bfinance

Quarterly Analysis

Manager Intelligence and Market Trends

November 2020

Contents

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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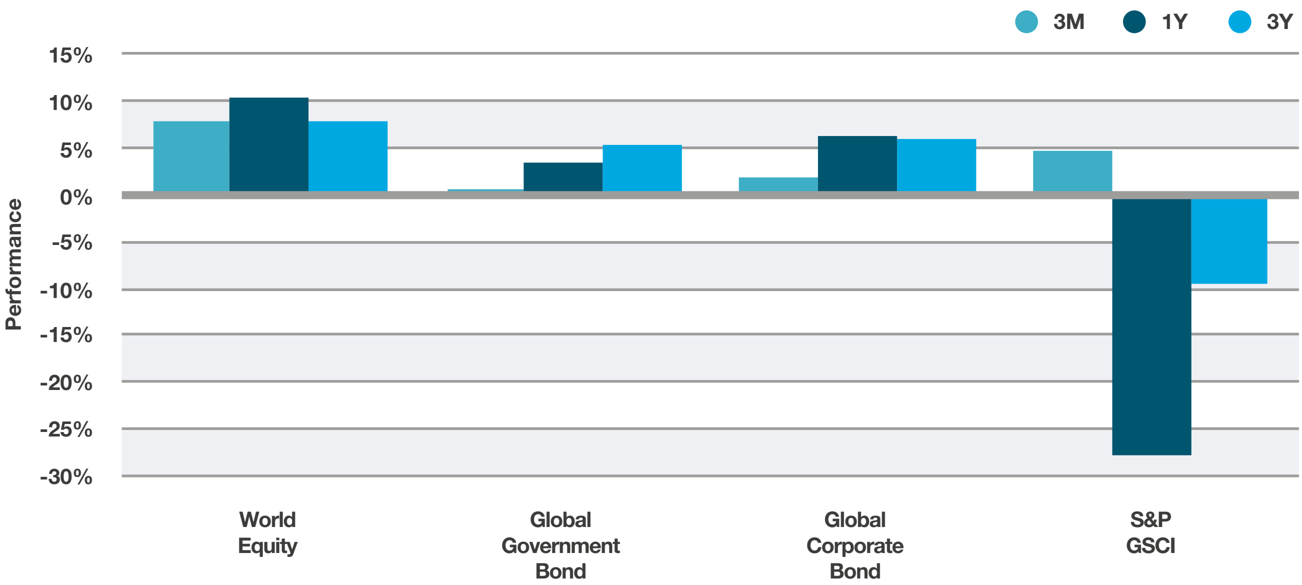
At a glance...

- Although the bfinance Risk Aversion index remained in 'fear' mode through Q3, investors and market participants are evidently willing to demonstrate some 'greed' as risk asset exposures continued to rise and growth styles won out over their quality or value counterparts despite a tough September for equities. Does this indicate comfort with the economic outlook amid the pandemic's progression, or a pragmatic ride on the "great asset price inflation" bandwagon?
- Manager selection activity among bfinance clients continues to move in favour of private markets, with a 34% increase in the number of manager searches for illiquid strategies year-on-year.
- Although liquid alternatives are receiving reduced investor attention from a mandate perspective, Q3 brought strong results across a range of hedge fund and multi asset manager composites, with September at last enabling diversifying strategies to show their diversifying capabilities.
- Fixed income managers have been delivering strong outperformance in 2020; this continued in Q3, with 81% of US investment grade credit managers beating the market. Yet the story was more mixed in high yield bonds, where managers who had moved towards a more defensive positioning missed out on a rally in lower-quality issues.
- Performance dispersion is wider-than-usual across many asset classes as the pandemic's 'winners and losers' begin to emerge.

PERFORMANCE OF PUBLIC MARKETS TO END OF SEPTEMBER 2020



Source: bfinance/Bloomberg

Risk snapshots

Market participants follow central banks' lead with risk asset exposure nearing 'normal' levels

Risk appetite barometer, Q3 vs Q2

Manager positioning barometer, Q3 vs Q2

Q3 Q2

Source: bfinance (see page 5)

Risk snapshots continued

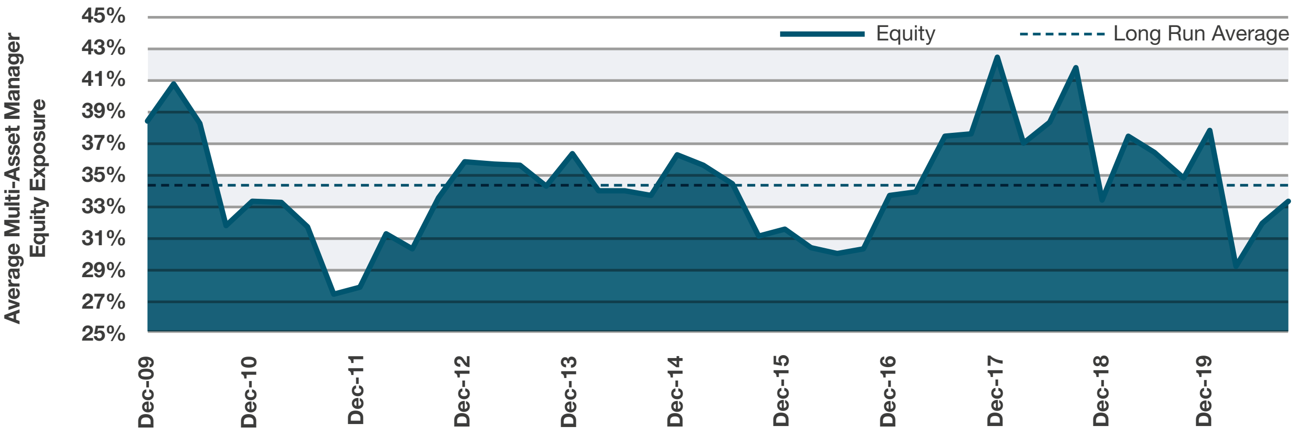
Risk aversion

The bfinance Risk Aversion Index has remained high through the third quarter, albeit notably lower than its Q1 peak, driven by a range of indicators (implied volatilities, gold prices, CDX etc).

However, the period also saw Multi Asset managers increase their risk asset positioning, ending the quarter with average weightings to risk assets (e.g. equities) of approximately 33% - relatively close to their long-run average of around 34.5% and at the highest level since the March crash.

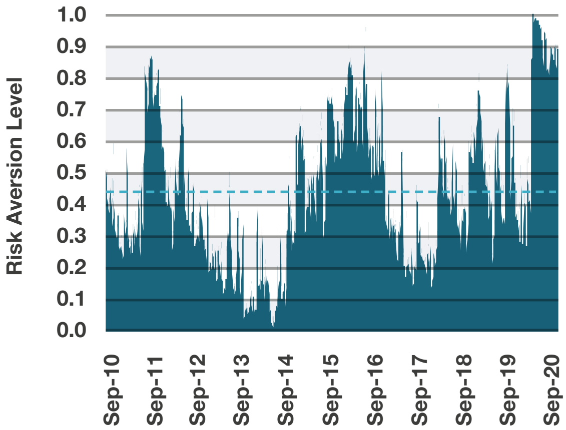
It's worth noting that the speed at which funds cut exposure during the early part of the downturn proved to be a key differentiator in the performance of multi asset managers, with more reactive strategies – or those with shorter lookback windows – generally doing better. (Source: *Are Multi Asset Managers Delivering for Investors?*)

MARKET POSITIONING OF MULTI-ASSET FUNDS



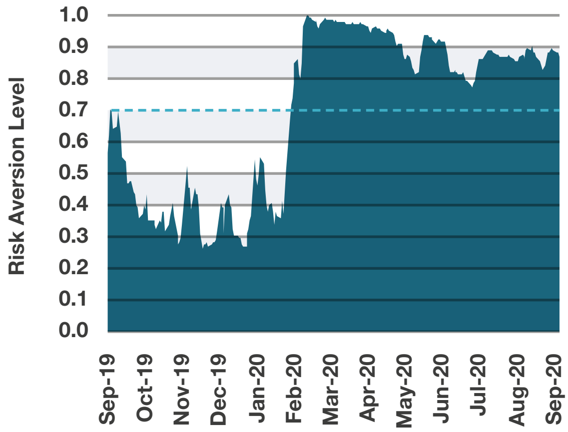
Source: bfinance. This graph shows the current and average exposure to equities held by a range of multi-asset managers. This is based on proprietary analysis performed by bfinance. The managers analysed vary in strategy from macro and GTAA through to bottom-up allocation strategies.

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

Risk aversion *continued*

Risk attitudes have evidently shifted, with market participants apparently moving from a safety-focused mindset to more of a return-seeking attitude. This could indicate increasing comfort with the flexible lockdown measures that are being implemented around the world or a pragmatic ride on the "great asset price inflation" bandwagon. Overall, investors appear to be selectively optimistic, alert to pockets of opportunity and remaining focused on the long-term.

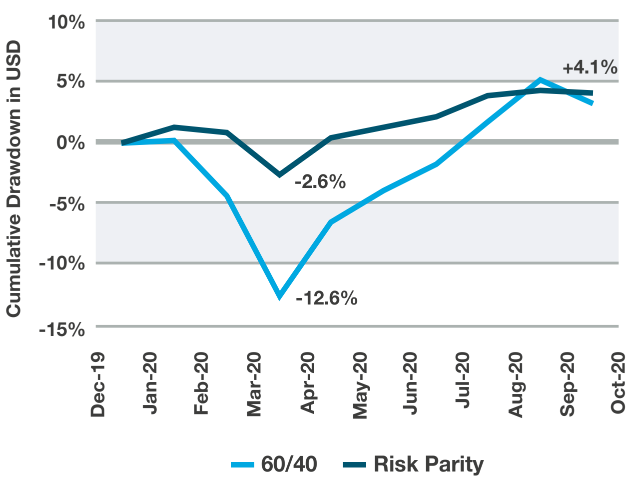
For any investor focused on the long-term, another emerging risk theme is inflation, after the Fed's August announcement that it will not aim to control US inflation at 2% for the time being. The implications of the announcement, along with the unprecedented stimulus packages around the world, have spurred immediate debate. The move has provoked some renewed discussion around inflation-sensitive assets and inflation hedging. Practitioner consensus is that inflation will remain low over the medium term due to negative demand shocks and low growth, while deflation is does not appear to be a key concern due to the aggressive monetary and fiscal stimulus. The long-term picture is more concerning: higher inflationary scenarios become more likely in a world in which monetary stimulus continues, but it may be hard to hike interest rates given the larger debt volume.

Risk and return

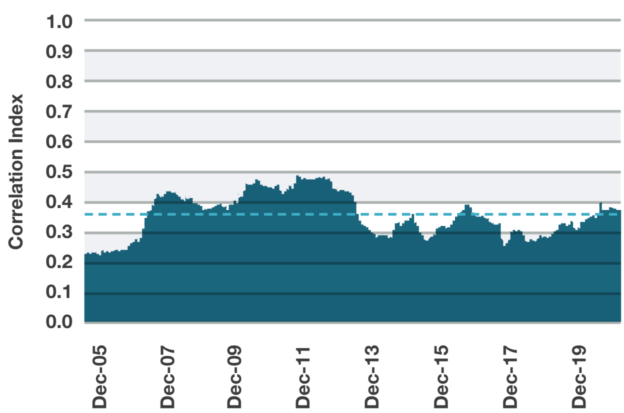
As the left-hand graph below highlights, a theoretical investor with a global plain-vanilla 60/40 portfolio and one with a more conservative risk parity portfolio would have both gained approximately 4% year-to-date, albeit via very different paths. Real investors, of course, diverge significantly from that figure; key differentiators include style biases (e.g. growth vs. value) and diversification through alternative strategies. There are also marked differences within asset classes: regional equity returns, for instance, have differed hugely.

With diversification in mind, one point worth keeping an eye on is the steady rise in correlations between major asset classes through 2018-2020.

YTD CUMULATIVE RETURN



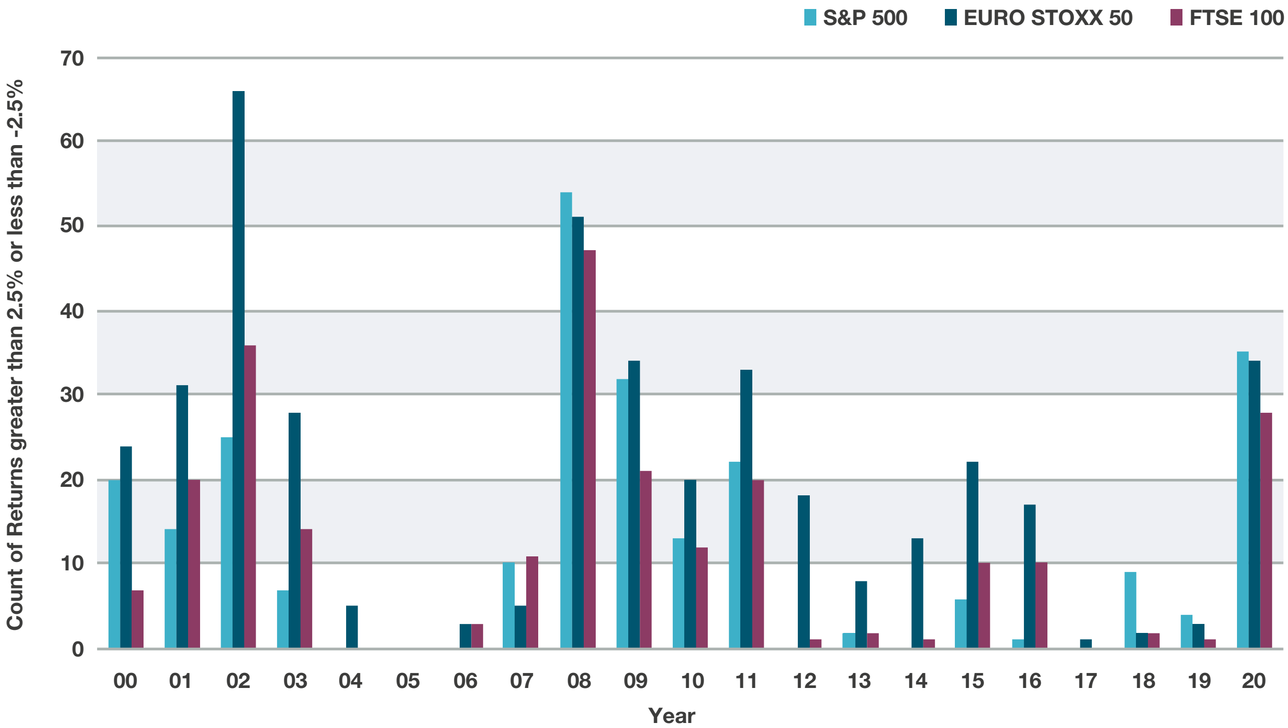
CORRELATIONS BETWEEN MAJOR ASSET CLASSES



Risk snapshots continued

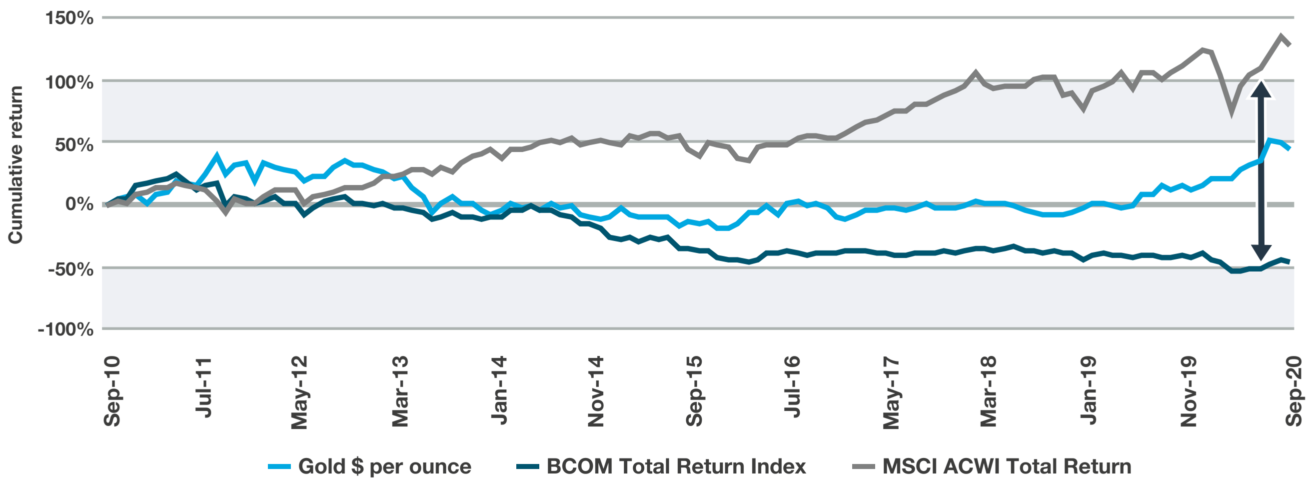
Charts of the quarter

NUMBER OF TAIL EVENTS



Source: Bloomberg, bfinance

WIDENING SPREAD BETWEEN GLOBAL EQUITES AND COMMODITIES OVER 10 YEARS



Source: Bloomberg, return in USD

There were seven **tail events** during Q3 (market moves +/- 2.5%) in the S&P 500, the EURO STOXX

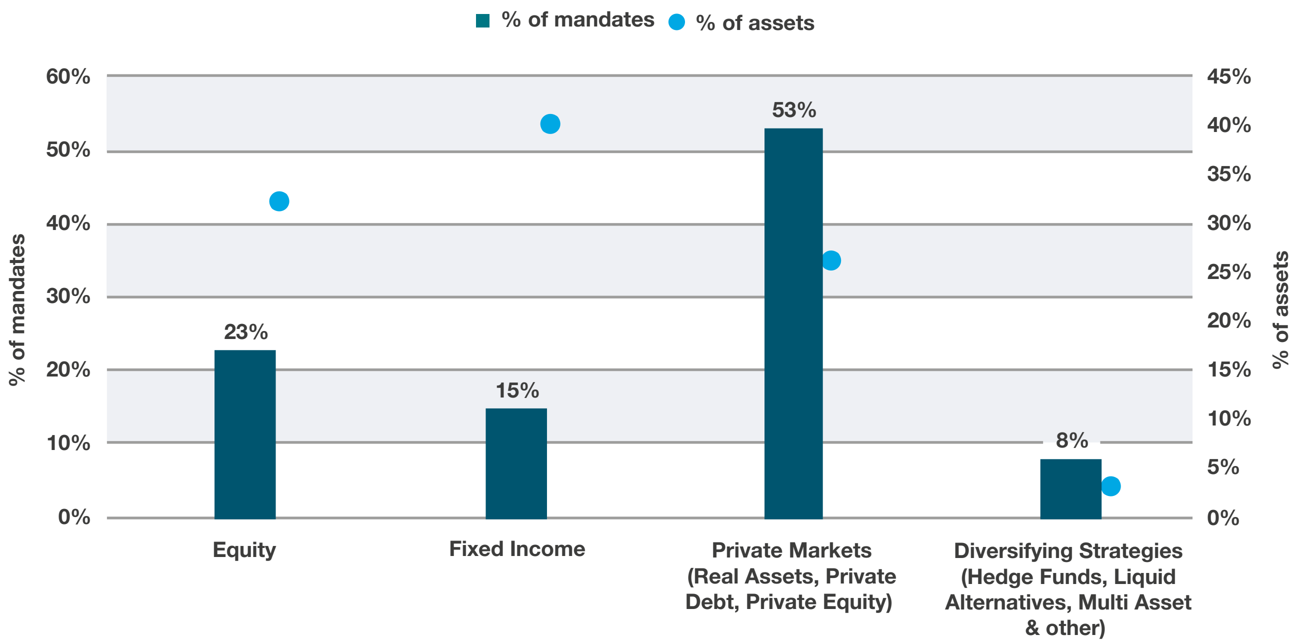
|50 or the FTSE 100. 2020 YTD has already seen more tail events than 2009, 2010 and 2011.

For a brief moment, **gold** soared past USD 2,000 per ounce last quarter. Wider commodity markets have long underperformed other asset classes, but are increasingly back on investors' radar as the inflation debate picks up.

Manager searches

COVID crisis and 'lower for even longer' reinforces demand for private markets and yield-generating strategies

NEW MANAGER SEARCHES, 12 MONTHS TO SEPTEMBER 30TH 2020 (BY ASSET CLASS)



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

Manager searches continued

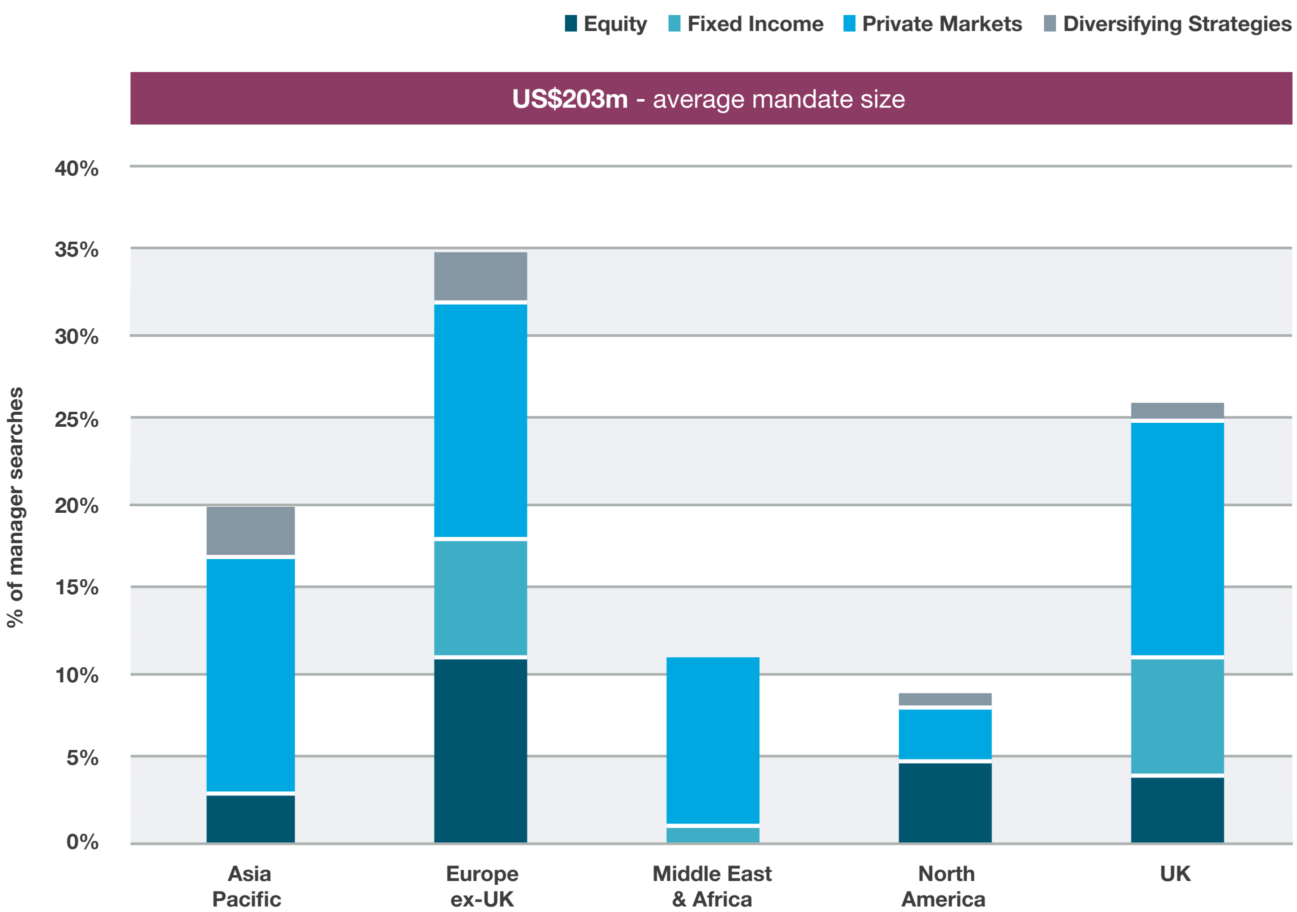
The pandemic and the accompanying 'even lower for even longer' interest rate climate have driven some notable alterations in new investment activity among bfinance clients, as evidenced by statistics on recently launched manager searches.

Private Markets activity has become increasingly prominent in recent years and this trend has been reinforced rather than dampened: we note a 34% increase in the number of private markets mandates initiated in the 12 months to September 30th 2020 versus the previous 12-month period. This space represented 53% of all manager searches initiated through the year (page 8), in comparison with 39% in the prior year. While activity around mainstream **Private Debt** has softened, there is strong demand for other illiquid debt or debt-like strategies, namely Real Estate Debt, Trade Finance and Leasing.

Conversely, the weaker sentiment around **Liquid Alternatives** through late 2019 and 2020, as evidenced by our most recent *Asset Owner Survey*, has now translated into a marked decline in manager selection activity in **Hedge Funds** and **Alternative Risk Premia**. In total, only 8% of new manager searches in the 12 months to September 30th 2020 focused on "Diversifying Strategies", down from 16% the previous year, and demand for Multi Asset strategies continued to outstrip Hedge Funds.

Within Equities and Fixed Income we note relatively stable demand for new investment and manager selection activity, although there has been a distinct change in focus. Key sectors seeing an increase in manager search activity for this period include **High Yield Debt, Securitised Credit and Small Cap Equity,** while Global Emerging Market Equity and Investment Grade Credit are receiving fewer new mandates.

NEW MANAGER SEARCHES (BY INVESTOR LOCATION)

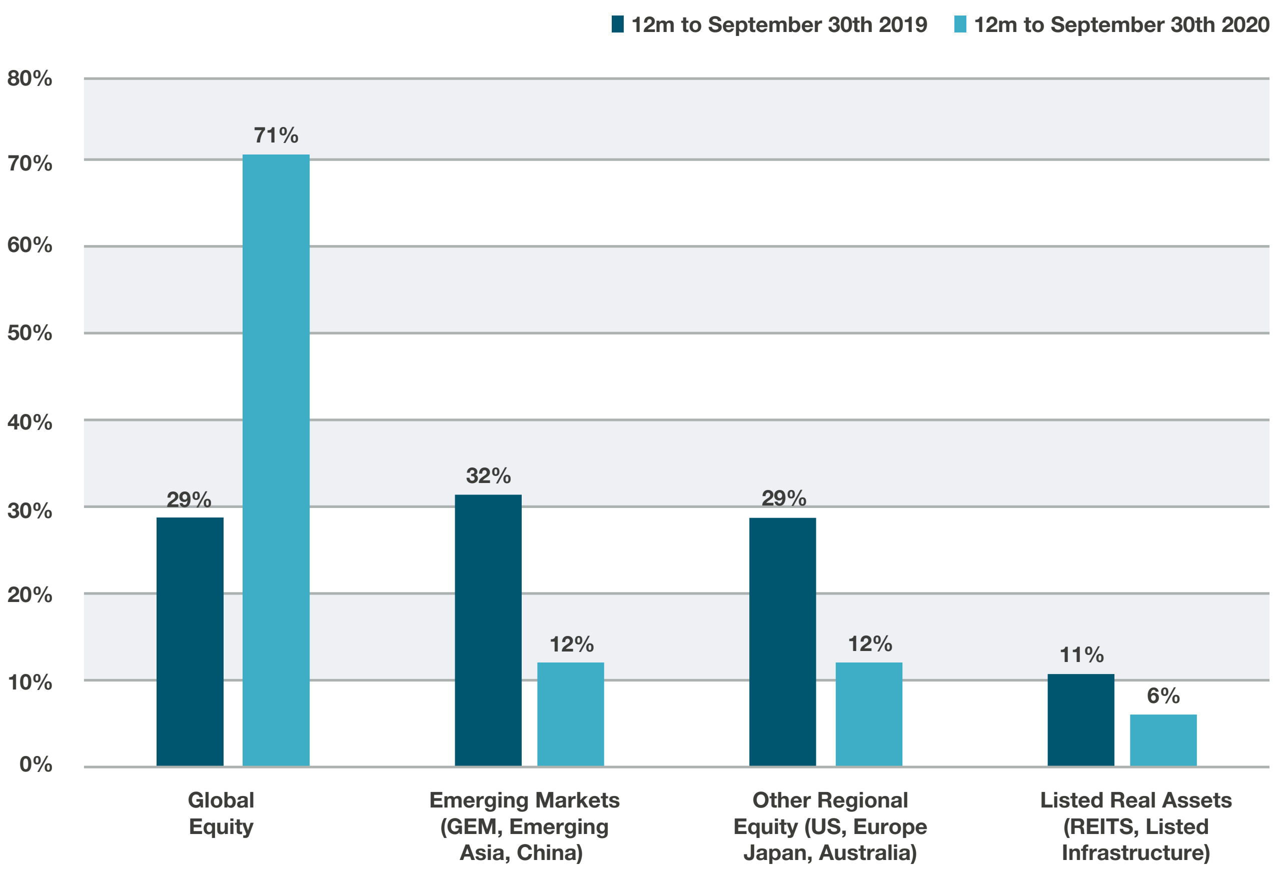


Note: these figures only represent projects initiated **after** October 1st 2019 and do not include pre-existing client engagements that continued during the year.

Equity

Aggressive 'high growth' strategies outperform while quality and value styles struggle

NEW EQUITY MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** October 1st 2018 and October 1st 2019, and do not include pre-existing client engagements that continued during those years.

Equity continued

Investor trends

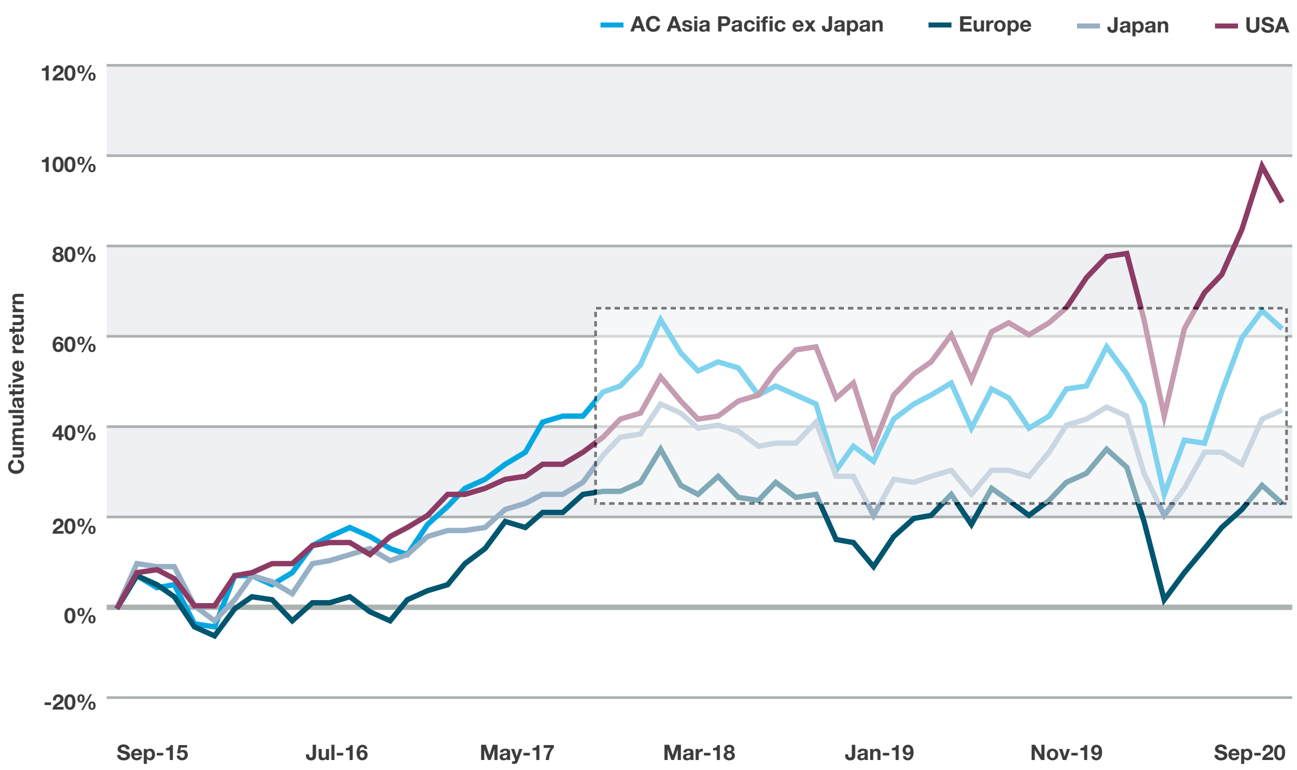
Year on year, the most visible trend in bfinance equity manager searches has been a shift from regional mandates towards **global**, with the latter representing more than 70% of new searches in the 12 months to September 30th , up from 29%.

Most of these searches 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). There has been very little demand for value equity strategies, either globally or regionally, with few investors apparently willing to bet on a sustained recovery from the style. We also note increased appetite for **small cap**, though this is driven by a portfolio diversification agenda – with investors finding themselves heavily exposed to large- and mid-cap stocks – rather than by a perception that small cap is undervalued.

Demand for emerging market equity manager searches has declined and the majority of those searches have been manager replacements or portfolio restructurings rather than new money into the asset class.

When considering the decline in regional equity mandates, it may be worth noting that various major regional equity markets, with the notable exception of the US, delivered virtually flat performance in the last three years.

PERFORMANCE OF REGIONAL EQUITY MARKETS



Source: MSCI, Bloomberg. All returns in USD.

Equity continued

Market snapshot

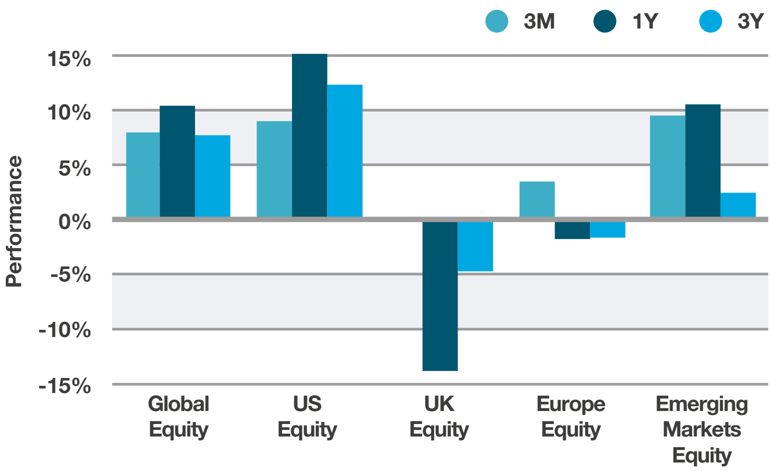
Global equity markets rose in Q3 despite a weak September, with the MSCI World increasing by 7.9% in USD terms. Abundant central bank liquidity and sustained progress in terms of reopening economies underpinned the continuing rally in July and August, but a resurgence of COVID-19 cases and uncertainty surrounding the US election saw the market fall in September.

US equities rose by 9.5% in Q3 as the economy continued to recover and monetary policy remained highly accommodative. The Fed stated that it would adopt an Average Inflation Targeting programme when setting interest rates, allowing temporary overshoots in inflation. The unemployment rate fell to 7.9% in September – a noticeable improvement from the historic high of 14.7% it hit at the end of April. Ten of the 11 market sectors posted positive returns in Q3, with Consumer Discretionary, Materials, Industrials and Information Technology leading the way. Energy stocks fell sharply as demand remained subdued.

European equities were essentially flat in EUR terms over the quarter. Sharply rising COVID-19 infection rates led to new local restrictions in some European countries towards the end of the quarter. Materials and Consumer Discretionary sectors led the way, while Energy and Financials were the worst-performing sectors.

Emerging market equities continued to rise in Q3, gaining 9.6% in USD terms despite a further acceleration in COVID-19 cases in certain countries and an escalation in US-China tensions. Asian equities posted the best returns. Taiwan and South Korea were among the best-performing markets, underpinned by strong returns from the IT sector. India and China also outperformed the index despite tensions on the Himalayan border. Turkey and Thailand were among the worst-performing markets.

EQUITY MARKET PERFORMANCE (TO SEPTEMBER 2020)



	YTD USD	YTD LOCAL
Global Equity	1.7%	1.0%
US Equity	5.6%	5.6%
UK Equity	-22.3%	-20.2%
Europe Equity	-9.3%	-13.1%
Emerging Markets Equity	-1.2%	2.7%

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

Within the **global developed** equity universe, value and income stocks endured another difficult quarter. Investors continued to reward companies with strong growth characteristics, but in Q3 it was more about expected growth rather than achieved growth. Data indicate that companies with strong 12-month forward earnings growth outperformed significantly, with seemingly limited regard for the firms' recent track records or underlying 'quality'.

Active manager returns followed these trends, with 'high-growth' managers outperforming the MSCI World index by nearly 8% in Q3 – extending their outperformance to more than 40% year-to-date. Quality-focused managers underperformed by an average of 50bps after a weak Q2. Managers with a focus on low volatility (-2.5% relative to the index), income (-3.8%) and value (-4.1%) continued to underperform in Q3, as they had throughout H1.

Within **emerging markets**, we saw significant style rotation over the quarter, although value and income stocks were significantly behind by quarter-end. Unlike in developed markets, quality attributes were roundly rewarded in the emerging equity universe.

Looking at active managers' returns, trends were broadly similar to those we saw in developed markets. Higher-growth managers outperformed by nearly 7% and are now 24% ahead year-to-date. Other flavours of growth investing fared less well, but still outperformed the index by several percentage points. Managers focusing on low volatility (-5.0%), income (-1.5%) and value (-4.0%) underperformed once again.

To find out more, listen back to the October 2020 webinar: *Manager Intelligence, Equities and Fixed Income.*

MANAGER PERFORMANCE (TO SEPTEMBER 2020)

	3m	YTD	1Y	3Y (p.a)	5Y (p.a)
Global Equity Composite*	**7.9%**	**4.2%**	**13.2%**	**9.4%**	**12.3%**
MSCI World	7.9%	1.7%	10.4%	7.7%	10.5%
MSCI ACWI	8.1%	1.4%	10.4%	7.1%	10.3%
Outperformance VS MSCI World	**0.0%**	**2.5%**	**2.8%**	**1.6%**	**1.8%**
Outperformance VS MSCI ACWI	**-0.2%**	**2.8%**	**2.8%**	**2.2%**	**2.0%**
Global EM Composite*	**9.7%**	**-1.2%**	**9.6%**	**3.6%**	**10.0%**
MSCI EM Index	9.6%	-1.2%	10.5%	2.4%	9.0%
Outperformance	**0.1%**	**-0.1%**	**-1.0%**	**1.1%**	**1.0%**

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.

Manager watch *continued*

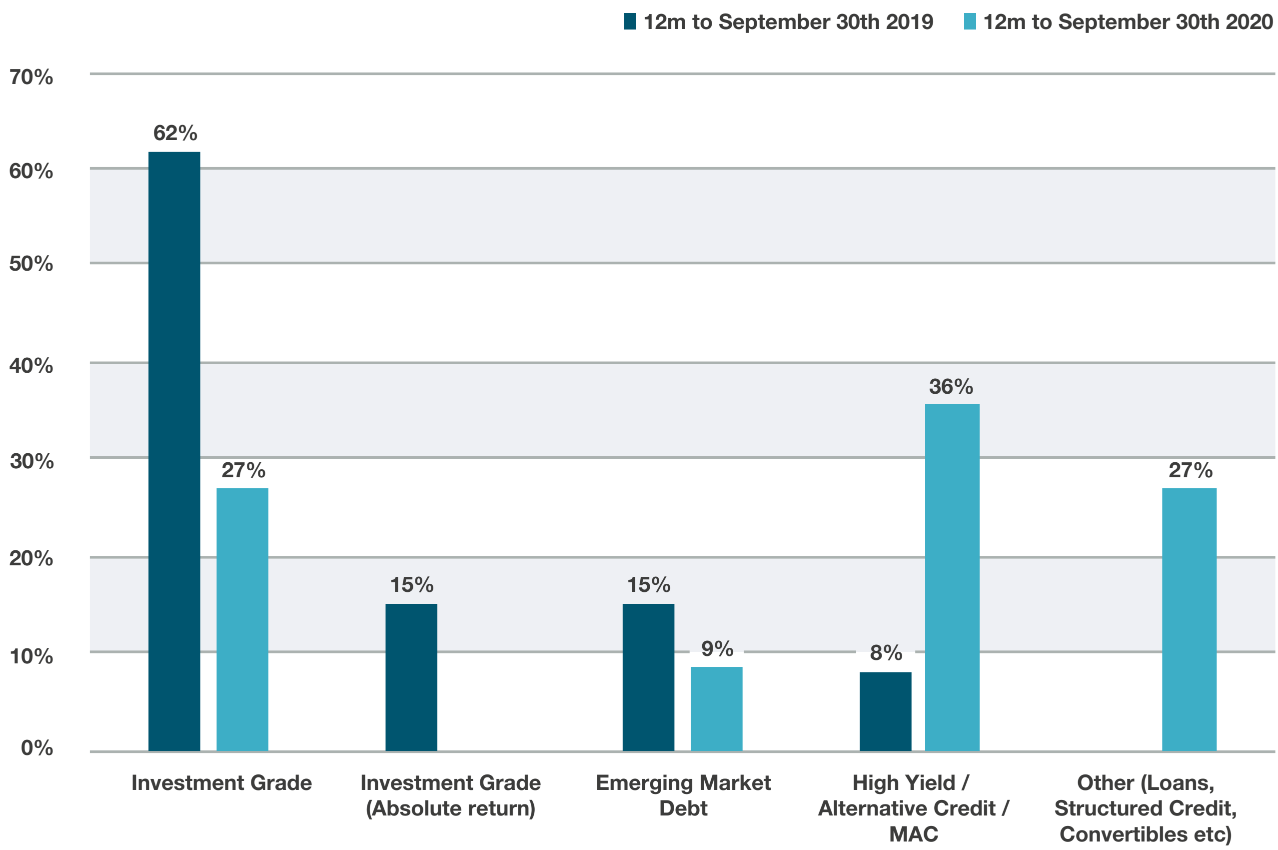
News from the equity manager world

- The bulk of **NN Investment Partners**' Sustainable Equity team, including three portfolio managers and four analysts, depart the company to join **Neuberger Berman**.
- Stephen Harker, Head of Japan Equities at **Man GLG**, announces his retirement at the end of March next year alongside Senior Portfolio Manager Neil Edwards.
- **Schroders**' veteran Asian fund manager Matthew Dobbs announces his retirement in 2021 after nearly four decades at the firm.
- Victoria Mio leaves **Robeco** to join **Fidelity** as Director of Asian Equities.
- Asia and China Small Caps Portfolio Manager Tiffany Hsiao departs **Matthews Asia** to join **Artisan Partners**.
- Caroline Maurer leaves **BNP Paribas Asset Management** to join **HSBC Global Asset Management** as Head of Chinese and Hong Kong equities.
- Louise Kernohan departs **Aberdeen Standard** to join **Newton** as a UK equities portfolio manager.
- **Franklin Templeton** completes the acquisition of **Legg Mason**, creating a $1.4tn asset management group.
- **Morgan Stanley** enters a definitive agreement to buy **Eaton Vance**.
- **First State Investments** rebrands to **First Sentier Investors** following its August 2019 acquisition by Mitsubishi UFJ Trust and Banking Corporation.
- **Perpetual** agrees to acquire **Barrow Hanley, Mewhinney & Strauss** from **BrightSphere Investment Group**.
- **Aegon Asset Management** ditches both the **Kames Capital** and **TKP Investments** brands as it completes the final step of its brand refresh.

Fixed income

Investors look to high yield, structured credit and MAC to combat 'even lower for even longer'

NEW FIXED INCOME SEARCHES, YEAR ON YEAR



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

Note: these figures only represent projects initiated **after** October 1st 2018 and October 1st 2019, and do not include pre-existing client engagements that continued during those years.

Fixed income continued

Investor trends

After a period of sustained strong demand for investment grade strategies, particularly investment grade credit, 2020 is seeing a notable shift in appetite with a resurgence in manager searches for high yield debt. Investors are also showing greater interest in structured credit, including higher-risk areas of the market such as CLOs, and Multi Asset Credit strategies with more aggressive return targets than their Absolute Return Bond cousins. Despite the hunt for yield, we have not noted any increase in demand for Emerging Market Debt strategies

Market snapshot

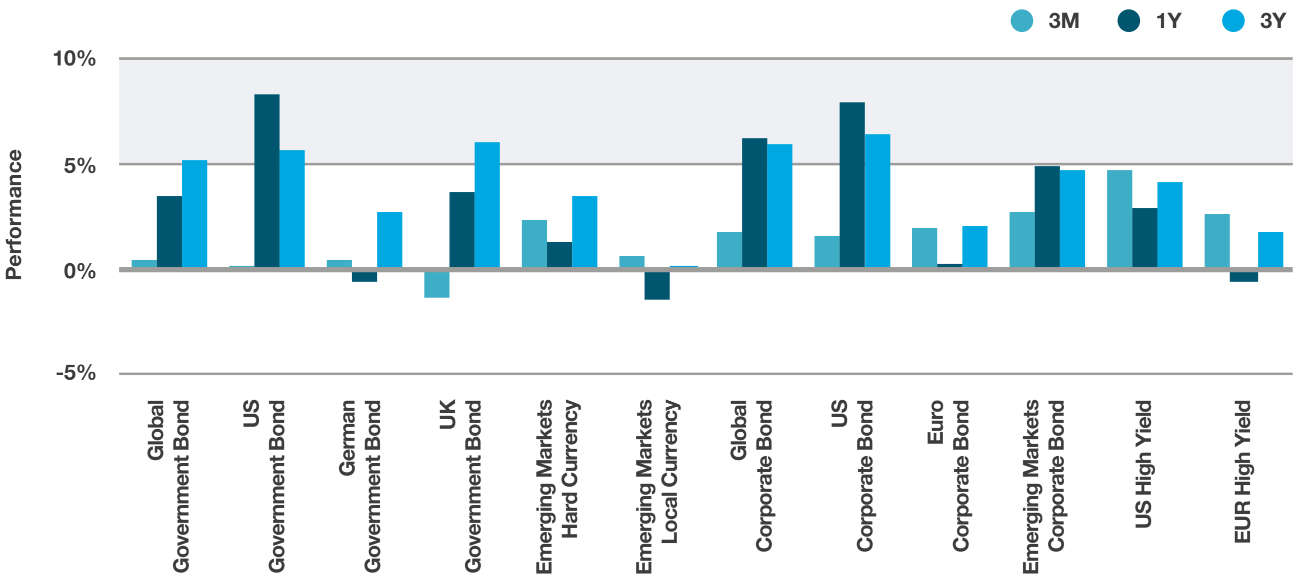
UST yields remained essentially flat over the period, rallying in July before retreating in August. The change in the Fed's inflation policy was well received by markets, causing a small rise in inflation expectations. **Bunds** rose over the quarter.

US investment-grade bonds continued to rally into July after their strong finish to Q2, but a raft of new issuance in August and a small rise in Treasury yields caused the market to pull back despite spreads tightening further. US investment-grade credit rose by 1.7% overall, bringing its YTD gains to 6.6%. Spreads tightened by 16bps to 144bps over the quarter, and are now back at levels last seen in February.

European investment-grade bonds performed similarly to those from the US, rising by 2.0%. They are now up 0.6% year-to-date. After a strong July following the ECB's agreement of a €750bn recovery fund, performance in August and September was muted. New issuance in the European market has slowed. Spreads tightened overall to 118bps – a level last seen in February. Downgrades of investment-grade issuers slowed further, with three US and six euro investment-grade firms downgraded to high yield in Q3 (down from eight and 12 in Q2).

US high-yield bonds began the quarter strongly but an increase in new issuance in August resulted in a slowing of momentum. This continued into September as markets sold off. Overall, US high-yield rose by 4.7% in Q3, with spreads tightening by 103bps to 559bps, bringing YTD total returns to -0.3%. Lower-rated (CCC & below) issues performed best over the quarter, rising by 7.7%.

PERFORMANCE OF BOND MARKETS TO END OF SEPTEMBER 2020



Fixed income continued

Market snapshot continued

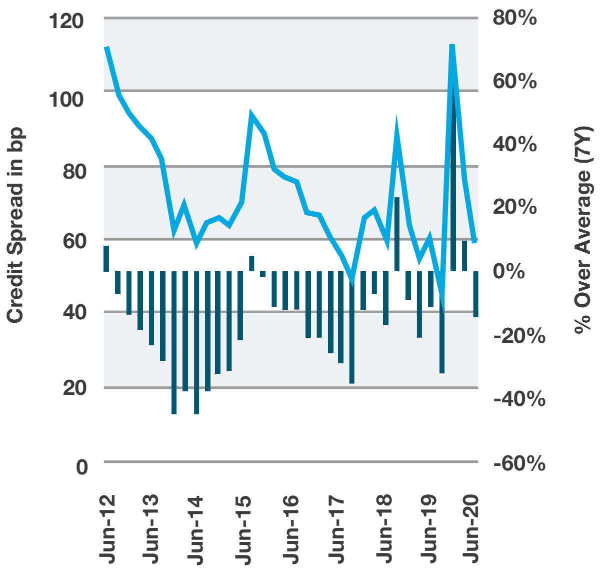
European high-yield bonds rose by 2.6% in Q3. Spreads tightened by 49bps to 472bps, with the majority of this attributable to bonds rated CCC and below. European high-yield is still down -2.5% YTD, with single-B having posted the worst return (-5.9%). Lower-quality issues have actually gained 1.8%. Default rates in Europe remain lower than in the US.

Hard Currency EM Debt rose by 2.3% in USD terms over the quarter, driven by LatAm and Asian countries. Spreads tightened in July and August before unwinding partially in September as risk sentiment weakened. A stable oil price provided support to oil-producing nations, but falling demand has compounded domestic virus-linked slowdowns.

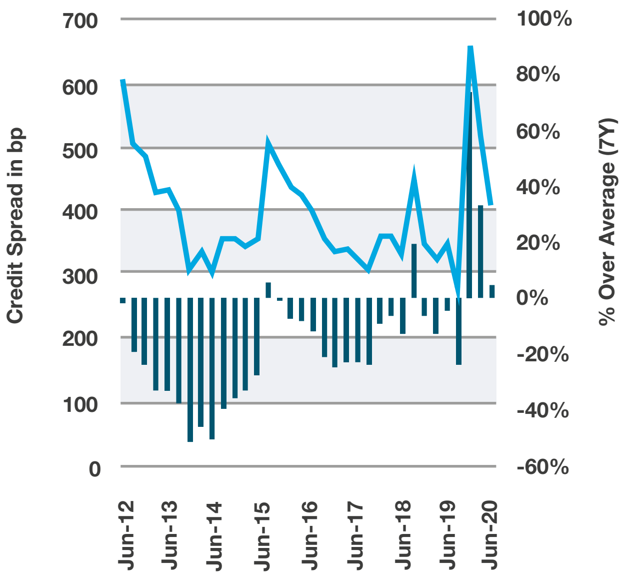
EM Corporate Debt was the strongest-performing segment of the emerging debt markets, rising by 2.8% over the quarter. High yield marginally outperformed investment grade over the quarter, but is still down -0.3% YTD, while investment-grade is up 4.6% in USD terms.

Local Currency EM Debt lost momentum over the quarter, but still rose by 0.6%. As was the case in Q2, local rates provided most support to returns, with EM currencies gaining against the weakening dollar in most regions, particularly the Middle East & Africa.

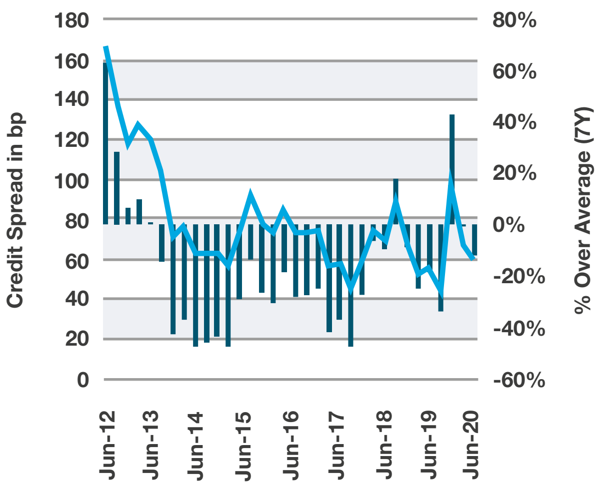
US IG CREDIT SPREAD
CURRENT VS AVERAGE



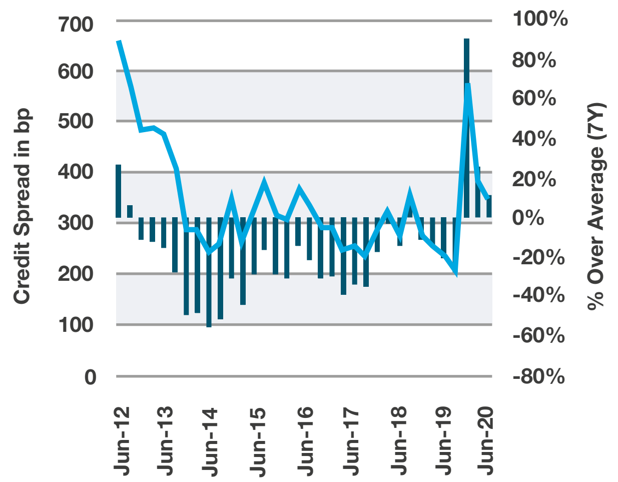
US HY CREDIT SPREAD
CURRENT VS AVERAGE



EUROPEAN IG CREDIT
SPREAD CURRENT VS AVERAGE



EUROPEAN HY CREDIT
SPREAD CURRENT VS AVERAGE



Source: bfinance, Bloomberg.

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Fixed income continued

Manager watch

In investment-grade credit, 81% of active managers outperformed the market in the US in Q3 and 67% did so in Europe. Overall, the median US manager has outperformed by 68bps gross of fees YTD. Sentiment shifted in August as heavy new issuance outpaced demand, resulting in spreads widening across all credit ratings. This provided managers with opportunities to deploy cash in the primary markets.

High-yield managers had a more difficult time in Q3, with 55% of active managers outperforming their benchmarks in the US and 57% in Europe. Managers positioned to take advantage of a rally in lower-quality issues benefited, although a large number of managers allocate a large part of their portfolios to BB-B rated bonds so would not have participated fully. This illustrates how sentiment has shifted over the quarter: the strong rally in Q2 subsided over the summer and active managers locked in the rebound, moving to more defensive positioning.

MANAGER PERFORMANCE (TO END SEPTEMBER 2020)

	3m	YTD	1Y	3Y (p.a)
US Investment Grade*	**2.12%**	**7.32%**	**8.80%**	**6.72%**
Barclays US Corporate IG	1.54%	6.64%	7.90%	6.41%
Outperformance	0.58%	0.68%	0.90%	0.32%
Euro Investment Grade*	**2.16%**	**0.84%**	**0.69%**	**2.44%**
Barclays Euro Corporate	1.99%	0.78%	0.26%	2.09%
Outperformance	0.17%	0.06%	0.43%	0.35%
US High Yield*	**4.87%**	**0.62%**	**3.27%**	**4.35%**
BofA ML US High Yield Master II	4.71%	-0.30%	2.30%	3.83%
Outperformance	0.16%	0.92%	0.97%	0.52%
EUR High Yield*	**2.74%**	**-2.05%**	**-0.11%**	**2.12%**
ML European Curr HY Constr. EUR Hedged	2.61%	-2.55%	-0.62%	1.73%
Outperformance	0.14%	0.51%	0.52%	0.39%
EMD – Hard Currency*	**3.02%**	**-0.45%**	**2.41%**	**3.13%**
JPM EMBI Global Diversified	2.32%	-0.51%	1.29%	3.49%
Outperformance	0.70%	0.05%	1.11%	-0.37%
EMD – Local Currency*	**1.08%**	**-6.15%**	**-1.01%**	**0.00%**
JPM GBI-EM Global Diversified	0.61%	-6.32%	-1.45%	0.17%
Outperformance	0.47%	0.17%	0.44%	-0.17%
EMD – Corporates*	**3.69%**	**2.05%**	**5.06%**	**4.49%**
JPM CEMBI Broad Diversified	2.75%	2.58%	4.85%	4.73%
Outperformance	0.95%	-0.53%	0.20%	-0.24%

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*

Emerging debt managers continued to do well overall, with 88% of active managers beating their respective benchmarks in Hard Currency and EM Corporate Bonds in Q3. EM Local Currency managers lagged, with just 67% of active managers outperforming. Overall, the median EM Local Currency and Corporate Debt manager was trailing their benchmark on a YTD basis at the end of September. After the strong directional shifts of Q1 and Q2, country selection was key to generate outperformance in Q3.

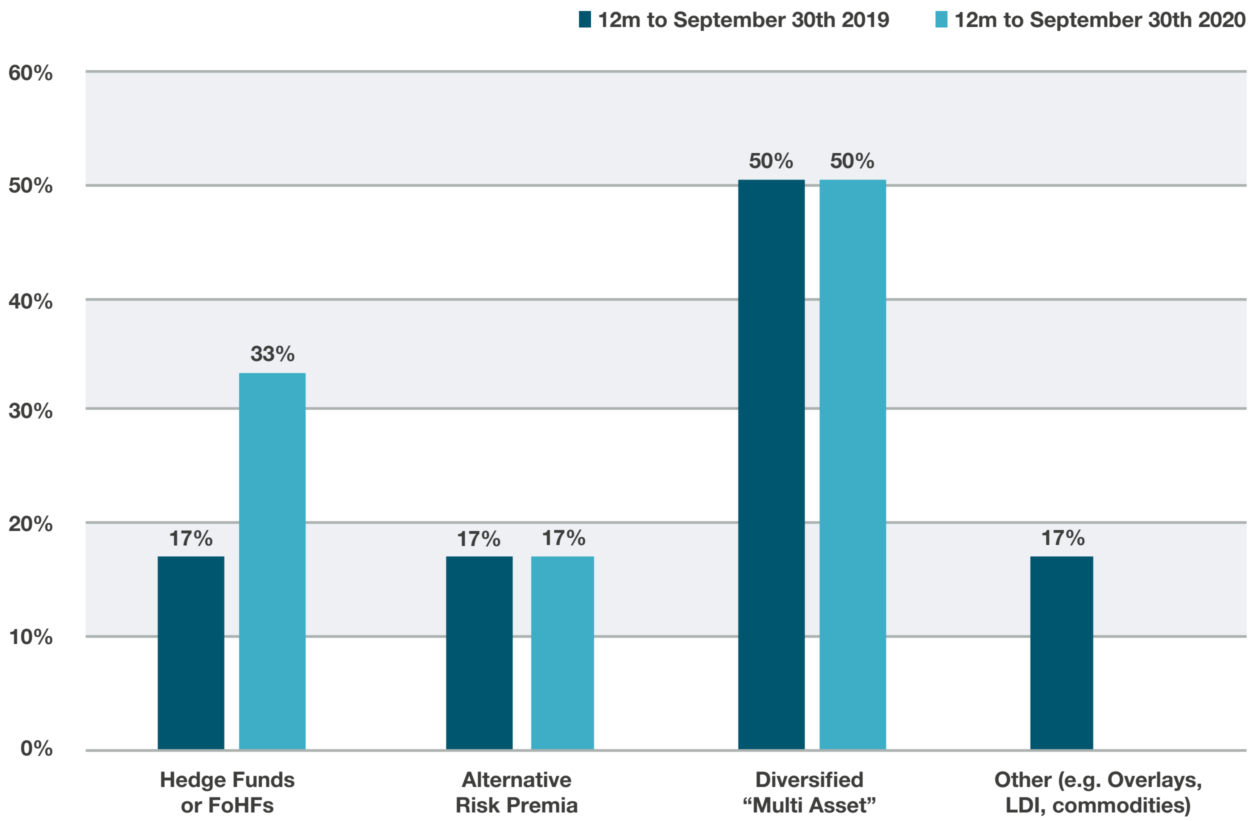
To find out more, listen back to the October 2020 webinar: *Manager Intelligence, Equities and Fixed Income.*

News from the fixed income manager world

- **Polar Capital** hires Naomi Waistell as an Emerging Market Debt Fund Manager. She becomes co-manager of the Polar Capital Emerging Market Stars fund.
- Union **Bancaire Privée** hires Lamine Bougueroua as an Emerging Market Debt Fund Manager.
- Ida Andreasen is appointed an Emerging Market Debt Fund Manager managing both EMD Hard Currency and Total Return portfolios at **Nordea**.
- Bob Jolly, Head of Global Macro Strategy in **Schroders**' Fixed Income unit, is to retire in June 2021. Paul Grainger, who has co-managed the Global Multi-Sector Fixed Income team alongside Bob since 2016, is to take sole responsibility for the team.
- Andy Chorlton is appointed Head of Fixed Income at **Schroders**. Philippe Lespinard, who previously held the position, is to leave the company.
- **Schroders** appoints Stephan Ruoff as Head of its Insurance-Linked Securities business, Schroder Secquaero.
- Sunjay Mulot leaves **AXA Investment Managers**, relinquishing his responsibilities for five euro-denominated bond strategies.
- Niklas Nordenfelt leaves **Wells Fargo Asset Management**, where he was Co-Head of US High Yield Bonds, resurfacing as Head of High Yield at **Invesco US**.
- Credit fund manager Robert Persons is to retire from **MFS Investment Management** in June.
- Victor Verberk is appointed Chief Investment Officer for Fixed Income and Sustainability at Robeco. He will remain Portfolio Manager of **Robeco** Global Credits funds.
- Mike Hugman leaves **Ninety One**, where he was an Emerging Market Debt Fund Manager. He is now Director of Climate Finance at the not-for-profit **Children's Investment Fund Foundation**.
- **William Blair** hires Clifford Lau as a Portfolio Manager on the Emerging Market Debt team. Lau will be based in the firm's new Singapore office.
- Joanna Woods, previously of **First State**, moves to **Franklin Templeton** as an Emerging Market Debt Fund Manager.
- **Investcorp** hires David Moffitt as Co-Head of US Credit Management, based in New York. He joins from **LibreMax Capital**..

Liquid alternatives showcase their diversifying credentials amid September's equity market decline

NEW 'DIVERSIFYING STRATEGIES' MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated **after** October 1st 2018 and October 1st 2019, and do not include pre-existing client engagements that continued during those years.

Diversifying strategies continued

Investor trends

Overall, Q3 saw a continuation of a period of weaker sentiment towards liquid diversifying strategies – such as Hedge Funds, Multi Asset strategies and Alternative Risk Premia – among institutional investors. Overall, new manager searches for these asset classes represented 8% of all new manager searches in the 12 months to September 30th 2020, versus 16% in the prior year.

Investors seeking diversifying strategies in 2020 are very much focused on improving risk-adjusted return profiles and reducing portfolio-level drawdown expectations rather than outright return generation.

Multi Asset strategies remain the dominant sub-sector, with particularly healthy demand for 'Total Return' strategies (*Seven Shades of Multi Asset* provides a useful classification framework). Within hedge funds, we note more interest in market-independent strategies (e.g. Equity Market Neutral and Multi-Strategy Market Independent) than convex diversifiers such as CTAs or Global Macro. In ARP, the focus among our clients is on reassessing and re-underwriting existing allocations rather than increasing exposure; new white paper *Benchmarking Alternative Risk Premia* (September 2020) took a fresh look at the subject of ARP performance.

Manager watch

The majority of the third quarter was characterised by risk-on behaviour, with equity markets continuing the aggressive rebound that they experienced in Q2. However, this ended abruptly in September, when global equity markets suffered their first monthly fall since the height of the COVID-19 disruption back in March.

This difficult month therefore provided many liquid alternative strategies with the opportunity to demonstrate their diversification potential. Happily, many strategy types showed positive results. Most of our Diversifying Strategy manager composites rose in Q3, with Macro & Trading being the only composite to fall slightly.

Despite a second consecutive quarter of gains, all of bfinance's composites remain in negative territory year-to-date, albeit by only a small margin in some cases. Additional detail about the performance of the key strategy groups can be found on the following page.

To find out more, listen back to the November 2020 webinar: *Manager Intelligence: Hedge Funds, Multi Asset and ARP*.

Diversifying strategies continued

MANAGER PERFORMANCE (TO END SEPTEMBER 2020)

	3m	YTD	1Y	3Y (p.a)
bfinance Equity Long/Short Composite	2.32%	-2.90%	0.44%	0.84%
bfinance Event Driven Composite	3.64%	-3.33%	-0.53%	2.37%
bfinance Credit Long/Short Composite	2.23%	-0.80%	-0.29%	1.73%
bfinance Macro & Trading Composite	-0.33%	-5.56%	-6.56%	1.22%
bfinance Alternative Risk Premia Composite	0.13%	-11.23%	-12.71%	-4.50%
bfinance Multi-Asset Composite	2.42%	-0.87%	1.11%	3.41%
bfinance Multi-Strategy Composite	0.53%	-4.00%	-3.86%	1.22%

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 *continued*

After its impressive Q2 rebound, the **Event-Driven** composite rose by another 3.6% in Q3. Equity-focused Directional Event strategies rose by 2.4%, while Multi-Strategy Event rose by 3.3%. Hard Catalyst / Merger Arbitrage strategies, which are by nature less volatile and more market-independent, rose by a solid 2.1%.

The **Equity Long/Short** composite rose by 2.3% in Q3, with all sub-styles rising. The composite even rose in September, despite long-only global equities falling sharply over the month. Long-Biased Long/Short strategies once again led the pack with a gain of 5.9% over the quarter. Low Net Exposure / Market-Neutral strategies rose by a more muted 0.8%.

All three sub-styles within bfinance's **Credit Long/Short** composite rose in Q3, with the composite up by 2.2% overall. As was the case in equities, Long-biased strategies did best, rising by 2.6%, compared with 1.6% for Market-Neutral portfolios. Our Credit Long/Short composite is down -0.8% YTD, making it the strongest performer among all composites.

The **Macro & Trading** composite ended the quarter down -0.3%, with positive performance early in the quarter outweighed by losses in September. Core Trend-Following was again the weakest sub-strategy (-1.7%), with the US dollar's reversal in September the biggest culprit. Diversified CTAs rose by 0.4%, while Systematic Macro strategies ended the quarter up 1.0%. Discretionary Macro fell by -1.1%, but with the customary high level of dispersion among managers, ranging from close to double-digit losses to high-single-digit gains.

The **ARP** composite rose by 0.2% in Q3, but it is still the worst-performing area within the liquid alternatives universe so far in 2020, with a -11.1% YTD loss. Both Academic and Practitioner premia have suffered, but the more complex strategies featuring Practitioner premia did better than their Academic counterparts and this continued in Q3 (+1% versus -0.6%). Strategies without trend signals did significantly better in Q3 than those that incorporate them (+1.5% versus -0.3%).

The **Multi-Asset** composite rose by 2.4% over the quarter. The strongest performance came from Risk Parity (+3.5%), while Unconstrained Balanced (+2.4%) and Diversified Growth (+2.5%) also posted solid gains. Multi-Asset Absolute Return underperformed, rising by just 1.3%, but also provided the most protection in what was a difficult September.

Finally, our **Multi-Strategy Hedge Fund** composite rose by 0.5% over the quarter. Multi-Manager approaches led the way, rising by 2.0%, while Quant Multi-Strategy was the weakest area, losing -0.4%. Arbitrage-oriented strategies typically rose in value, whereas directional exposures (particularly trend-based) detracted.

bfinance

Diversifying strategies continued

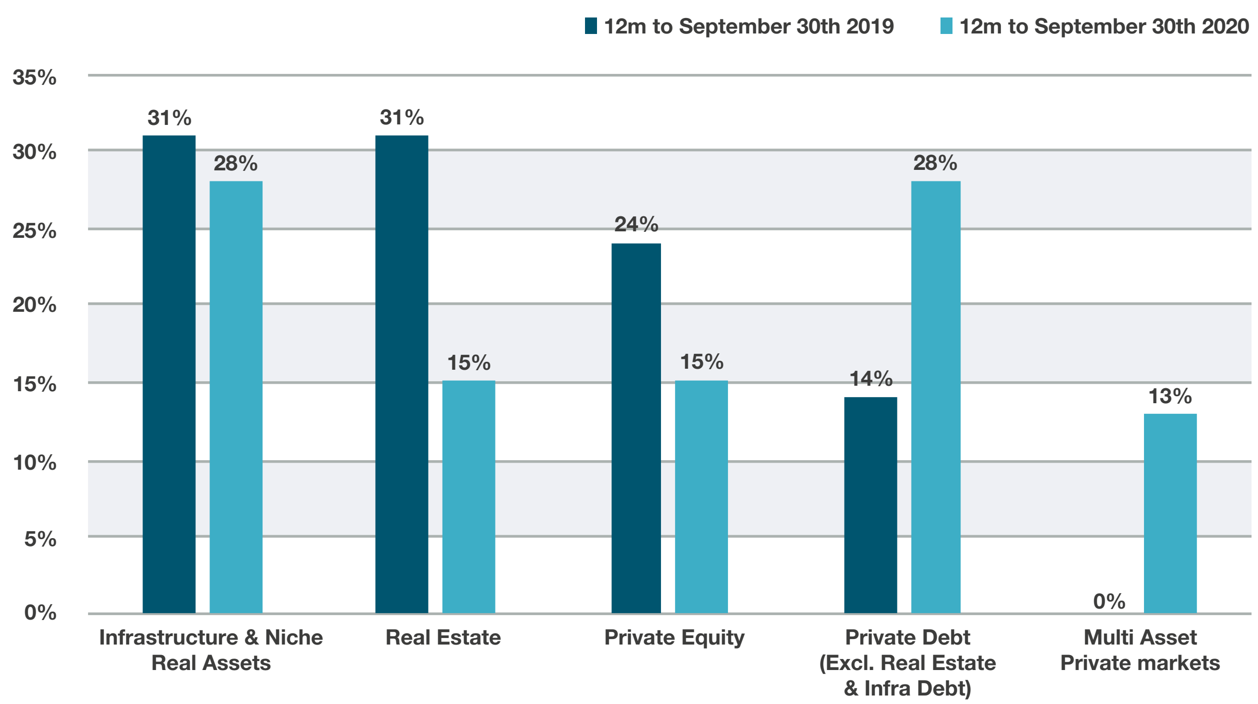
News from the alternative manager world

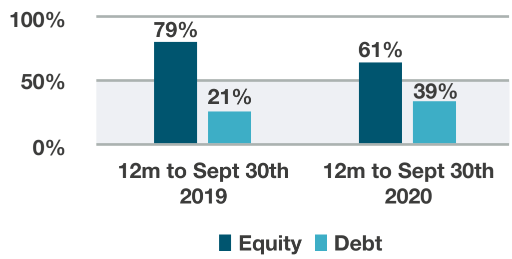
- **Lansdowne Partners** is to close its flagship equity long/short fund after 19 years, focusing instead on its long-only products.
- **Sloane Robinson** announces it is winding down operations and will close by the end of 2020.
- Two strategies that form part of **Fulcrum's** flagship Diversified Absolute Return strategy are to launch as standalone offerings: an equity dispersion strategy and a thematic equity market-neutral approach.
- **PAAMCO** spin-out **Martlet Asset Management** announces the closure of its Alternative Beta strategy, returning all capital to investors.
- Alternatives specialist **GCM Grosvenor** is to go public after merging with a special purpose acquisition company.
- Boutique firm **ARP Investments** launches a systematic macro fund.
- **GAM** closes its Systematic Discovery fund, a CTA strategy focused on esoteric markets, due to a material drawdown through Q2.
- September sees the launch of the suite of Bloomberg Goldman Sachs ARP indices. **bfinance** was a member of the Advisory Panel. (See *Benchmarking Alternative Risk Premia*).
- Quant fixed income manager **BlueCove** plans to launch a fund on the **Lumyna** alternative UCITS platform.
- **Parametric** shuts down its ARP strategy after weak performance in the first half of 2020.
- The new **Investcorp-Tages** joint venture launches a short-term CTA strategy on its UCITS platform, managed by **Eckhardt Trading Co**.
- Boutique alternatives manager **One River Asset Management** sells a 25% equity stake to **Brevan Howard**.
- **Man Group** remains top of Eurohedge's Billion Dollar Club of the largest European hedge funds as at mid-2020, with $50bn in AUM. **Marshall Wace** is in second place at over $32bn.

Private markets

Dispersion is the key performance theme as the pandemic's winners and losers begin to emerge

NEW PRIVATE MARKETS MANAGER SEARCHES, YEAR ON YEAR





Note: these figures only represent projects initiated **after** October 1st 2018 and October 1st 2019, and do not include pre-existing client engagements that continued during those years.

Private markets continued

Investor trends

Overall sentiment towards private markets remains extremely strong among bfinance clients, with a 34% increase in the number of manager selection engagements year-on-year for the twelve months ending September 30th. This includes new searches as well as re-ups with existing managers.

In Q3 particularly, we note an increase in Infrastructure and Private Equity activity, counterbalanced by a reduced number of searches in Real Estate and mainstream Private Debt (although there has been a surge in niche private debt and debt-like strategies such as Trade Finance and Equipment Leasing). Among investors looking for their private markets exposure to provide resilient yield, there has been increased interest in 'asset-backed credit', specifically in Real Estate and Infrastructure.

Infrastructure remains the most popular of the four key asset classes here, with a notable focus on regional strategies, Renewables and Infrastructure Debt. Private Equity activity has broadened in scope, with a focus on building more specific exposures in areas such as Asia Pacific or Emerging Markets.

Market snapshot

There was a marginal improvement in private market performance through the quarter, certainly until mid-September after which the prospect of a 'second wave' of COVID-19 led to a sharp turnaround in sentiment. Strategies exposed to sectors and geographies most impacted by the COVID-19 pandemic continued to suffer, while those that are well-placed to benefit experienced increased capital flows and performance.

CAPITAL RAISING MOMENTUM ACROSS PRIVATE ASSET CLASSES, 2020 Q3

Asset Class	Q2 2020 No. & Vol., and % change in share		Share of Private Market Capital Raised and Strategic Focus	Largest Fund Raises During Q3 2020
	No. Funds	Volume		
Real Estate	28 -41%	$21bn -44%	Lowest level of Real Estate capital raising for at least five years. High proportion was for Real Estate Debt strategies as investors sought resilience.	• Blackstone Real Estate Debt Strategies IV, Global, $8bn. • Related RE Fund III, Opportunistic, $1.9bn. • AG Europe Realty Fund III, Value Add, $1.5bn. • Rialto Real Estate Fund IV-Debt, $1.1bn.
Infrastructure	17 -10%	$22bn +93%	Surge of capital raising, although this followed a particularly weak Q2. Highest levels of capital in European focused strategies, with a slowing in US influenced by the upcoming Presidential election.	• Antin Infrastructure Partners IV, Value Add, Global, $7.7bn. • Strategic Partners Infrastructure III, Secondaries, Global, $3.8bn. • Patria Infra Fund IV, Core+, LatAm $2bn. • GIP Digital Infrastructure, Core+, US, $1.8bn.
Private Equity	237 +22%	$127bn -27%	Private equity represented 71% of total capital raising, well above the long term average of 62%. Increase in average fund size to over $500m. Capital raised for Europe slightly ahead of U.S.	• CVC Capital Partners Fund VIII, Buyout, Global, $24bn. • Silver Lake Partners VI, Buyout, US, $18bn. • EQT IX, Buyout, Europe, $17bn. • Vitruvian Investment Partnership IV, Buyout, Europe, $4.7bn
Private Debt	20 -50%	$8bn -72%	Lowest level of Private Debt capital raised for at least 8 years. Most of the funds closing were US focused, with no European funds closing during the quarter.	• Antares Senior Loan, Direct Lending, US, $3bn. • CVC Credit Partners Direct Lending II, Europe, $1.5bn. • Goldman Sachs Private Middle Market Credit II, US, $1.3bn. • CRG Partners IV, Mezzanine, US, $1.1bn.

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 Q3 2020, Private Debt accounted for 4.7% of capital raised and in Q2 2020 it accounted for 17%, a decrease of 72%

Private markets continued

Market snapshot *continued*

The lower level of transaction activity makes it even harder than usual to gauge the performance of the market, but the sectors exposed to retail, hospitality, travel and conventional energy all suffered through the quarter, whether in private real estate, infrastructure, credit or private equity. Although real estate suffered more than the other asset classes, with vacancies rising, rents falling and cap rates rising, the logistics and centre markets experienced rising demand and rental growth, and some cap rate compression. Similar trends were apparent in infrastructure with GDP-related assets tending to be marked down while those focused on renewable energy and digital infrastructure performed well.

The bfinance Private Markets manager research team is holding a private webinar for clients and other investors on 18th November. For information, please contact *info@bfinance.com*.

Manager watch

From a performance perspective, the key theme in 2020 is 'dispersion', as was the case with the market themes above. Examples of the high degree of differentiation in performance outcomes are evident in this recent article: *Real Estate Upheaval Puts Manager Discipline in the Spotlight*. Managers could not have foreseen the dynamics of COVID-sensitive and COVID-resistant sectors. However, this period is also rewarding disciplined teams that have diversified well, remained prudent in the deployment of capital during a period of high competition among buyers, maintained low levels of leverage on favourable terms, hedged effectively and maintained good levels of liquidity.

From a fundraising perspective, explored further on the following page, the $178bn raised in Q3 2020 was the lowest level since early 2016 and well below the average quarterly close of $245bn over the past five years. While Q3 does tend to be a weak quarter from a capital raising standpoint, this drop is significant. The pandemic has led investors to focus on managing existing exposures, preserve liquidity, become cautious with new investments and take longer to make decisions.

Spotlight on fundraising

The sharpest falls in Q3 were in Real Estate and Private Debt, with Private Equity remaining broadly flat and Infrastructure seeing a sharp increase after a relatively low Q3. The extremely low levels of fundraising in Private Debt represented a sharp reversal on the relatively high levels of Q2, when a number of Distressed Funds closed during the quarter. Strong appetite for the Infrastructure asset class was demonstrated by an increase in capital raising, although this followed a particularly weak Q2.

Private Equity

Although the number of Private Equity funds closed during Q3 fell by close to 30%, the amount of capital raised was slightly up on the previous quarter. This increase in fund size, up by 26% to over $500m, is a trend that has emerged over recent years and has accelerated during the pandemic. Investors' focus on larger funds reflects the conservative approaches they are adopting during this period of turmoil, with a preference for Buyouts and Funds of Funds (rather than VC and Growth funds) and for the established markets of North America and Europe.

Private Debt

There were extremely low levels of capital raised in Private Debt during the quarter, with only 20 funds closed accounting for a total of less than $8bn. No European funds closed, with most of the capital being targeted at US Direct Lending and Mezzanine strategies. Despite this weakness, a number of sizeable Real Estate and Infrastructure debt funds closed, reflecting investors' appetite for these asset-backed strategies.

Real Estate

Capital raising was also very low in Real Estate. In fact, it sank to its lowest level for at least five years as investors became concerned about the impact of COVID-19 on performance, particularly for retail and hospitality asset classes in Europe and the US.

Infrastructure

Infrastructure capital raising continued to be lumpy, with a rebound in Q3 after a weak Q2. Appetite was strongest for strategies with exposure to the themes of decarbonisation and digital, with an increasing number of specialist funds in those sectors. Europe-focused strategies attracted the greatest inflows, with a slowdown in the US, probably influenced by the upcoming Presidential election. Despite the strong appetite for Infrastructure, there has been an increase in the length of time that funds are staying in market: only 26% of funds are closing within 18 months of being launched, down sharply from 56% in 2019.

News from the private market manager world

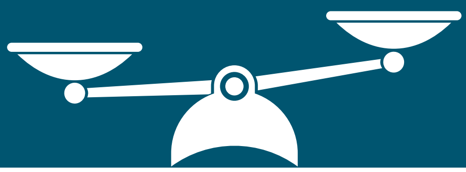
- **Barings** and **Mubadala** launch a new initiative, 'Barings Mubadala Enterprise', a platform for European mid-market businesses.
- **PennantPark** forms a partnership (PSLF) with **Pantheon**, a global alternative private markets investor.
- **Mackenzie Investments** enters a strategic relationship with **Northleaf Capital Partners**, a USD 15bn private equity, private credit and infrastructure fund manager.
- There is further consolidation in the world of REITs, with the **Dexus** Wholesale Diversified Property Fund proposing a merger with **AMP Capital's** Diversified Property Fund to create an entity with over USD 10bn in managed funds.
- It is reported that **AMP's** Chairman, David Murray, has resigned and that Boe Pahari will no longer be promoted to AMP Capital Chief Executive. This follows a number of other senior departures including Andrew Jones (global head of debt) and Carmel Hourigan (head of real estate). Hourigan has been replaced by Kylie O'Connor.
- **First Eagle Alternative Credit** expands its capability to cover asset-based lending by hiring Larry Klaff and Lisa Galeota.
- **Schroders** appoints Nicole Kidd to head its Private Debt activity in Australia.
- David Scopelliti joins **Mercer** as Global Head of Private Debt.
- Kelli Marti joins **Churchill Asset Management** to head its mid-market CLO platform.
- Andrew Gordon and his European Real Estate Debt team move from **GAM** to **Invesco Real Estate**.
- **LaSalle** announces the appointment of Philip La Pierre as CEO of Europe.
- Andrew Liau is hired to co-head the **HIG** infrastructure team alongside Ed Pallesen.
- **British Land** appoints Simon Carter as Chief Executive.
- Marcus Sperber, **BlackRock's** former Head of Global Real Estate, launches a new property investment and advisory business, **NorthCroft Capital**.
- **Amundi** appoints Dominique Carrel-Billiard to head its real and alternative assets unit.
- **Savills Investment Management** hires Emily Hamilton to head its ESG activities.
- **Brookfield** appoints Mark Carney, former governor of the Bank of England, as Vice-Chair and Head of Environment, Social and Governance and Impact Fund Investing.
- Mark Redman, formerly Global Head of Private Equity at **OMERS**, is to replace the retiring Peter McKellar as Global Head of Private Markets at **Aberdeen Standard Investments**.
- **Schroders** appoints Sophie van Oosterom as Global Head of Real Estate as of the end of 2020.

Asset owner survey

Highlights from the Asset Owner Survey conducted in June 2020 (published July 2020)

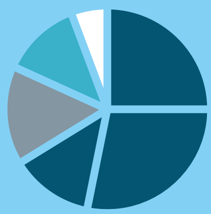
$11trn managed by 368 investor participants, including pension funds (52%), insurers, endowments, family offices and others.

29% of investors are currently underweight risk assets versus 19% who are overweight. North American investors appear more confident than global peers.



35% are making changes to risk management, including 46% of insurers.

24% are changing their Strategic Asset Allocation in 2020, including 39% of those in the Asia-Pacific region.



48% say actual exposure to private markets will increase in 2020, continuing a multi-year trend (54% increased exposure in 2017-19).

42% of investors say ESG issues will become more important as a result of C-19, and zero say they'll become less important.

Asset owner survey continued

82% are satisfied with how their portfolios have performed in 2020 so far. Active management received positive feedback across most asset classes, but not all…

28% of investors say their portfolio lost more than 10% of its value in Q1, including 47% of endowments and foundations.

54% of investors are terminating or likely to terminate managers based primarily on their 2020 performance, including 82% of family offices.

53% of investors using active Emerging Market Debt strategies are dissatisfied with their performance; so are 48% of Hedge Fund investors and 64% of Alternative Risk Premia investors.

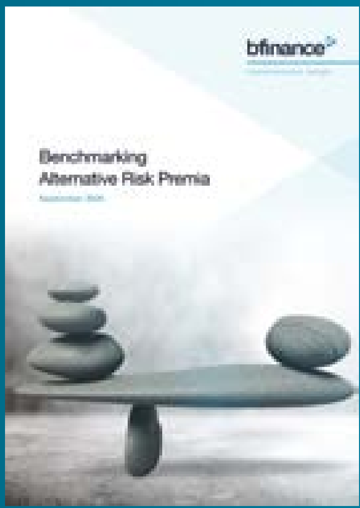
31% say the inability to travel and do face-to-face meetings is not an obstacle to selecting new asset managers and investments, 13% say it's a "major obstacle".

33% are investing in distressed or opportunistic strategies that explicitly target COVID-19 fallout, with more to follow. European investors are less involved than global peers.

To download the full Asset Owner Survey report, click here.

Recent publications available at **www.bfinance.com**

Sector in Brief: Securitised Credit
(November 2020)



Benchmarking Alternative Risk Premia
(September 2020)

The Rise of Fixed Income Factor Investing
(August 2020)

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