

# Manager Intelligence and Market Trends

May 2020



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bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 370 clients in 38 countries and now has eight offices in seven countries. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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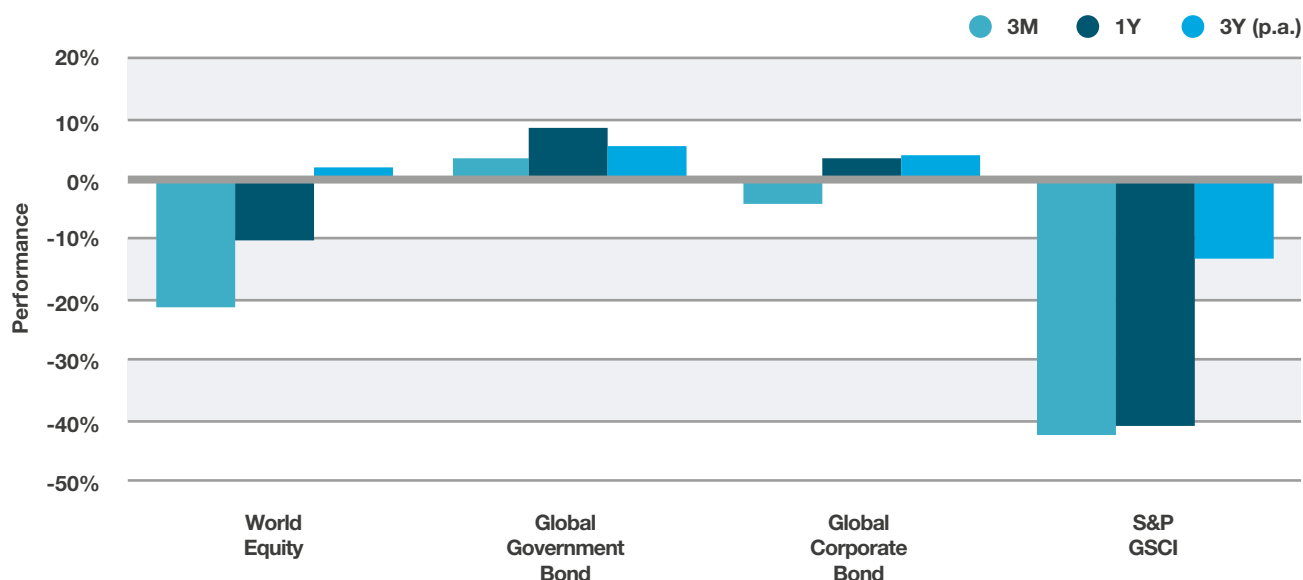
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## At a glance...

- Rather than a slowdown in manager search activity, Q1 brought a rise in new mandates launched by bfinance clients. This was particularly true in private markets, which represented 52% of all searches initiated in the quarter.
- Most equity searches in 2019 had a quality or defensive undertone and these styles were strongly rewarded in Q1: a composite of quality-focused active equity managers outperformed the MSCI World by almost 8% and also beat quality-tilted indices. ESG strategies, strongly associated with the quality factor, also outperformed.
- Investors await valuation “capitulation” in private markets, with the buyer-seller expectation mismatch likely to take a further one or two quarters to resolve.
- It was a rough quarter for investment grade credit managers who struggled to beat their benchmarks due to high credit risk exposure: only 32% of European active managers beat the benchmark in March, as did 40% of US active managers. High yield bond managers, on the other hand, benefited from being conservatively positioned relative to their benchmarks.
- Multi Asset strategies continue to dominate new mandates in the liquid alternatives sector, in part due to the trend towards “outcome-oriented” or “sector-agnostic” manager searches. Certain sectors within Multi Asset showed impressive resilience in Q1, with the GARS cohort down just 2.1%.

### PERFORMANCE OF PUBLIC MARKETS TO END OF MARCH 2020



Source: bfinance/Bloomberg

## Risk snapshots

> Multi asset managers cut equity exposure amid drawdown of record-breaking speed

Risk appetite barometer,  
Q1 vs Q4



Risk Averse (Scared)

Risk Seeking

Manager positioning barometer,  
Q1 vs Q4



Bearish

Bullish

■ Q1    ■ Q4

Source: bfinance (see page 5)

## Risk snapshots continued

### Risk aversion

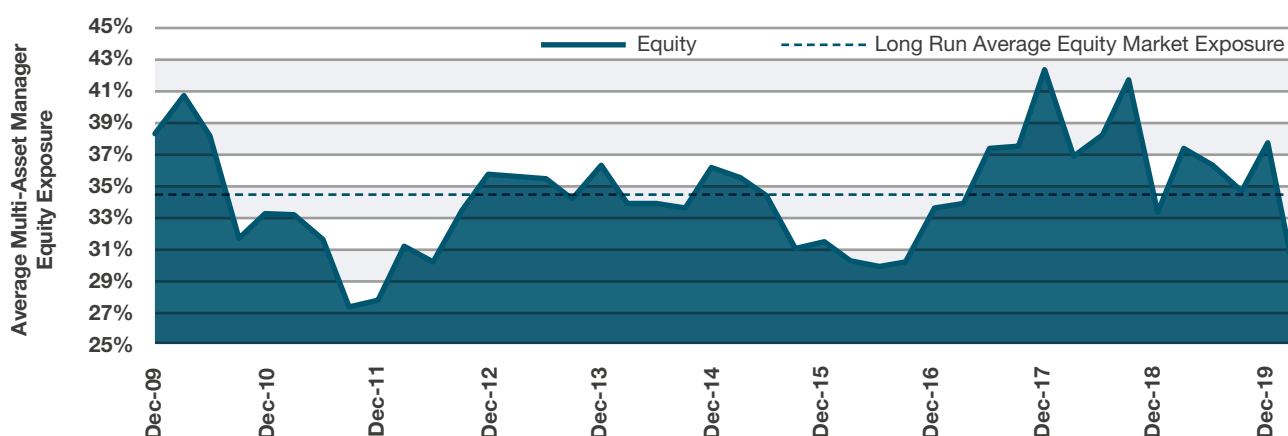
Multi asset managers cut their risk asset positioning substantially in Q1, ending the period with average weightings to risk assets (e.g. equities) of less than 30% - substantially lower than the long-run average of around 34.5% and the lowest level since 2011-12.

Incidentally, the speed at which funds cut exposure during the early part of the downturn proved to be a key differentiator in the performance of multi asset

managers, with more reactive strategies – or those with shorter lookback windows – generally doing better. (Source: [Are Multi Asset Managers Delivering for Investors? April 2020.](#))

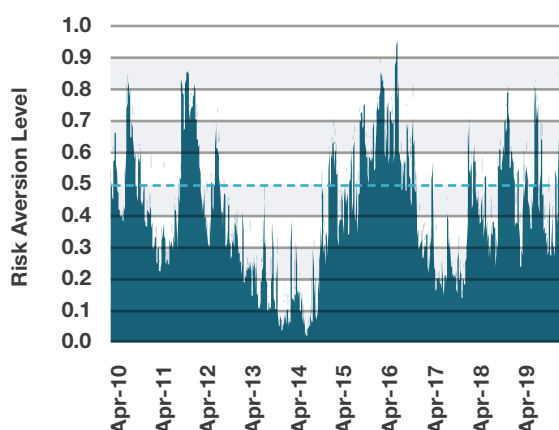
The bfinance Risk Aversion Index has, as one would expect, leaped to its highest level in more than ten years, driven by a range of indicators (implied volatilities, gold prices, CDX etc).

### MARKET POSITIONING OF MULTI-ASSET FUNDS



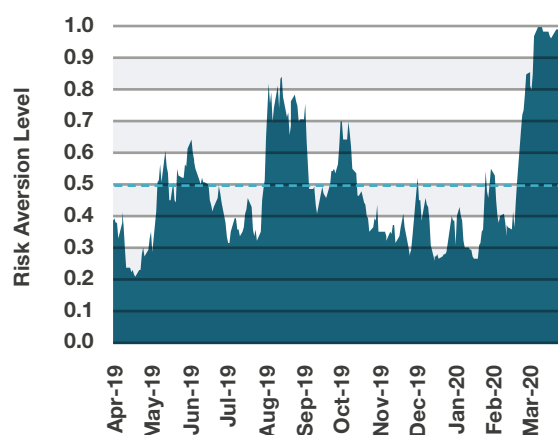
Source: bfinance. This graph shows the current and average exposure to equities held by a range of multi-asset managers. This is based on proprietary analysis performed by bfinance. The managers analysed vary in strategy from macro and GTAA through to bottom-up allocation strategies.

### THE BFINANCE RISK AVERSION INDEX: 10-YEAR VIEW



Source: bfinance/Bloomberg

### THE BFINANCE RISK AVERSION INDEX: 1 YEAR VIEW



Source: bfinance/Bloomberg

The bfinance risk aversion index is a proprietary measure we use to calculate how risk seeking (nearer zero) or risk averse (nearer 1) the market consensus is. It ranges between 0 and 1. The internal algorithms used incorporate indicators of market expectations of future volatility (e.g. implied volatilities in equities and FX), the level of classic safe haven investments (gold) and market expectations of corporate default (e.g. CDX).



## Risk snapshots continued

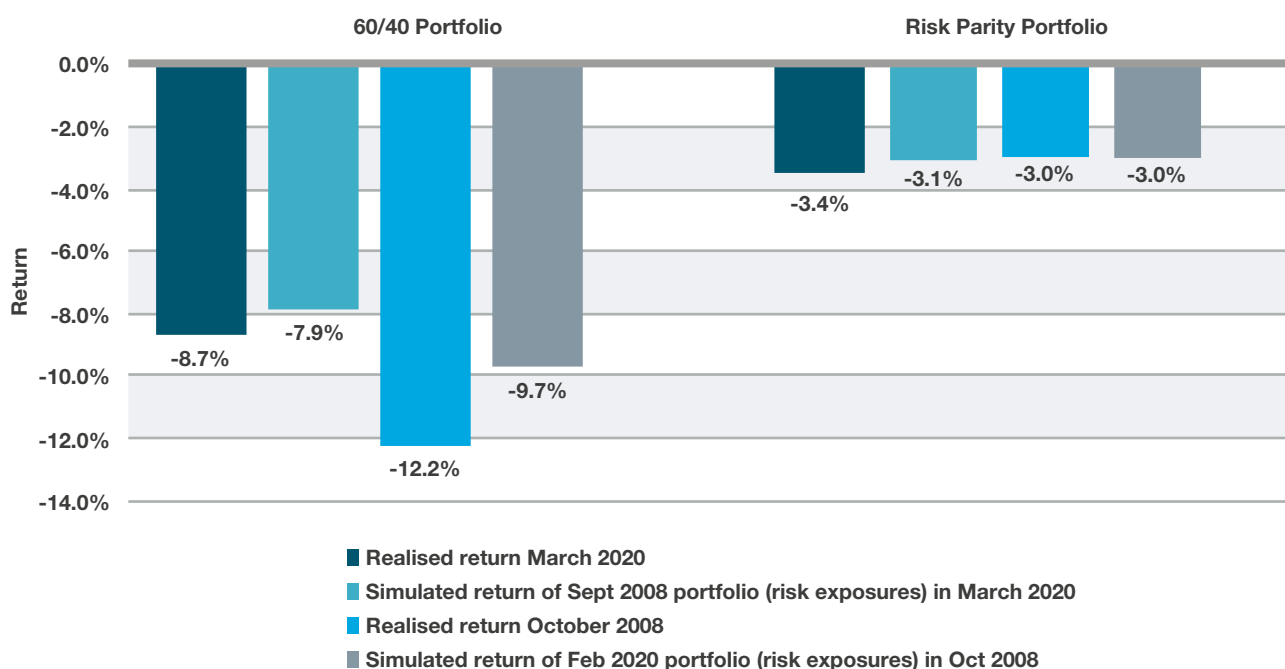
### Drawdown Analysis

How do the returns experienced during the March '20 drawdown compare with those faced by investors at the height of the '08 crisis? Evidently these are two very different scenarios with different fundamentals, different drawdown speeds (2020 being far quicker) and a rapid V-shaped recovery in the case of 2020.

The chart below shows the performance of two types of portfolio: one comprising a classic 60/40 equity/bond mix and the other based on a risk parity model. It is initially obvious that the realised returns for a 60/40 portfolio were considerably worse in October 2008 than they were in March 2020, while the opposite is true (albeit only marginally so) for risk parity. This is driven in large part by the rebound in stocks at end-March.

Yet greater clarity can be found when we consider the underlying risk exposures. Markets are driven more strongly by different factors, such as value or momentum, at different times. The risk profile of the 60/40 portfolio in September 2008 is not the same as the risk profile of the 60/40 in February 2020, with the most powerful distinction being materially higher equity beta in the former. If we take a model portfolio whose risk exposures match those in February 2020 and run it through the October 2008 scenario, it would have lost substantially less (-9.7%) than the actual portfolio of the time (-12.2%) - indeed, it would have lost only 1% more than it did in March (-8.7%). In other words, these downturns are more comparable in terms of magnitude than they may at first seem. Such lenses reiterate the importance of understanding portfolio risk exposures as opposed to looking purely at asset allocation percentages.

### RETURNS AND RISK EXPOSURES: MARCH 2020 VS. OCTOBER 2008



Source: bfinance. Portfolios based on MSCI ACWI and Bloomberg Barclays Global Aggregated USD Hedged. Risk exposures calculated using proprietary bfinance models.

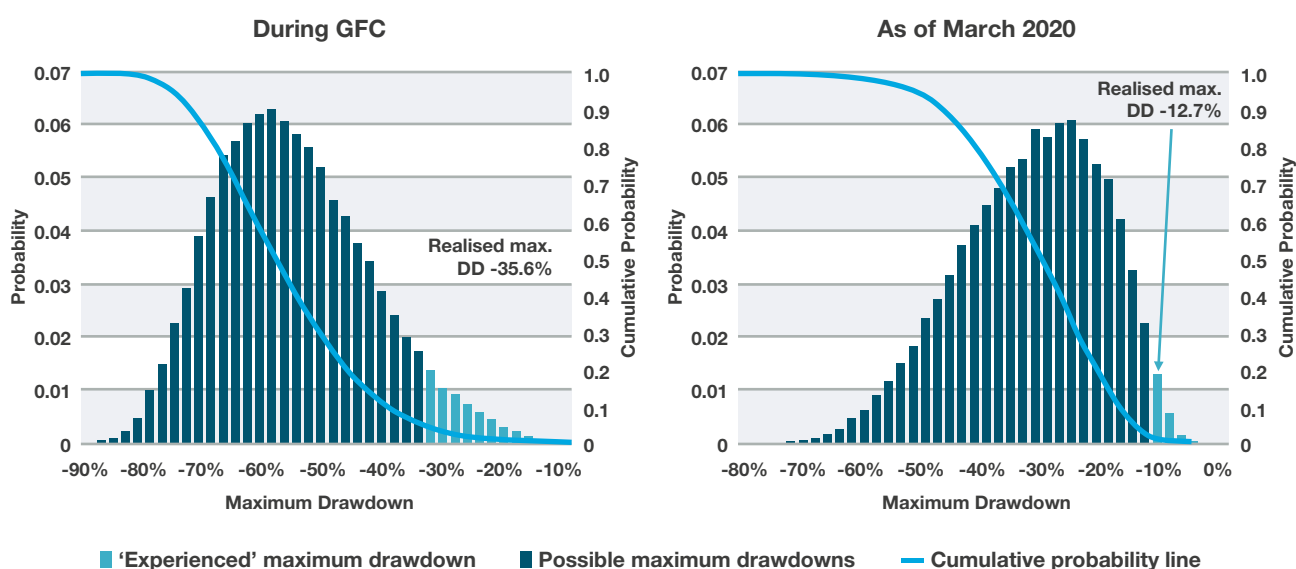
# Risk snapshots continued

## Drawdown Analysis continued

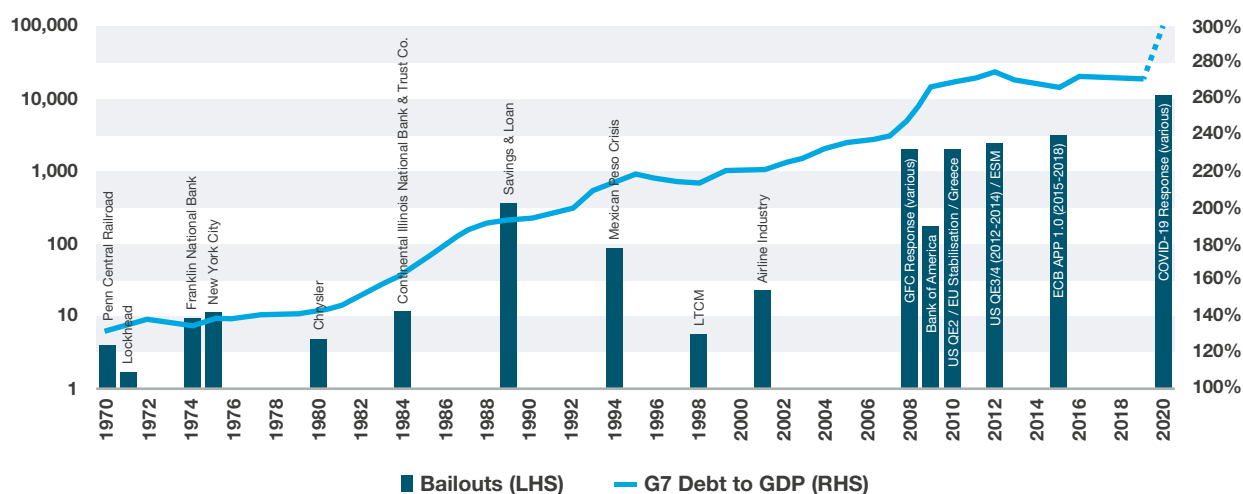
While current drawdown risk is heightened, drawdown models (such as the ones shown here) are reactive to market prices. One should not, however, underestimate the potential downside. Can governments and central banks continue to support the economy and markets, on the back of the unprecedented bailouts which are now in progress?

To what degree can solvency issues at a company level be absorbed? How will economic activity pick up? What other unprecedented events will occur, such as the negative oil spot price? Current market returns do not appear to reflect the risks fully.

## SIMULATED DRAWDOWN DISTRIBUTIONS OF A 60/40 PORTFOLIO



## CHART OF THE QUARTER: DEUTSCHE BANK SHOWS AGGREGATED MONETARY AND FISCAL BAILOUTS THROUGH RECENT HISTORY (IN 2020 USD, ON A LOG SCALE (\$BN) VS. G7 DEBT TO GDP)



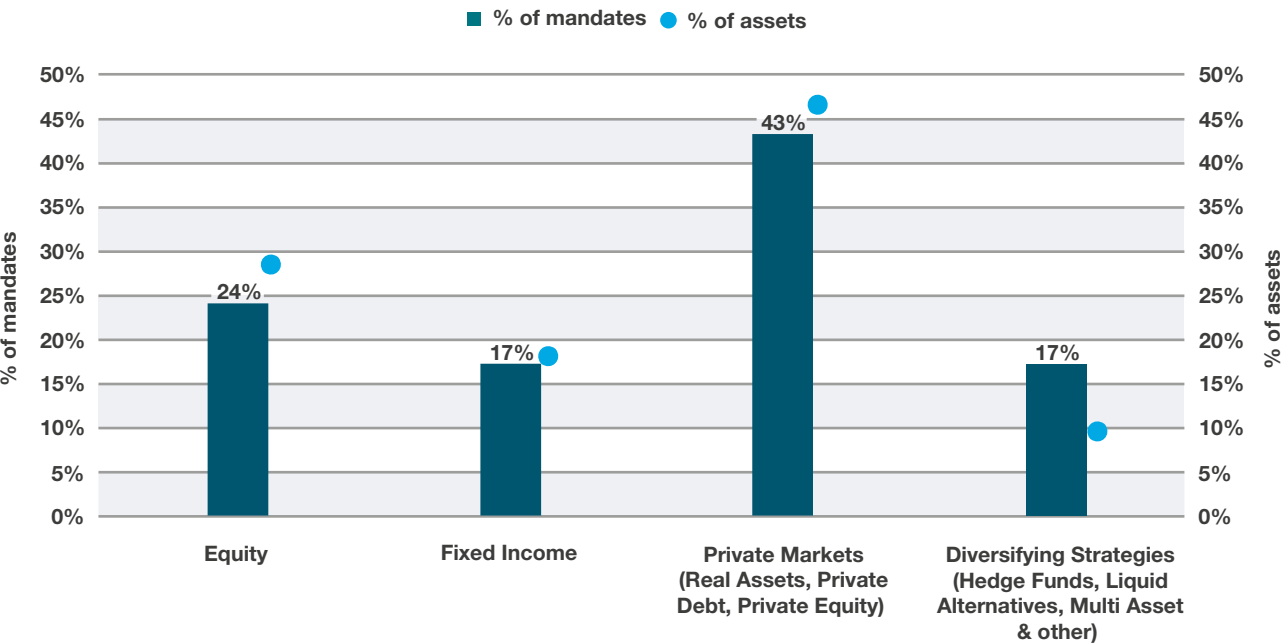
Source: Deutsche Bank, Haver, IMF

# Investor activity



New manager searches rise amid COVID-19 crisis

NEW MANAGER SEARCHES, 12 MONTHS TO MARCH 31ST 2020 (BY ASSET CLASS)



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.



## Investor activity continued

New searches for **private markets strategies** are becoming increasingly prevalent as a proportion of all new mandates from bfinance clients. Private markets (including private equity, real estate, infrastructure, private credit and others) represent 43% of all searches initiated in the twelve months to March 31st 2020, and a record **52%** of those initiated in Q1.

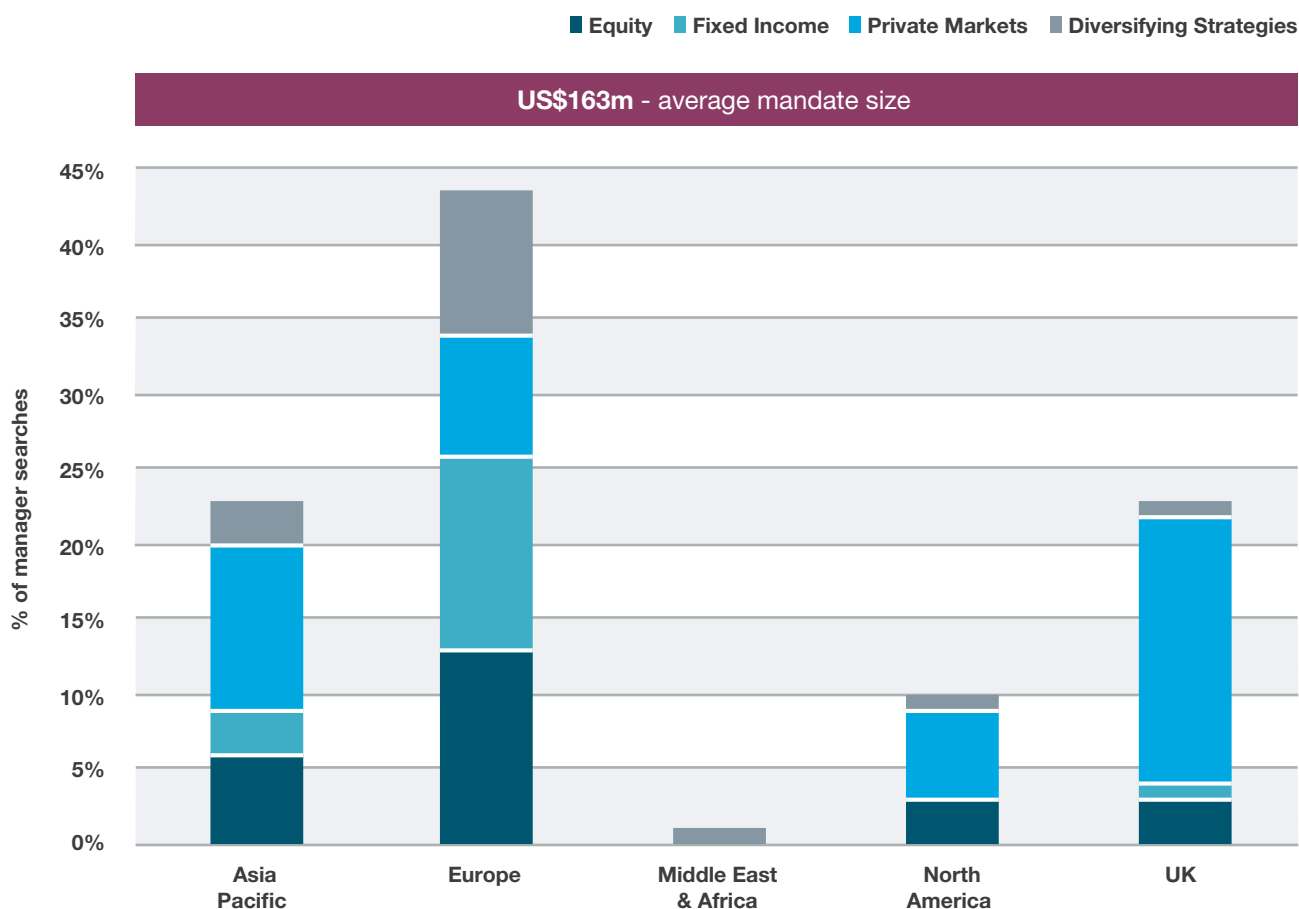
Indeed, Q1 has not only seen a surge in private markets activity but a surge in search activity overall. The quarter saw 32% of the year's new mandates, and the number of searches was up 17% against Q1 2019.

This activity falls into two main categories: investors proceeding with their previous plans across all asset

classes despite the COVID-19 turmoil and investors seeking to position themselves appropriately for a new environment, although the latter is still at a very early stage and we have not yet seen activity based on terminations. Private markets strategies are a logical beneficiary of current conditions, given the historically outstanding results of post-crisis vintages and the lower sensitivity to market timing: the date of the commitment does not determine the date of entry, since – depending on the strategy – it can take months or years for money to be deployed.

Within equities, fixed income and liquid alternatives we continue to see activity across a range of sectors and strategies, discussed in more detail in the subsequent sections.

### NEW MANAGER SEARCHES (BY INVESTOR LOCATION)



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.

## Investor activity continued

### Investor survey findings

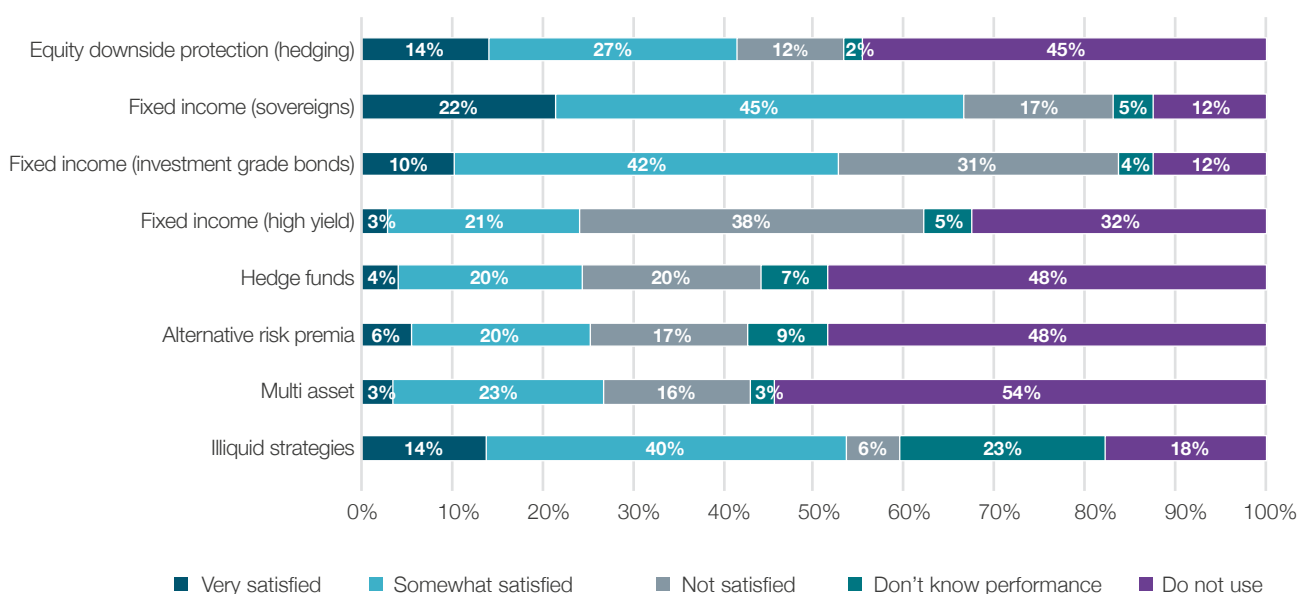
On March 19-20th 2020, bfinance conducted a snap poll of investors to assess their immediate reactions to the COVID-19 crisis, and in particular their level of satisfaction with performance in their portfolios across a range of asset classes. 260 investors across 28 countries, took part. A brief summary of key findings is presented here below. Full data can be viewed in the report of results: [How Are Investors Reacting to the 2020 Crisis?](#)

- More than half of investors had some **equity downside protection** (hedging) in place, and three quarters of those are either “very” or “somewhat” satisfied with how those hedges have delivered.
- Diversification was already seen to be delivering across some asset classes. Around 60% of investors using **investment grade credit strategies** are “very” or “somewhat” satisfied with their performance during the downturn; 35% are “not satisfied.”
- Levels of satisfaction were similar for **multi-asset strategies**, and slightly lower for **hedge funds**.

- Investors were **broadly satisfied with their allocations to illiquid strategies** amid current conditions, having increased those allocations significantly in recent years, although performance is of course a major “known unknown.” A significant minority (13%) say “we should have had more in private markets.”
- One in ten had made “**significant changes to the portfolio**” in previous last three weeks, with a further third making “minor dynamic/tactical adjustments.” A very substantial minority - 27% - were **struggling to rebalance** because of market conditions.
- **Liquidity risk** was the primary concern for the coming weeks.
- There was absolutely **no consensus view on the probable outlook**, with those expecting a more rapid recovery equally weighted against those who didn't.

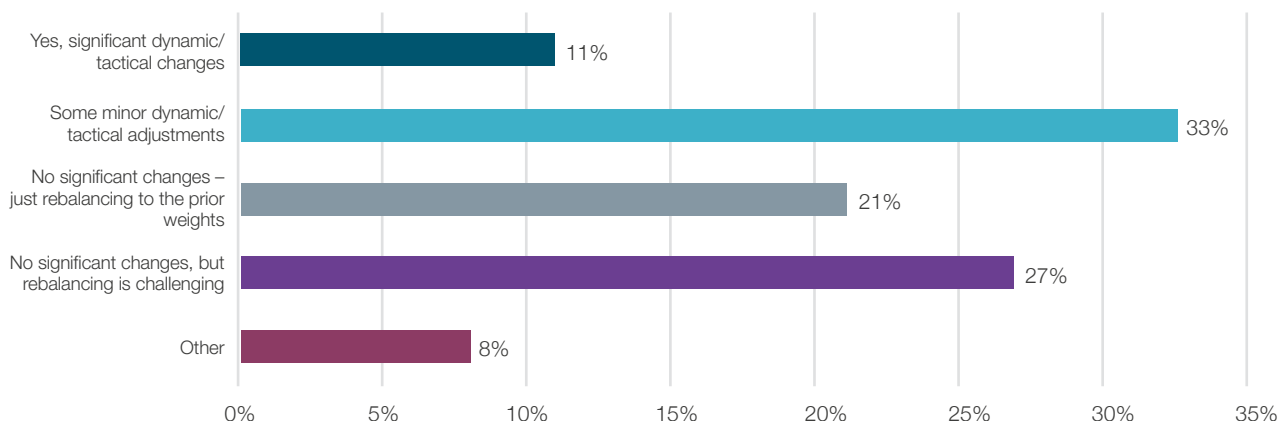
A few key charts from the [report of results](#) are shown here:

### SO FAR IN Q1, HOW DO YOU RATE THE PERFORMANCE OF THE FOLLOWING STRATEGIES IN YOUR PORTFOLIO (WHICH MAY PROVIDE SOME DIVERSIFICATION AGAINST EQUITY RISK)?

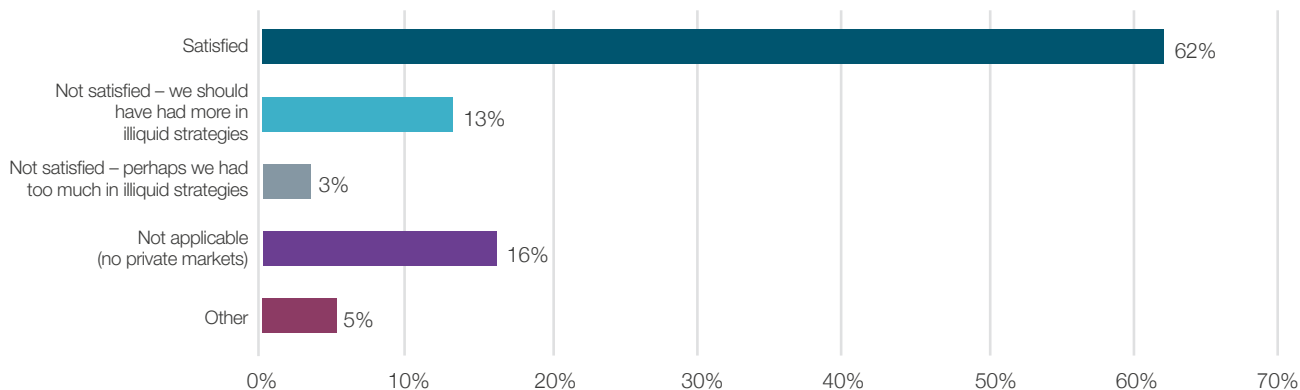


## Investor activity continued

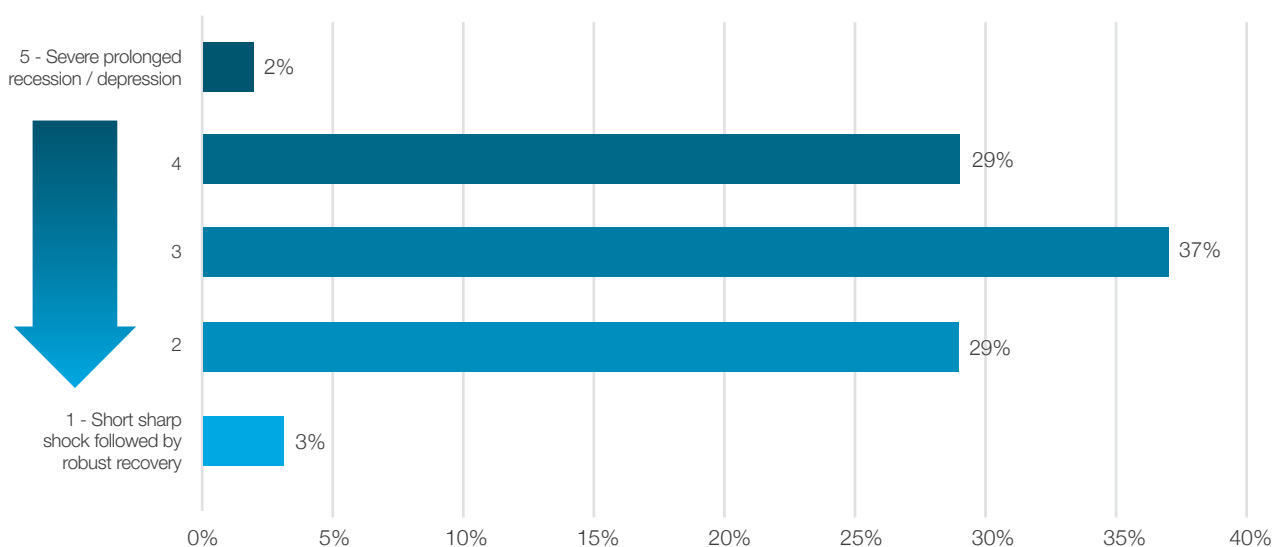
### HAVE YOU MADE CHANGES TO THE PORTFOLIO IN THE LAST THREE WEEKS?



### WHAT IS YOUR PERSONAL VIEW, NOW, ON YOUR ALLOCATION TO PRIVATE MARKETS STRATEGIES?



### NONE OF US CAN TELL THE FUTURE, BUT WHAT IS YOUR EXPECTATION RIGHT NOW FOR THE MOST LIKELY OUTCOME?

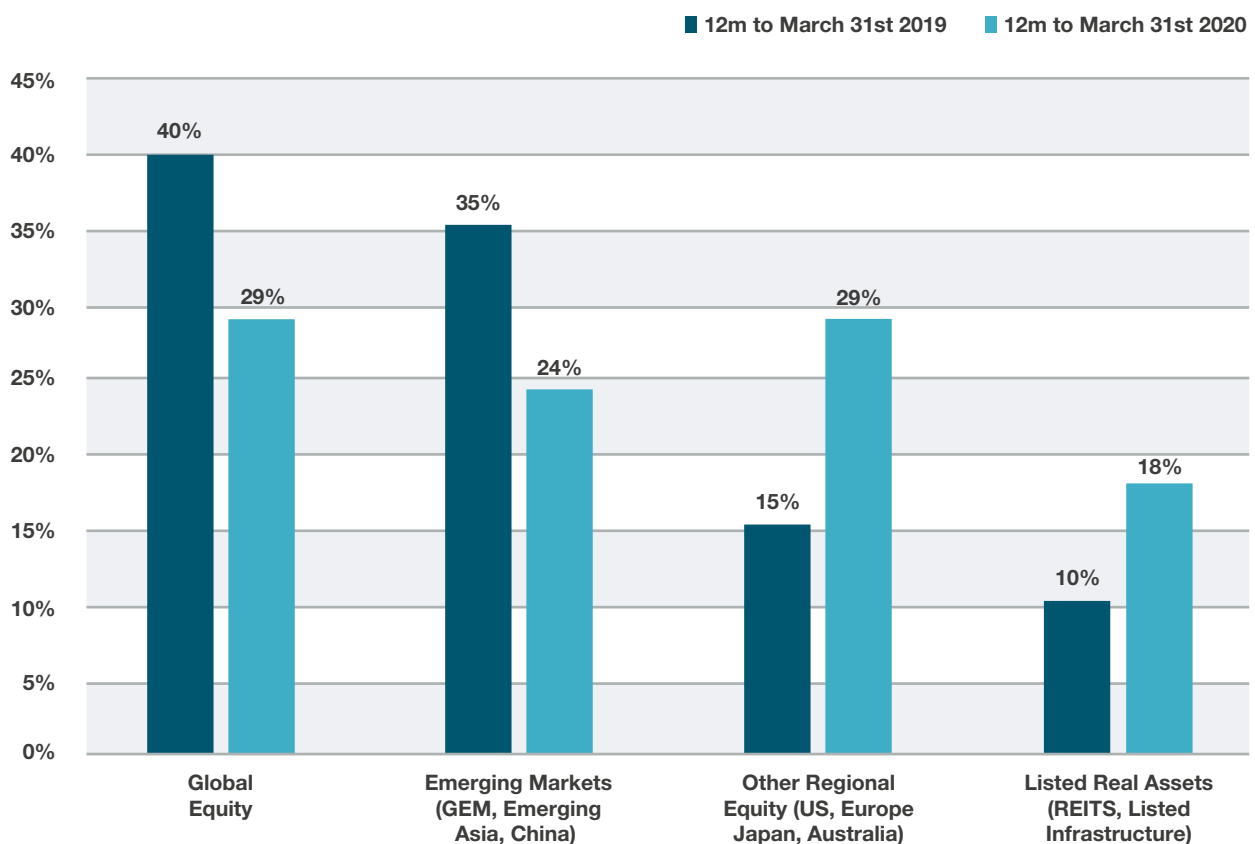


## Equity



Investors' focus on quality is rewarded in Q1 performance

### NEW EQUITY MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.

## Equity continued

### Investor trends

At a high level, year-on-year comparisons of new manager search activity indicate a notable decline in demand for emerging market strategies and a rise in appetite for regional versus global searches (particularly European equities).

Indeed, the shift from “global” demand to “regional” demand is also evident within the emerging markets portion: while GEM demand has declined substantially year-on-year, investors are showing interest in standalone China searches.

Most searches through the twelve months had a core or defensive undertone, whether that takes the shape of a quality focus, low volatility, low tracking error/active risk, or ESG (which is strongly associated with the quality factor). These styles have been strongly rewarded in Q1. There has been no demand

whatsoever for value equity strategies within any region, with few investors apparently willing to bet on a sustained recovery from the style.

Relatively little of the activity through this period constituted ‘new money’ into the asset class: most of these searches have been manager replacements or portfolio restructuring to adjust geographical, style or strategy composition.

We have also seen a continuing rise in searches for listed infrastructure and REITs, reflecting investors building diversified exposure to real assets using public as well as private markets.



## Equity continued

### Market snapshot

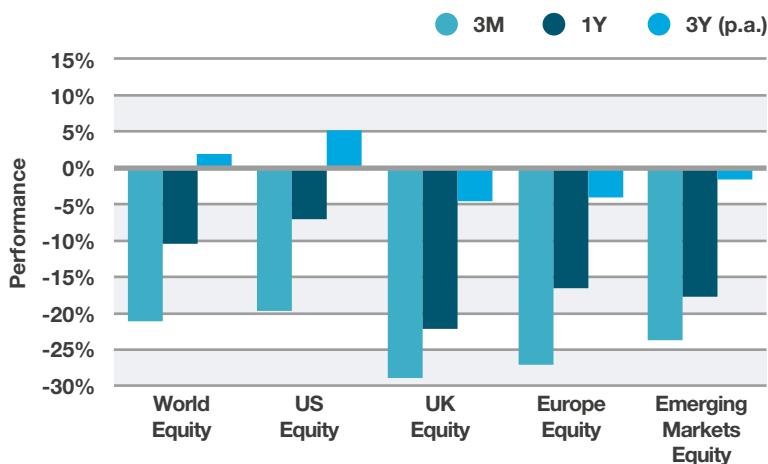
Global equity markets fell sharply in Q1 amid the dual impact of COVID-19 and a collapse in commodity prices. The MSCI World index, down 21.1%, recorded its third-worst quarter in the last 50 years. The sell-off commenced from mid-February with a 33% decline in just over four weeks; the index fell into bear market territory in just 16 days. A strong “bear market rally” in the last week of March saw losses pared back.

The **US** was one of the better performing equity markets in Q1, partly due to its strong start to the year. The Federal Reserve lowered interest rates twice during March and announced unlimited quantitative easing, while the US Senate passed a US\$2trn stimulus package to support households and businesses. Stocks in the energy, financials and industrials sector were hit hardest, while IT and healthcare saw less severe declines with software providers benefiting from the new ‘working from home’ environment.

**Europe**, home to some of the most severely affected countries, saw steeper declines in equities. Defensive sectors such as healthcare and utilities held up best while financials and industrials were among the worst performers. Bank stocks were negatively impacted by regulators pushing for a suspension of dividends and share buybacks until the autumn.

**Emerging markets** fell by 24% overall, although Asia (-18%) outperformed other regions (e.g. EMEA -36%, Latin America -46%), being less severely impacted by falling oil prices and benefiting from some strong government responses to the coronavirus challenge. A strong US dollar was a further headwind for emerging markets.

### EQUITY MARKET PERFORMANCE (TO MARCH 2020)



	YTD USD	YTD LOCAL
World Equity	-21.1%	-20.1%
US Equity	-19.6%	-19.6%
UK Equity	-28.8%	-23.8%
Europe Equity	-27.1%	-25.3%
Emerging Markets Equity	-23.6%	-19.1%

#### Indices Used

World Equity: MSCI World Index in USD and in Local Currency  
 US Equity: S&P 500  
 UK Equity: FTSE 100  
 Europe Equity: Euro Stoxx 50  
 Emerging Markets Equity: MSCI Emerging Markets Index in USD and in Local Currency



## Equity continued

### Manager watch

From an index perspective, value severely underperformed across all regions, with high dividend stocks also lagging. Quality and low volatility stocks outperformed, as they typically do in falling markets. The first six weeks of the year saw growth do well, particularly in the US, so for the full quarter the style appeared relatively strong. Large cap companies significantly outperformed small and mid caps within all regions, with investors favouring the perceived safety and liquidity of large caps in periods of market stress.

Focusing on **global developed equity managers**, we saw particularly strong outperformance from managers with a quality focus (+7.6% relative for the quarter), as well as growth managers (+6.0%) and quality growth (+4.1%). Low volatility managers (+3.1%) performed well during March but struggled earlier in the year, while managers with

a dividend focus (-0.9%) lagged. Value managers underperformed the market significantly, trailing the MSCI World index by more than 6%.

Looking at **global emerging markets**, active managers had an unusually challenging quarter. Stock returns indicate that the only mainstream style factor rewarded was quality and there are relatively few managers with a pure quality focus. Within EM, active returns were driven more by stock, sector and country selection than style. Reviewing the performance of manager composites, quality growth managers outperformed the index by an average of 2.6%, followed by growth (+2.0%), low volatility (+0.8%), core (-0.4%) and income (-1.0%). As in developed markets, value managers were materially behind in EM, on average underperforming by 5.7%.

To find out more, listen back to the April 2020 webinar: [How Are Asset Managers Performing?](#)

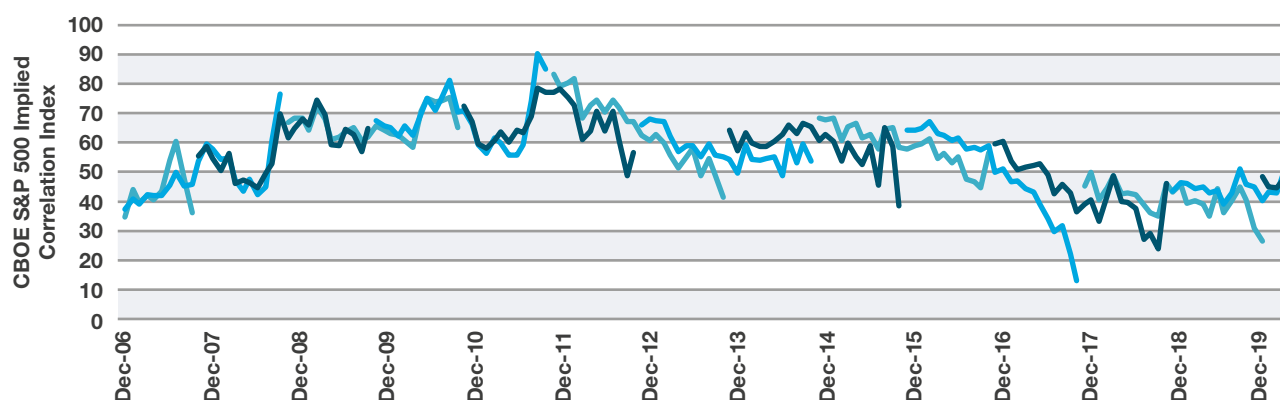
### MANAGER PERFORMANCE (TO MARCH 2020)

	3m	1Y	3Y (p.a)	5Y (p.a)
<b>Global Equity Composite*</b>	<b>-19.0%</b>	<b>-8.9%</b>	<b>4.2%</b>	<b>5.4%</b>
MSCI World	-21.1%	-10.4%	1.9%	3.2%
MSCI ACWI	-21.4%	-11.3%	1.5%	2.8%
<b>Outperformance VS MSCI World</b>	<b>2.1%</b>	<b>1.5%</b>	<b>2.3%</b>	<b>2.1%</b>
<b>Outperformance VS MSCI ACWI</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.7%</b>	<b>2.5%</b>
<b>Global EM Composite*</b>	<b>-24.1%</b>	<b>-16.6%</b>	<b>-0.8%</b>	<b>1.1%</b>
MSCI EM Index	-23.6%	-17.7%	-1.6%	-0.4%
<b>Outperformance</b>	<b>-0.5%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>1.4%</b>

Source: bfinance/Bloomberg

The Global Equity Manager and Global EM Manager composites show the performance of a sensible and representative sample of managers that invest in global equities and global emerging markets equities respectively. We use these composites as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

## CORRELATIONS BETWEEN STOCKS



CBOE indices measures the implied correlation between stocks that make up the S&P500. The series measures the expected average correlation of price returns of S&P 500 Index components, implied through SPX option prices and prices of single-stock options on the 50 largest components of the SPX for different maturities.

## News from the equity manager world

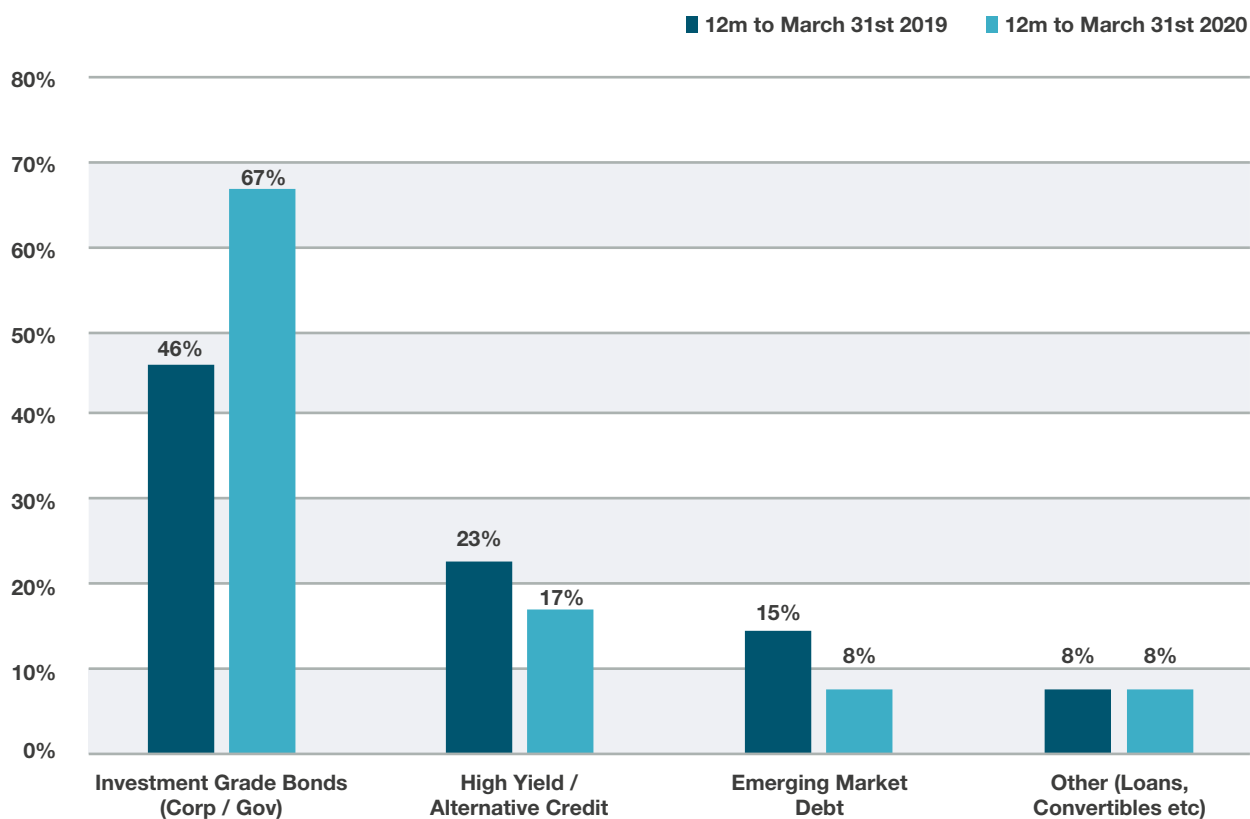
- > Andrew Paisley is appointed Global Head of Smaller Companies at **Aberdeen Standard**, succeeding Harry Nimmo.
- > Andrew Swan leaves **BlackRock**, where he was Global Head of Emerging Markets Equity, and joins **Man GLG** as Sydney-based Head of Asian (ex-Japan) Equities, starting in Q3.
- > Stephen Andrews and Gordon Fraser are promoted to co-Heads of Global Emerging Market Equities at **BlackRock**, replacing Andrew Swan.
- > Emerging Markets equity portfolio manager Ric Torres retires from **Capital Group** in June.
- > Vincent Houghton retires from **Comgest**, where he was an Emerging Markets equity portfolio manager.
- > **Federated Investors** and **Hermes Investment Management** combine to become Federated Hermes.
- > **Franklin Templeton** progresses with the acquisition of **Legg Mason**.
- > **Investec Asset Management** completes a de-merger from its parent company, under the rebranded name of '**Ninety One**'.
- > **Jupiter Fund Management** announces the acquisition of **Merian Global Investors**.
- > **RWC Partners** hires a Global Equity Income team of four people, led by Nick Clay, from **Newton** (where they were managing a US\$12 billion portfolio).
- > **Schroders'** James Sym joins **River & Mercantile** in June to manage a suite of European equity strategies.

## Fixed income



COVID-19 climate  
brings high yield back  
into focus

### NEW FIXED INCOME SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.

## Fixed income continued

### Investor trends

The last year has seen new fixed income manager searches leaning strongly in favour of more conservative fixed income strategies (particularly Investment Grade Credit), with somewhat less appetite for High Yield, Alternative Credit and Emerging Market Debt. At present, we are working with various clients to help them identify strategies better-suited to the new regime, with particularly strong interest in High Yield, Leveraged Loans and Structured Credit.

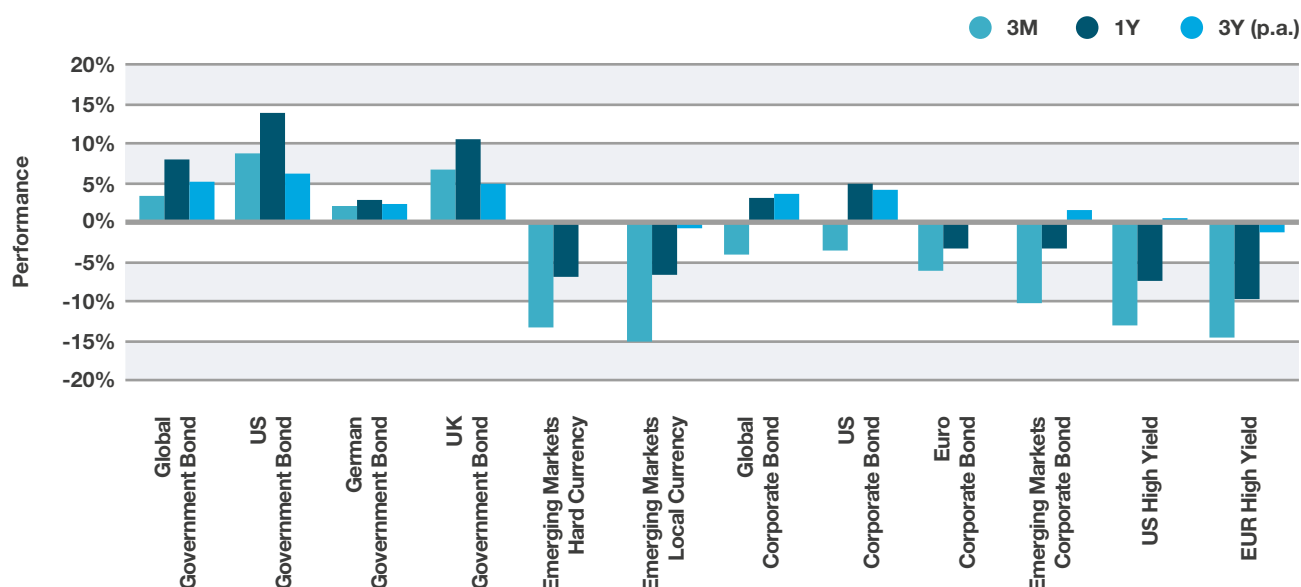
### Market snapshot

**US investment grade credit** returned -3.4% in Q1, with spreads widening from 165bps (December 2019) to 292bps. Concerns around the impact of COVID-19 triggered a rapid sell-off, magnified by outflows in ETFs and mutual funds, and a more classic flight to safety with the UST 10Y yield compressing (down to 0.32% on March 9th). The prospect of fallen angels provoked concerns, with rating agencies downgrading USD 94bn of bonds (including 35bn of Ford) to high yield in March (see [Will Fallen Angels Reveal Fixed Income's Saints and Sinners?](#)). US stimulus packages provided

some reassurance and liquidity, bringing a month-end rally which favoured higher-rated credit. While higher-rated bonds outperformed, conservatism did not pay off until late-March. **European investment grade credit** suffered more, delivering -6.2% in Q1 with spreads widening by 149bps to reach 252bps. Falling rates did little to offset this, with Bund yields already in negative territory across much of the curve.

**US high yield bonds** have lost 12.6% in March and 14.3% YTD, with spreads widening by 525bps YTD to reach 949bps; that widening was most severe in CCCs and Energy. While all sectors posted negative returns in March, some defensive industries such as Telecoms, Cable/Satellite and Utilities offered relative resilience. As in investment grade credits, March can be divided in two with a fall of 18.9% followed by a recovery of 7.8%: much of this roller coaster was driven by ETFs. **Euro high yield** bonds lost 15.2% YTD, despite a strong rally in the final week of the quarter, with spreads widening by 426bps in Q1. Higher rated bonds marginally outperformed, but BBs still lost 13.1% in the quarter.

### PERFORMANCE OF BOND MARKETS TO END OF MARCH 2020



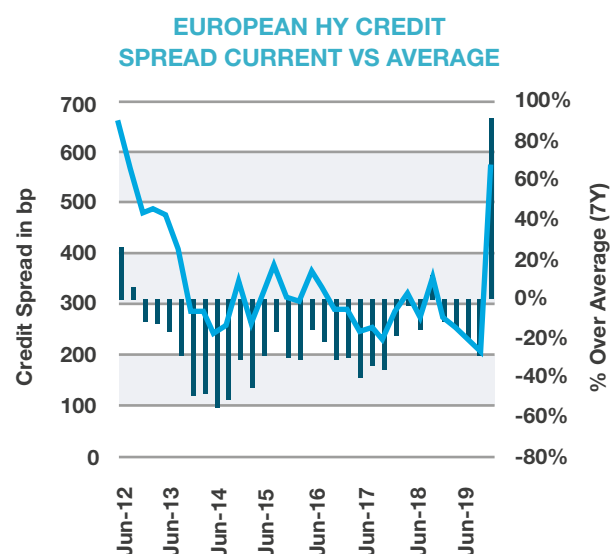
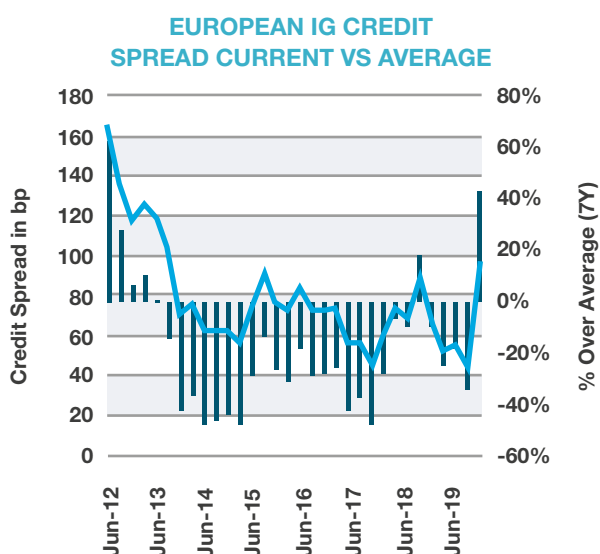
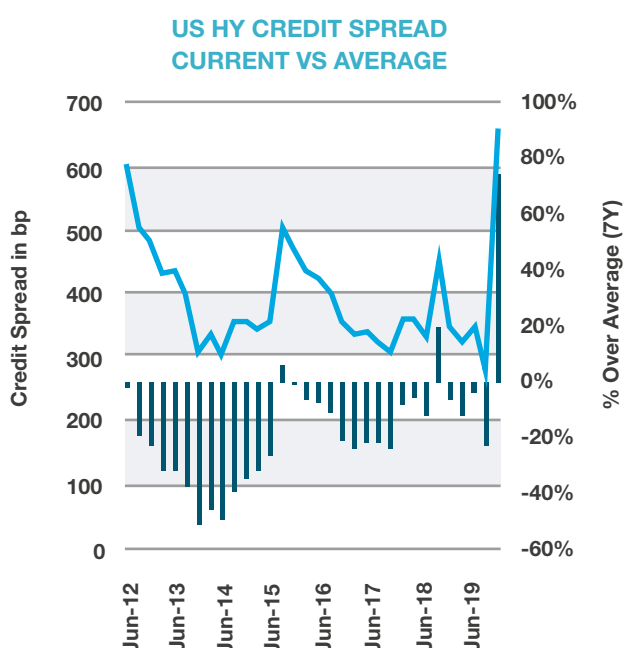
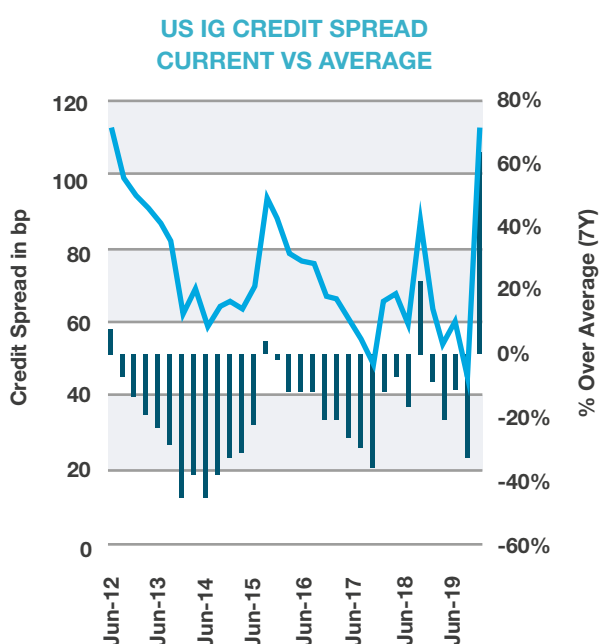
Source: Bloomberg, JP Morgan. All data in USD, hedged or unhedged. Contact bfinance for index queries

# Fixed income continued

## Market snapshot continued

**Hard Currency EM Debt** had its third-worst month on record, losing 13.9% in USD terms. Commodity exporters such as Ecuador, Venezuela and Nigeria suffered most while Asia and Eastern Europe gave some respite. **EM Corporate Debt** delivered -11.5% with Latin America and Africa suffering the worst results. There was particular pain for Transportation (-27%), Metals & Mining (-17%) and Oil & Gas (-16%), while the best protection was found in local banks. **Local Currency EM**

**Debt** was down 11.1%, with severe losses for some of the biggest issuers (South Africa -20%, Mexico -17%). Losses were driven primarily by currency movements, with the rates component outperforming (-2.46% when hedged to USD). Like developed economies, EM governments seem happy to ease fiscal and monetary policies and let weakening currencies act as shock-absorbers. Chinese local debt, a new entrant in the JP Morgan GBI-EM index, lost just 0.3%.



Source: bfinance, Bloomberg.

## Fixed income continued

### Manager watch

Only 32% of active managers in Euro **Investment Grade Credit** outperformed their benchmark in March, as did 42% of their US peers. This is due to managers generally being long risk versus their benchmark as the coronavirus struck. The median active manager in the US underperformed the index by -0.40% in March (-0.65% for Q1), while 80% of the managers had relative returns between -2.4% and +2%. The median active manager in Euro IG credit underperformed its benchmark by -0.80%

(-0.55% for Q1), with the bulk of relative returns between -1.5% and +0.6%.

Unlike their investment grade peers, **High Yield** managers had been cautiously positioned for a while, avoiding overleveraged companies and sectors, particularly in energy. As a result they have been more successful in terms of relative returns: roughly two thirds of them outperformed their markets in March, both in the US and Europe.

### MANAGER PERFORMANCE (TO END MARCH 2020)

	3m	1Y	3Y (p.a)	5Y (p.a)
<b>US Investment Grade*</b>	<b>-4.28%</b>	<b>4.17%</b>	<b>4.10%</b>	<b>3.60%</b>
Barclays US Corporate IG	-3.63%	4.98%	4.20%	3.36%
Outperformance	-0.65%	-0.81%	-0.09%	0.24%
<b>Euro Investment Grade*</b>	<b>-6.70%</b>	<b>-3.09%</b>	<b>0.55%</b>	<b>1.12%</b>
Barclays Euro Corporate	-6.15%	-3.38%	0.19%	0.71%
Outperformance	-0.55%	0.29%	0.37%	0.41%
<b>US High Yield*</b>	<b>-12.41%</b>	<b>-6.37%</b>	<b>0.98%</b>	<b>2.73%</b>
BofA ML US High Yield Master II	-13.12%	-7.45%	0.55%	2.67%
Outperformance	0.71%	1.08%	0.43%	0.06%
<b>EUR High Yield*</b>	<b>-13.82%</b>	<b>-8.64%</b>	<b>-0.93%</b>	<b>1.45%</b>
ML European Curr HY Constr. EUR Hedged	-14.63%	-9.75%	-1.31%	0.84%
Outperformance	0.81%	1.11%	0.37%	0.61%
<b>EMD – Hard Currency*</b>	<b>-15.15%</b>	<b>-9.13%</b>	<b>-0.61%</b>	<b>2.58%</b>
JPM EMBI Global Diversified	-13.38%	-6.84%	0.42%	2.82%
Outperformance	-1.77%	-2.30%	-1.03%	-0.24%
<b>EMD – Local Currency*</b>	<b>-16.29%</b>	<b>-7.87%</b>	<b>-1.43%</b>	<b>0.22%</b>
JPM GBI-EM Global Diversified	-15.21%	-6.52%	-0.80%	0.25%
Outperformance	-1.08%	-1.35%	-0.63%	-0.03%
<b>EMD – Corporates*</b>	<b>-13.67%</b>	<b>-6.81%</b>	<b>0.67%</b>	<b>3.02%</b>
JPM CEMBI Broad Diversified	-10.17%	-3.39%	1.56%	3.20%
Outperformance	-3.50%	-3.42%	-0.88%	-0.18%

Source: bfinance/eVestment

The Fixed Income Manager peer groups show the average performance of a sensible and representative sample of managers. We use these peer groups as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.



## Fixed income continued

### Manager watch continued

The **Emerging Market Debt** markets proved challenging for active managers, who were long credit risk before entering March. Only 21% of EM hard currency active managers managed to deliver return in excess of the main index JP Morgan EMBI Global Diversified in March (median performance -1.5% versus benchmark in March, -1.7% in Q1). Meanwhile, only 7% of managers outperformed in EM local currency in March (median -1.5% in March, -1.1% in Q1). Just 11% of EM corporate debt managers beat their benchmarks in March (median -2.5% in March, -3.5% in Q1).

To find out more, listen back to the April 2020 webinar: [How Are Asset Managers Performing?](#)



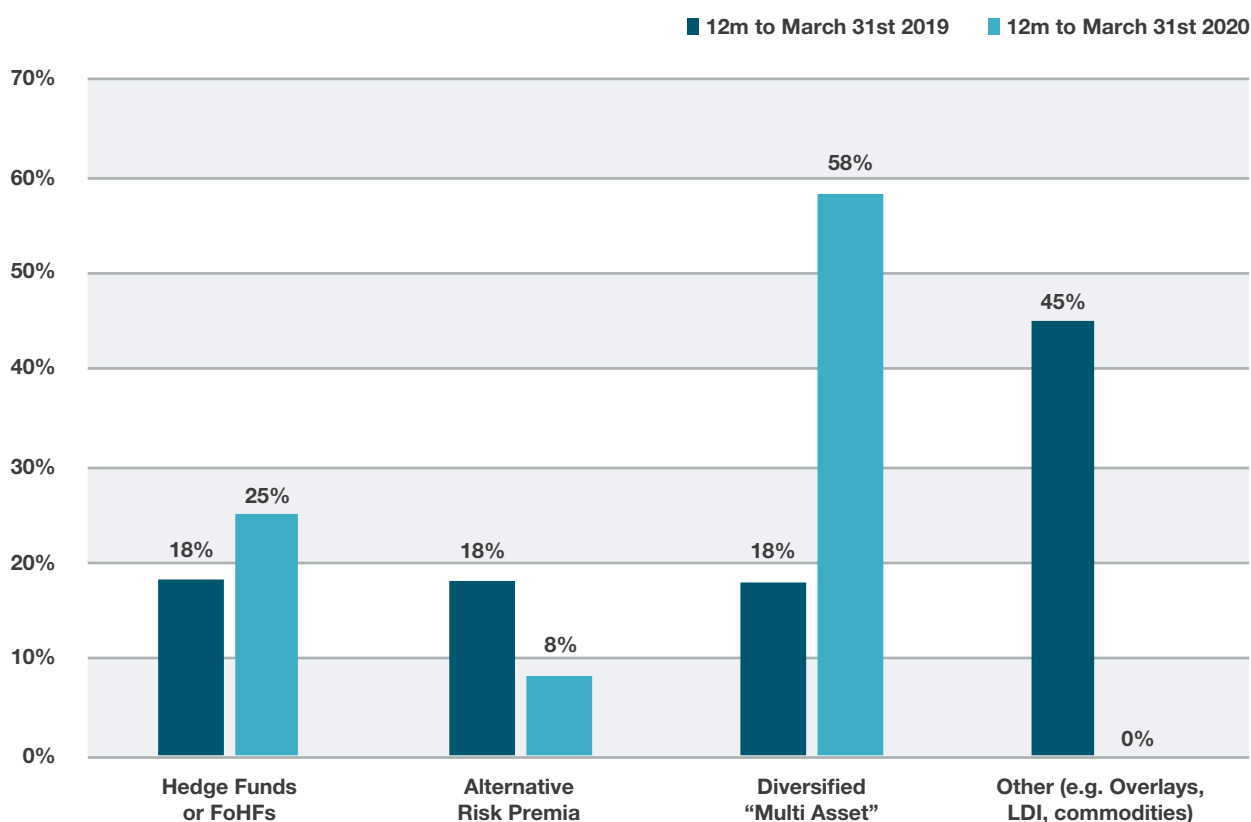
### News from the fixed income manager world

- > Valentina Chen moves to **BMO Global Asset Management** as Co-Head of Emerging Markets alongside Jonathan Mann. She joins from **Vontobel** where she was a portfolio manager for Emerging Markets Local Currency.
- > David Tan retires from **JP Morgan Asset Management**, where he was Head of Global Rates. He was replaced by Seamus Mac Gorain in March 2019.
- > Natalia Bucci moves to **Lombard Odier Investment Managers** as a Senior Portfolio Manager for Global Convertible Bonds. She was formerly Head of Convertible Bonds and Capital Structure Strategies at **JP Morgan**.
- > Keith Davies, Martijn Kleiberg and Patrick Wacker move to **NN Investment Partners** as Emerging Market Debt Fund Managers. Davies joins from **ICBC Standard Bank** in Singapore, Martin Kleiberg from GIB and Patrick Wacker from **UOB Asset Management**.
- > **PIMCO**'s Head of Emerging Market Debt, Michael Gomez, will not return to the company after his six-month sabbatical.
- > Johnny Chen moves to **William Blair Investment Management** as an Emerging Markets Debt Fund Manager focusing on Asian sovereign debt. He was previously at **NN Investment Partners**.

## Diversifying strategies

> Multi-asset searches dominate with investors seeking “outcomes,” not labels

### NEW ‘DIVERSIFYING STRATEGIES’ MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.

## Diversifying strategies continued

### Investor trends

Portfolios of liquid diversifying exposures continue to take many forms, ranging from the single multi-asset absolute return allocation to broad collections of liquid alternative strategies, either held directly or via multi-manager solutions.

Investor activity within the liquid alternative space does not appear to have been materially hampered by the pandemic and we expect this area to be a key area of focus going forwards as investors digest the lessons that emerge from the crisis and continue to build out or install diversifying exposures.

We anticipate that the strong results for certain Multi Asset strategies (particularly Multi Asset Absolute Return) will continue to support investor appetite for this sector going forwards. (Read more: [Are Multi Asset Strategies Delivering for Investors?](#)). Multi Asset manager searches – as shown in the previous chart – have been very popular indeed in the last twelve months, representing 58% of all new liquid alternatives manager searches. In part, this can be attributed to the greater number of

“strategy-agnostic” or “outcome-oriented” manager searches, where investors seek strong diversification and return characteristics but are ambivalent about labels. (Note: hedge funds of various types are often considered in searches of this type, despite the “multi asset” designation.)

Meanwhile, we do not expect a substantial near-term increase in demand for the explicit long-volatility strategies which have performed strongly in Q1, with investor sentiment suggesting that these have done their job for the time being.

We have previously noted a decline in new searches for Alternative Risk Premia strategies – a very popular segment through 2016-18. This sector contributed just 8% of new liquid alternatives mandates in the twelve months to March 31st. Indeed, at an industry level, 2019 saw the first year of outflows from ARP strategies since the birth of this asset class.





# Diversifying strategies continued

## MANAGER PERFORMANCE (TO END MARCH 2020)

	3m	1Y	3Y(p.a)
<b>bfinance Equity Long/Short Composite</b>	-10.29%	-6.01%	0.05%
<b>bfinance Event Driven Composite</b>	-10.34%	-5.87%	1.87%
<b>bfinance Credit Long/Short Composite</b>	-6.44%	-3.54%	0.75%
<b>bfinance Macro &amp; Trading Composite</b>	-4.83%	0.55%	0.76%
<b>bfinance Alternative Risk Premia Composite</b>	-9.32%	-9.86%	-3.30%
<b>bfinance Multi-Asset Composite</b>	-6.91%	-0.48%	2.44%

The Hedge Fund Manager composites show the performance of a sensible and representative sample of each of the main hedge fund strategies. This is restricted to managers that genuinely pursue the relevant strategy rather than generating the majority of their returns from exposure to market direction alone. We use these composites as a proxy for how managers in the space are performing. They do not represent manager recommendations.

Source: bfinance

### Manager watch

Across the liquid alternative universe, outright positive monthly returns were few and far between for the quarter although there were notable bright spots. A 'win' in Q1 constituted limiting losses to the low single digits or better. For many strategies the second half of March proved to be the most challenging period, with widespread de-risking resulting in further downwards price pressure, exacerbated by heightened illiquidity and extremely wide bid/ask spreads.

All bfinance liquid alternatives composites, shown on the following page, posted negative returns for Q1 – predominantly driven by March performance. On a relative basis, as might be expected, the Macro & Trading composite was the strongest performer over this period.

The **Equity Long/Short** composite and the **Event Driven** composite were the worst performers, both losing -10.3% in Q1. Equity Long/Short saw average losses in all three months of Q1, with particularly weak results for Value strategies. Equity market neutral or lower net exposure strategies fared significantly better than their long-biased directional peers, typically constraining losses to within -3%. Managers in the Event Driven composite suffered

from large (and indiscriminate) deal spread-widening as a result of widespread de-risking in mid-March. This materially affected Merger Arbitrage strategies, c. -6% for March. The broader Event Driven space, which is typically more equity-exposed, was harmed by equity declines as well as spread-widening.

The **Credit Long/Short** composite posted losses of -6.4%, almost entirely driven by March. Within the composite we note a high degree of dispersion, with more market-neutral arbitrage strategies generally holding up well through March (losses typically within -3%), whereas the more directional exposed strategies, especially those with long-biased high yield or more structured credit exposures, fared worse.

bfinance's **Macro & Trading** composite lost -4.8% in Q1 - the strongest group here. We note positive performance for trend-following strategies (typically around +5%) in March. Diversified CTA returns were broadly flat to -2% in that month, whilst Macro (both systematic and discretionary) saw similar returns. In the discretionary Macro space we note very broad dispersion in March, with some managers making high single-digit gains or better while others posted losses well in excess of 10%.

## Diversifying strategies continued

### Manager watch continued

The **Alternative Risk Premia** composite struggled in Q1, posting losses of -10.0% across February (-4.0%) and March (-6.1%). March saw strategies focusing on more 'academic' premia faring better than their peers focused on 'practitioner' premia, in contrast to recent years. Equity value continued to struggle and short volatility materially underperformed, while momentum, trend, and equity quality were notable positive contributors.

Finally, the **Multi-Asset** composite reported losses of -6.9% for Q1 20 and generally exhibited solid defensive characteristics throughout the height of the pandemic, with Multi-Asset Absolute Return managers only losing 2.1% on average in March. Unconstrained balanced strategies saw losses of -5% for that month, while Risk Parity managers lost 7% on average with some individual strong performances from those with more tactical / dynamic overlays to their risk parity core.

## News from the alternative manager world

- > **Amundi** acquires Spanish-based Sabadell Asset Management for €430m in cash.
- > **Brummer & Partners** divests from long/short equity manager **Bodenholm**, resulting in the closure of the five-year-old firm.
- > Ewan Kirk becomes president of **GAM**'s dedicated quant division, GAM Systematic. He steps back from his co-CIO role at Cantab, the Cambridge-based firm acquired by GAM in 2016, and is replaced by Tom Howat (CTO) who becomes co-CIO alongside Matthew Killeva.
- > **Fulcrum** launches a new fund (Fulcrum Risk Premia) with \$70m of assets, offering access to Value, Carry and Momentum investment styles in macro assets, avoiding the single name equity factors.
- > Nicolai Tangen becomes CEO of Norway's **Government Pension Fund Global** (SWF). Tangen was the founder of long/short equity manager, Ako Capital.
- > Dutch CTA **Independent View** closes down.
- > The coronavirus turmoil hit a number of alternative strategies hard in March, the most visible of which was **Natixis** boutique **H2O Asset Management**, which saw large losses in most of its funds. Long volatility and some trend-following strategies were the only big winners from the chaos.
- > Some blue-chip hedge fund managers found fundraising opportunity in the market turmoil, with **TCI**, **DE Shaw** and **Baupost** receiving capital for formerly closed strategies.
- > **TT International** closes down its event-driven strategy with the PM team moving to **Millennium**.

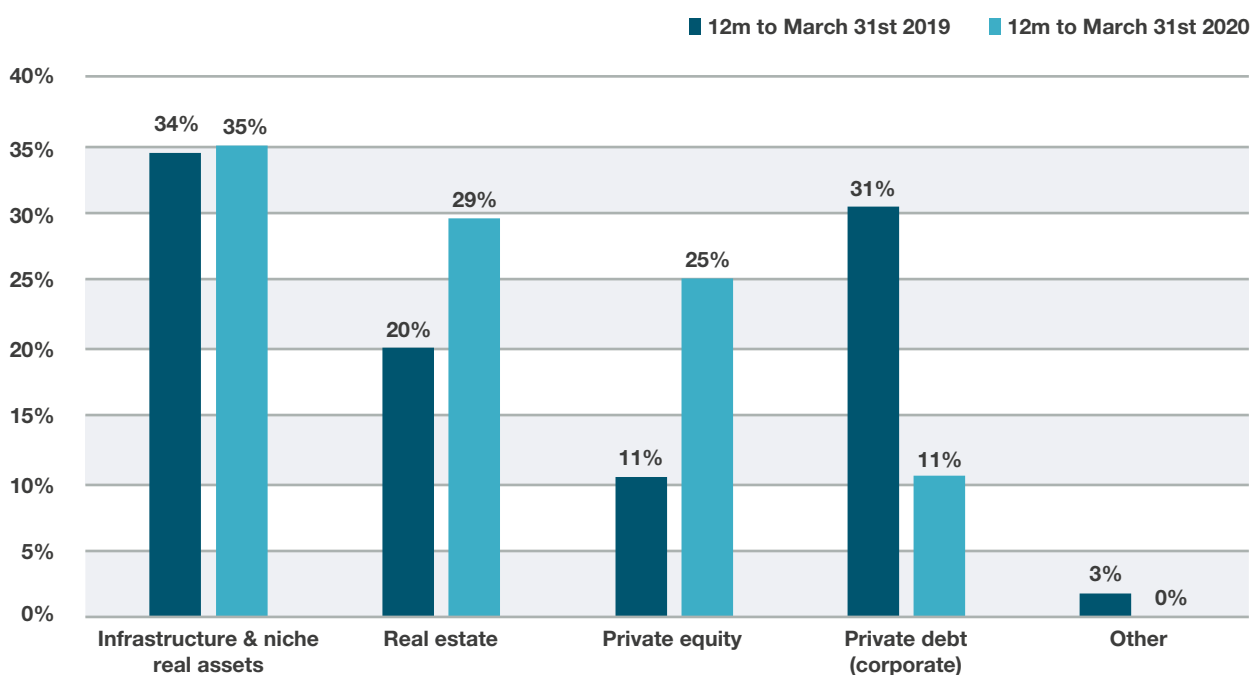


## Private markets

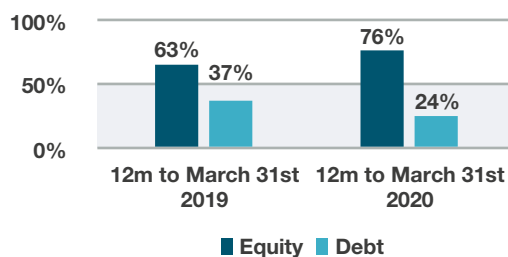


Investors await  
valuation “capitulation”

### NEW PRIVATE MARKETS MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** April 1st 2019 and do not include pre-existing client engagements that continued during the year.



## Private markets continued

### Investor trends









As noted on page 9, new mandates for private markets managers (including private equity, real estate, infrastructure, and private credit) have become increasingly dominant as a proportion of all new manager searches conducted by bfinance clients. This category represented 43% of all searches initiated in the twelve months to March 31st 2020.

Investors' private markets manager searches in the twelve months to March 31st were predominantly concentrated on equity rather than debt, with corporate debt fundraising in particular down from its 2017-18 highs, but for 2020 we do note strong current interest in private credit strategies that take advantage of a more stressed climate.

Looking to the market at large, sourcing data from Preqin (below), we can see corporate private debt comprising a diminishing share of private markets fundraising (in closed-end commingled funds), mirroring the bfinance data.

According to further data (discussed on page 29), COVID-19 is already having a considerable negative impact on overall capital raising for private markets funds. Yet demand remains comparatively healthy among bfinance clients. It is very likely that the next two years will be an excellent vintage for investing in private markets, as were 2009-10, 2001-2 and 1990-91. Commitment today does not mean deployment at today's prices, with managers taking months or even years to draw down committed capital.

### CAPITAL RAISING MOMENTUM ACROSS PRIVATE ASSET CLASSES, 2020 Q1

Asset Class	Q1 2020 No. & Vol., and % change in share		Share of Private Market Capital Raised and Strategic Focus	Largest Fund Raises During Q1 2020
	No. Funds	Volume		
<b>Real Estate</b>	51 	\$18bn 	Real Estate capital raised was just 9% of total Private Markets, down from 16% average over the past 5 years. Focus for the quarter was on US and shifted from Opportunistic to Value Add strategies.	<ul style="list-style-type: none"> <li>Westbrook Real Estate Fund XI, Value Add, Global, \$2.5bn</li> <li>DRA Growth &amp; Income Fund X, VA, US, \$1.9bn</li> <li>Walton Street Real Estate Debt Fund II, Debt, US, \$1.5bn</li> <li>Madison International Real Estate Liquidity Fund VII, Core+, Global, \$1.2bn</li> </ul>
<b>Infrastructure</b>	17 	\$38bn 	Infrastructure represented close to 19% of all Private Capital raised, the highest quarterly share on record and twice the share of the previous five years. Skewed by the closing of the Brookfield Fund IV (over 50% of all capital raised).	<ul style="list-style-type: none"> <li>Brookfield Infrastructure Fund IV, Core, Global, \$20bn.</li> <li>ArcLight Energy Partners Fund VII, Value Add, Global, \$3.4bn</li> <li>Energy Capital Partners IV, Core+, US, \$3.3bn</li> <li>Westbourne Infrastructure Debt Fund Program 3, Debt, Global, \$2.5bn</li> </ul>
<b>Private Equity</b>	267 	\$133bn 	In Q1 2020, Private Equity continued to represent the largest share of all private market capital (65%) raised and 74% of all funds. Over 75% of this capital was focused on North America.	<ul style="list-style-type: none"> <li>Lexington Capital Partners IX, Secondaries, Global, \$14bn</li> <li>Platinum Equity Capital Partners Fund V, Buyout, Global, \$10bn</li> <li>Trident VIII, Buyout, Europe/US, \$7bn</li> <li>Tiger Global Private Investment Partners XII, Venture, China/India/US, \$3.75bn</li> </ul>
<b>Private Debt</b>	25 	\$14bn 	Private Debt represented only 7% of the total private market capital raised, down from the 13% or so of the previous five years. Direct Lending dominated capital raising, representing over two thirds of the total during the quarter	<ul style="list-style-type: none"> <li>GSO European Senior Debt Fund II, Direct Lending, Europe, \$4.5bn</li> <li>Churchill Middle Market Senior Loan Fund II, Direct Lending, US, \$1.9bn</li> <li>AG Credit Solutions Fund, Special Situations, US, \$1.8bn</li> <li>ICG Europe Mid-Market, Mezz, Europe, \$1.1bn</li> </ul>

Source: bfinance, Preqin. Note: Based on capital raised for closed ended commingled funds. Given the tendency for most recent quarter to be revised, the % change shows the change in the share of each asset class out of total private markets. For instance, in Q1 2020, Infrastructure accounted for 19% of capital raised and in Q4 2019 it accounted for 15%, an increase of over 25%.

# Private markets continued

## Market snapshot

Private markets asset valuations have not yet undergone substantial write-downs, providing initial resilience versus the shocks seen in public markets. Yet these asset classes are closely linked to the real economy: while they can provide some immediate resilience to GDP and inflation shocks they can't escape them.

The key word here is “capitulation”: there is now a clear mismatch between what buyers would be willing to pay and what potential sellers would be prepared to accept. It is unlikely that this mismatch will be resolved until potential sellers are forced to exit their positions (assets and funds). This could involve waiting until Q2, Q3 or even beyond. As such, end-Q1 figures should not be understood to represent an accurate picture of valuations alongside their public market counterparts, and investors should be extremely careful about rebalancing portfolios or making other strategic decisions that use declared valuations as a basis.

## Manager watch

It is likely that the 2017, 2018 and 2019 vintages for certain private market strategies and sub-sectors will be poor, as they were for 2004-07. As performance becomes clearer in private markets through 2020, we anticipate very significant dispersion between managers – even where strategies are nominally similar. Disciplined teams that have been prudent in the deployment of capital during the last two years, focused on high quality assets, maintained low levels of leverage on favourable terms, hedged effectively and maintained good levels of liquidity will outperform.

A more detailed recent examination of developments in private equity, real estate, infrastructure and private credit can be found here: [Research Team Update: Private Markets](#).

## Spotlight on fundraising

COVID-19 is already having a dramatic impact on capital raising and managers are indicating reduced or extended capital raising plans. The impact, however, will not be seen clearly until the next quarter's capital raising figures are released. Even before coronavirus, it appeared that private markets fundraising had reached its “peak”.

For the first quarter of 2020, total capital raised (US\$204bn, according to Preqin) was at its lowest level since Q3 2016, well below the average quarterly close of US\$250bn over the past three years. That being said, numbers tend to be revised upwards subsequently. Private Equity represents 65% of this figure, Infrastructure 19% (generally a volatile figure due to the influence of mega funds) and Real Estate and Private Debt together just 16%. Despite the decline, the average fund size increased (US\$567m, 30% higher than in Q1 2019).

Q1 tends to be the weakest quarter for **Private Equity** fundraising: the US\$133bn raised seems relatively strong certainly compared with Q1 figures of 2018 and 2019. While Buyout transaction activity held up in the first quarter, Venture Capital activity fell by around 25% suggesting that this sector could be particularly impacted. Secondaries and Co-investments could benefit from opportunities arising through the dislocation. Although North American strategies still dominate fundraising, investors do appear keen to build their Global and non-US exposures. We are also noting managers taking longer to raise their funds: in January 2017, 47% of funds had been in the market for >12 months; in April 2020, this figure was above 60%.

Suggestions that **Real Estate** capital raising held up in Q1 2020 should be handled with care: that conclusion includes Blackstone's \$10.6bn European Opportunistic Fund, which in fact closed in April. The US\$18bn of capital raised in Q1 represented the lowest level since Q1 2013 and a significant decline on the US\$51bn raised in Q1 2019. Real Estate only represented 9% of all capital raised in Private Markets during Q1, compared with a quarterly average of 16% over the previous five years. Over two thirds of the capital raised was focused on the US market and there seems to be a shift away from Opportunistic towards Value Added. In April 2020, only 2% of capital being targeted by managers was for ‘distressed’ strategies but it is very likely that there will be increased focus on these activities over the coming months.

There is a clear continuing slowdown in **Private Debt** fundraising.

## Private markets continued

### Manager watch continued

Although the numbers will be revised, the Q1 figure was just \$14bn - the lowest level since Q1 2016. However, Preqin reports a high proportion of investors (42%) currently targeting 'Distressed Debt' and a further 30% targeting 'Special Situations'.

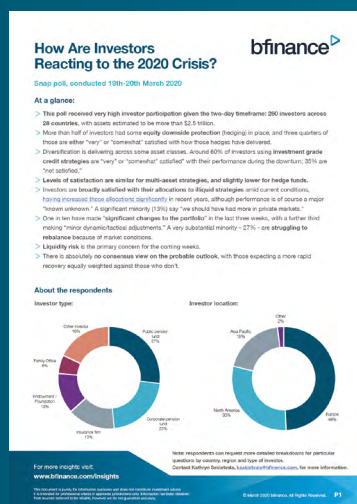
**Infrastructure** had a strong Q1 (US\$38 billion raised), following the record US\$100bn raised in 2019.

This was heavily skewed by the closing of the \$20bn in Brookfield Fund IV. In the face of COVID-19, many Infrastructure sectors are showing resilience, such as Regulated Assets and Senior Infra Debt. But GDP-linked infrastructure, particularly transport and energy sectors, are being severely impacted. This is likely to adversely effect capital raising over the coming quarters, coinciding with a reduced number of mega-funds.

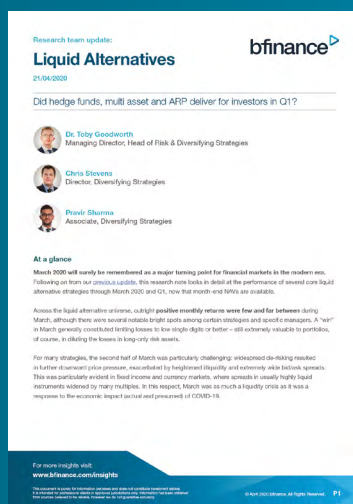
## News from the private market manager world

- > **Aberdeen Standard** acquires **Orion Partners**, a \$900m real estate investment manager in Asia.
- > Graeme Delaney-Smith, current Head of European Direct Lending at **Alcentra**, intends to retire. His role will be taken up by Peter Glaser.
- > **Allianz Real Estate** and **PIMCO** progress with their merger, which is set to create a €100bn+ real estate investment manager.
- > Larger investment consultants are becoming increasingly active as asset managers withing the private markets space. **Aon Hewitt** confirmed that they will purchase **Willis Towers Watson** in March 2020.
- > Hanna Ideström joins Sweden's **AP4** as a Private Equity Portfolio Manager.
- > **ARA** announces a joint venture with **Venn** to focus on European Real Asset debt strategies.
- > **Ares** acquires a majority stake in **SSG**, a leading Asian alternative asset management firm.
- > Axa progress its plans to launch a large Alternatives platform, close to €140bn in size.
- > **Blackstone** hires Jonathan Kelly to head up their European Infrastructure business, joining from **Brookfield Infrastructure**.
- > There were reports that DP World would delist from Nasdaq Dubai and return to full state ownership in a deal that values the company at \$13.9bn.
- > There were also reports that **EQT** plans to offload their credit fund management 'division'.
- > David Neal becomes CEO at **IFM**, after 13 years leading Australia's Future Fund. He takes over from Brett Himbury, who is retiring.
- LGIM Real Assets** appoints Shuen Chan to head up their ESG initiatives.
- > **Neuberger Berman** in the US announces plans to acquire **Almanac Realty Partners**, and **First Eagle Investment Management**, and has completed its acquisition of alternative credit manager **THL Credit Advisors LLC**.
- > Matt Johnson and Rod Chu take over the running of the **UBS** US Real Estate business from Matt Lynch and Jack Connelly.

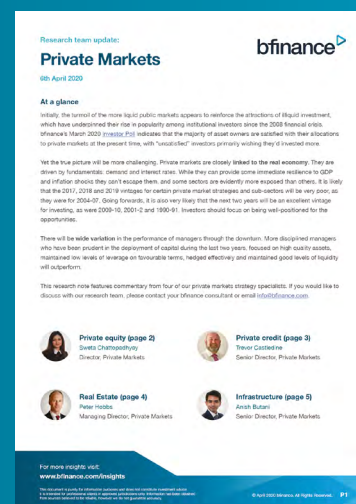
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(March 2020)



**Liquid Alternatives**  
(April 2020)



**Private Markets**  
(April 2020)

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