invested and is benchmarked to the Stoxx Europe 600. It has between 40 and 70 stocks. The European Selection Fund is a highly concentrated, "benchmark-agnostic" portfolio, with 30 to 40 stocks managed with a view to generate high alpha. Active risk is usually higher, as the portfolio is more concentrated and there is no pre-existing tracking error. Both funds have invested in many attractive stocks in industry and consumer goods while underweighting banks and utilities.

### WHAT DO INVESTORS HAVE TO KNOW ABOUT YOUR FLAGSHIP FUNDS OYSTER EUROPEAN SELECTION AND OYSTER EUROPEAN OPPORTUNITIES?

Both funds seek out attractive companies with a market cap between EUR 1 and 100 billion. Their investment horizon is three to five years, and portfolio turnover is between 30 and 50%. We hold an average of 5% cash in both funds. This is no difference in risk management. The ex-ante tracking error is 4-5% for European Opportunities Fund, and more than 5% for European Selection Fund.

ble for the approval and issuance of promotional material in these jurisdictions, in accordance with the relevant regulatory requirements. It should be noted that in such EEA jurisdictions, that the extent to which SYZ Asset Management (Europe) Limited will be subject to regulation by the relevant host state competent authority, will be largely dependent on whether the investment services are provided from a Branch establishment or through a services passport. Further details as to how this differentiation is applied can be obtained upon request. Potential Investors are advised that both the protections afforded and the right to compensation may vary under the legislation of different EEA territories, where either the Fund is registered or where SYZ Asset Management (Europe) Limited is licenced to provide investment services. Such protections and rights might also be only available to certain categories of investors, dependent upon what is in place for relevant EEA territories. Furthermore, this marketing document is only intended for Professional Clients acting for their own account in countries where OYSTER is available for investment and is not to be distributed in any way to non-professional clients. It is not intended for distribution to 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, issue or use. Users are solely responsible for verifying that they are legally authorised to consult the information herein. The information or data contained in the present marketing document does not in any way constitute an offer or a recommendation to buy or sell shares in the Fund's units. Furthermore, any reference to a specific security in this marketing document is included by way of illustrative example and should not be construed as a recommendation to purchase, hold or sell such a security nor does it in any manner constitute the provision of investment advice in relation to same. OYSTER has not taken any measures to adapt to each individual investor who remains responsible for his own independent decisions. Moreover, investors are advised to consult their legal, financial or tax advisors before taking any investment decisions. Tax treatment depends entirely on the financial situation of each investor and may be subject to change.

It is recommended that investors obtain the appropriate expert advice before taking any investment decisions. The value of the units referred to may fluctuate and investors may not recoup all or part of their original investment. Investors should consult the Fund Prospectus for further details on the risks involved.

Please note that if any reference to an index is made, it is for information purposes only. The index is not mentioned in the investment policy of the Fund. The performance of the Fund may differ from the performance of the index. For further information on data supplied by any specific index provider, please refer to the website of the service provider.

Please note carefully that if any reference is made to past performance, that past performance is not a guide to current or future performance, and that the value of investments can fall over time as well as rise. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares.

Any reference to SYZ Asset Management in this marketing document should be construed as being a reference to one or more of the legal entities, listed below, dependent on the particular jurisdiction and media in which the marketing document is published being: SYZ Asset Management (Europe) LTD, SYZ (France) SASU, SYZ Asset Management (Luxembourg) SA, SYZ Asset Management (Switzerland) Limited.

This marketing document has been produced purely for the purpose of information and does not therefore constitute a contractual document or an offer or a recommendation to purchase or sell any investment whatsoever or other financial product. The analysis developed in this marketing document is based on numerous hypotheses. The use of different hypotheses might lead to significantly different results. Any opinion expressed is valid only on the date on which it is published and may be revised at any time without prior notice.

All the information and opinions set out in this marketing document have been obtained from sources deemed reliable and trustworthy but no declaration or guarantee, whether express or implicit, is provided as to their accuracy or completeness. SYZ Asset Management refuses to accept any liability in the event of any losses or damage of any kind resulting from the use of this marketing document. Reproduction and distribution of all or part of this marketing document is subject to prior permission from SYZ Asset Management.

For Switzerland: Details of Representative and Paying Agent

Swiss Representative: SYZ Asset Management (Suisse) SA, 30 rue du Rhône, 1204 Geneva, Switzerland

Swiss Paying agent: Banque SYZ SA, 30 rue du Rhône, 1204 Geneva, Switzerland