



## Price Vs Value – Active Management Is Still Alive And Well

Jean Keller, CEO, Quaero Capital

Thursday, 16 June 2022



## A Word From Today's Chairman

**Professor Michael Mainelli**  
Executive Chairman  
Z/Yen Group





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# Today's Agenda

- 16:00 – 16:05      Chairman's Introduction
- 16:05 – 16:25      Keynote Presentation – Jean Keller
- 16:25 – 16:45      Question & Answer



# Poll

What funds do you hold in your portfolio?

- Mostly active
- Even mix of active and passive
- Mostly passive
- I don't invest via funds



## Today's Speaker

**Jean Keller**  
CEO  
Quaero Capital





**QUAERO CAPITAL**

Investing away from the crowds



# PERFORMANCE AND FEES

## WHY DOES THE AVERAGE NOT REFLECT SKILL?

- There are funds that claim to be active, but indeed are passive funds in disguise: closet indexers
- They charge high fees, but deliver the benchmark
- UK Evidence, Equity mutual funds:



Source: Swiss Finance Institute, 2021

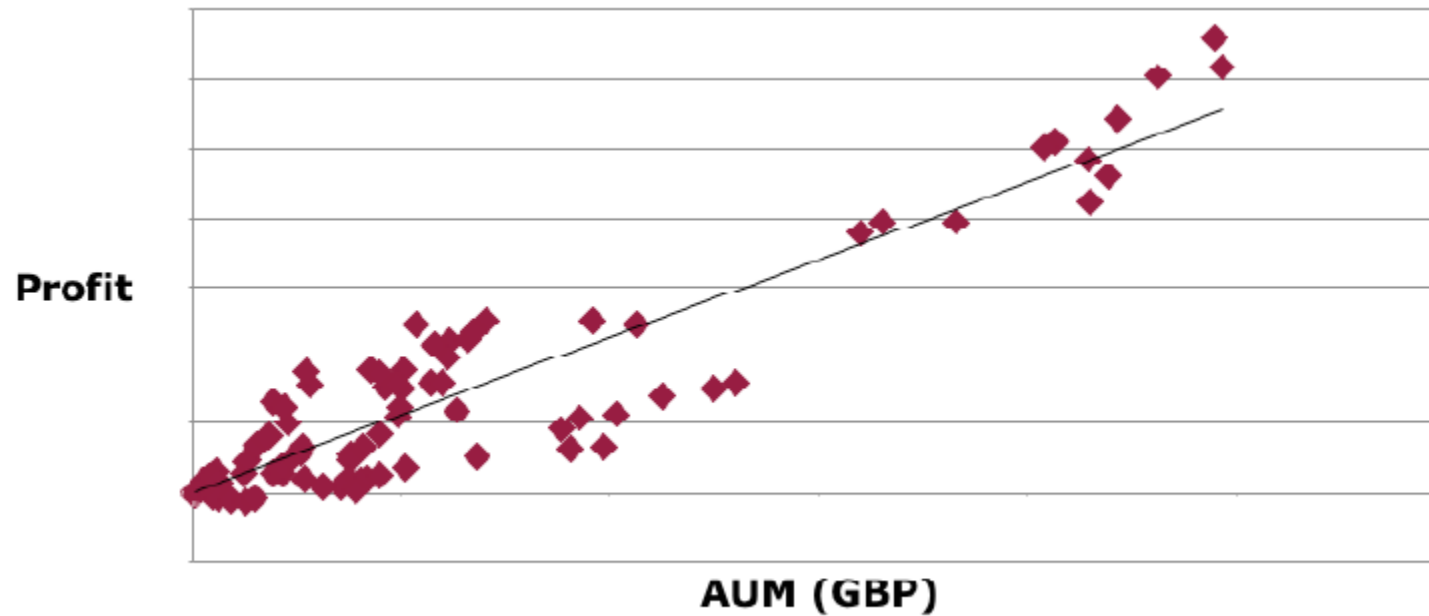




## EVIDENCE ON COMPETITION IS PROFITABILITY EQUALLY DISTRIBUTED?

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- Large role for economies of scales and barriers to entry for small players



*Source: Swiss Finance Institute, 2021*



## PERFORMANCE AND FEES DO MORE EXPENSIVE FUNDS PERFORM BETTER?

- Not the most expensive ones...
- But some good news for the second-to-most expensive ones

*Figure 6.18: Monthly net and gross returns split by fee quintile (Q1 the cheapest, Q5 the most expensive)*

	Bundled 2005-12		Clean 2013-15	
	Gross	Net	Gross	Net
Q1	0.97	0.87	1.05	0.92
Q2	1.05	0.92	1.14	1.06
Q3	1.07	0.91	0.96	0.83
Q4	1.16	0.98	1.21	1.10
Q5	0.94	0.74	1.02	0.88

Source: FCA analysis of gross and net returns against fee quintiles.



## ASSET MANAGEMENT – INDUSTRY CONCENTRATION

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- The move to passive investment has created massive concentration in the asset management industry
  - Dominance of a few large groups that are cost leaders
  - Ability to cross-sell active products into their distribution channels
- Equally in the active portion of the market, we have seen more evidence of a «winner-takes-all» dynamic with the emergence of ever larger groups:
  - The effect of brand equity
  - The benefit of economies of scales
  - Ability to launch new funds
  - Market distortions
- Yet most research points to limited advantages to being large in the asset management industry
- Despite very large academic support, fund selection is still dominated by past performance:
  - Most flows concentrate on recent performance “winners”
  - Research demonstrates that past track record have no predictive power on future performance
- The power of the brand is overwhelming and stifles new competition
  - Structural market barriers hamper market process
  - Asymmetric information for fund buyers



# BEFORE AND AFTER: RETURNS OF INVESTMENT MANAGERS (8'755 HIRING DECISIONS OVER 10 YEARS)



Source: Mark Hanson, "Manager selection, deselection, and termination" *Journal of Portfolio management, fund selection 2020, Volume 46, n°5, April 2020*



## WHAT THE RESEARCH TELLS US – POSSIBLE SOURCES OF OUTPERFORMANCE

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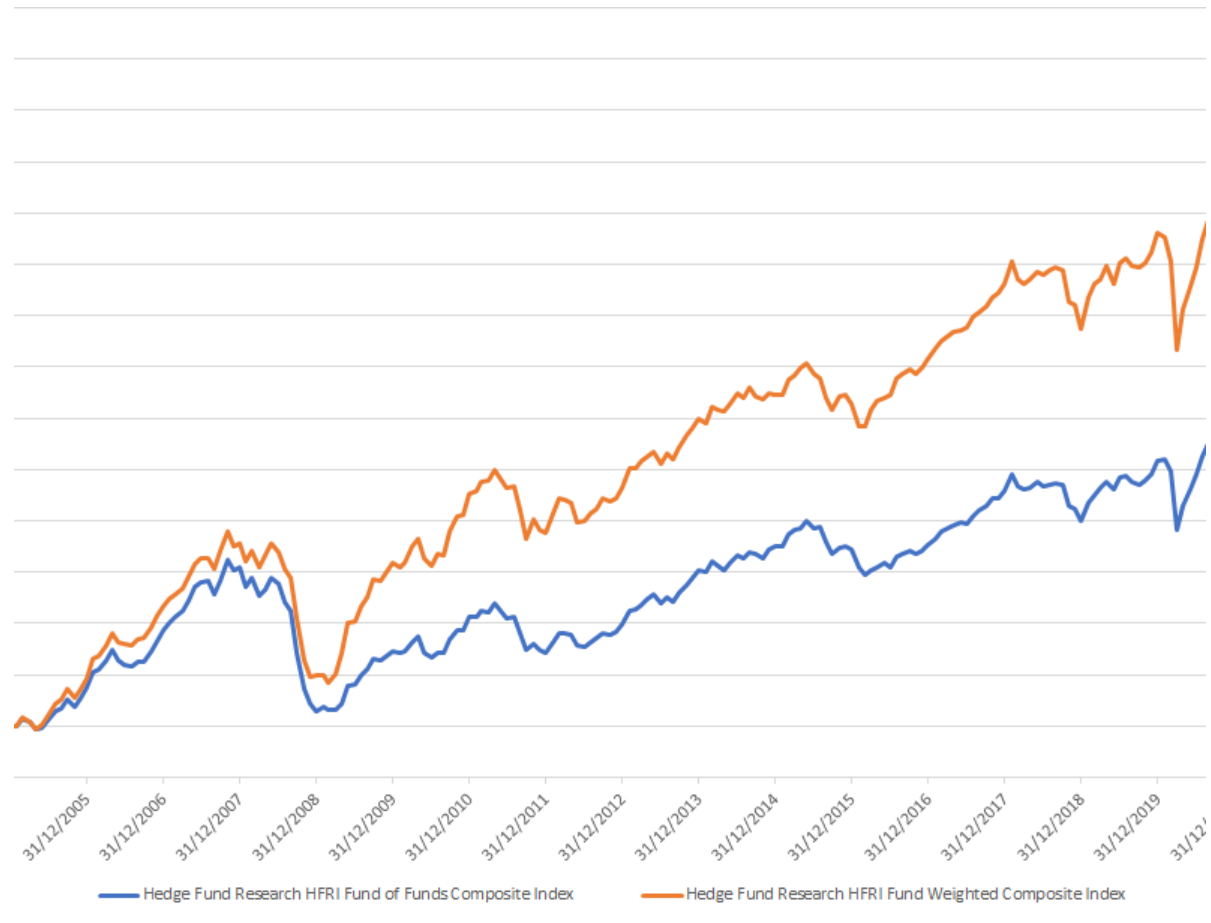
- Boutique players / smaller strategies outperform larger players (Andrew Clare, 2020)
- Soundness of investment thesis
- Performance-linked bonuses
- Employee ownership
- Board of director ownership
- High active share
- Lack of affiliation to investment banks / independence
- Number of PhDs...
- Strong positive culture
- Large opportunity set
- Fees / total costs

PERFORMANCE IS NEITHER LINKED TO SIZE NOR BRAND



# POOR FUND SELECTION IN HEDGE FUNDS

FoHF index vs HF indices





## FEW OBJECTIVE DATA FOR MANAGER SELECTION

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- There are no real comprehensive research for the quality of fund selection / manager selection
- Hedge Fund of Funds is one source of anecdotal evidence, but nothing for long-only managers
- CMA Investment Consultant Market Investigation 2019 in the UK:
  - “On a net of asset management fee basis, we have found little evidence that buy rated products [by the consultants] significantly outperform their respective benchmarks” (pp. 264 ss.)
- Fund buyers remain quite secretive about their selection process and its results



## WIDELY USED SELECTION CRITERIA

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- ANECDOTAL EVIDENCES ARE THAT FUND BUYERS MAKE THE FOLLOWING REQUIREMENTS WHEN BUYING FUNDS:
  - Brand
  - Minimum size (despite UCITS rules and academic research)
  - Minimum track record
  - Maximum fees (not in all markets)
- SOME OF THESE CRITERIA DO NOT EVEN FIT THE CLIENTS' NEEDS:
  - Availability on a platform
  - Wide tax reporting
  - Payments of rebates (yes, still exists)
- NONE OF THESE CRITERIA HAVE BEEN CONFIRMED BY RESEARCH TO BE SOURCES OF ALPHA

STRUCTURAL ISSUES HAMPER FREE COMPETITION





## THREE OBSTACLES TO FUNCTIONING AND COMPETITIVE MARKET

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1. Behavioural
2. Structural
3. Agency conflicts



## BEHAVIORAL ISSUES

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- Confirmation biases:
  - Over reliance on past performance despite the evidence:
    - Top rated funds tend to attract most flows
  - “No one has ever been fired for choosing IBM...” → the power of brands
  - Halo effects linked to the management of the sale process (quality of presentation, etc...)
  
- Risk asymmetry:
  - Avoid a bankruptcy /fraud at all costs → loss aversion
    - At the level of the selector
    - From the management and the board
  
- No objective measure of performance



## STRUCTURAL ISSUES

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- The power of fund platforms is overbearing on fund distribution:
  - Creation of a private market with club-like characteristics
  - Very expensive for new / smaller players
  - Effective hard barrier to entry
  - Very demanding from a structural perspective (registrations, tax reporting, etc...)
  
- Regulations favour larger players, especially since 2008:
  - SFDR is clearly going to screen out smaller fund managers
  - Increasing barrier to entry
  
- Still no common market in financial products:
  - National champions are still dominant players in key markets



## AGENCY CONFLICTS

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- The cost of complexity:
  - The providers of market infrastructures deliver «utility-like» services but have an interest to reduce their own cost at the expenses of smaller players
    - ➔ they aim to diminish the number of funds on their platforms
  
- There is no objective, widely used and independent assessment of performance for platforms or fund buyers:
  - The H2O or Woodford stories
  
- Large competition from in-house products
  - Large fund buyers are conflicted when they manage their own products internally



## SOME POTENTIAL REMEDIES

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- Objective and independent performance measurement that is widely available:
  - Similar to what Private Client Indices from ARC has done in the UK;
- A regulatory level-playing field:
  - Put fair competition and market access at the centre of the rule making process:
    - Measure market impact of new measures;
  - Include more feedback from boutiques / smaller players for new regulatory initiatives;
  - Regulate platforms to ensure fair competition;

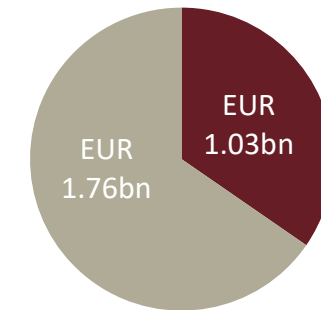
AS PROVOCATIVE AS IT MAY SOUND, THE ONLY REASON FOR THE EXISTENCE  
OF OUR INDUSTRY SHOULD BE A PROVEN ABILITY TO GENERATE AFTER-FEE  
RETURNS ON A RISK ADJUSTED BASIS  
➔ PROFIT MAXIMIZATION ON SAVINGS



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- Independent asset management group
  - 100% employee-owned
  - EUR 2.79bn in AuM, invested in listed markets and private equity strategies
  - High conviction investment strategies based on original financial and ESG research
- Clients comprising major European institutional investors
  - Public entities, funds of funds, asset managers, insurance companies, pension funds, banks, family offices and foundations
- 70+ strong multicultural and multidisciplinary team spread across 5 European offices
  - Expertise in a variety of financial, operational, legal, risk management and technical fields
- Regulated by the FINMA (CH), the AMF (F), and the FCA (UK)

Assets under Management  
May 2022 – EUR 2.79bn



■ Private Equity - Infrastructure  
■ Listed strategies



Source : QUAERO CAPITAL, as of 31.05.2022



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# Comments, Questions & Answers







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# Thank You For Listening

## Forthcoming Events

- Mon, 20 Jun (10:00-10:45)      Corruption, Capital, Power: Today's World Through The Lens Of Corruption
- Tue, 21 Jun (16:00-16:45)      No More Dead Polar Bears: Art For Sustainability Engagement
- Thu, 23 Jun (15:00-15:45)      Share Schemes And The Impact Of Inflation
- Tue, 28 Jun (16:00-16:45)      Carbon Emission Accounts & Datasets For Global Corporates

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