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REYL & Cie selectors reveal long-only fund buy list

By: Adrien Paredes-Vanheule | 24 Jul 2018

Jonathan Cohen, portfolio manager in charge of traditional long-only fund selection and Cédric Özazman, head of Investments and Portfolio Management, outline REYL & Cie's long-only bets to InvestmentEurope.

Two of Geneva-headquartered private bank REYL & Cie's nine or so investment professionals are responsible for – respectively – long-only fund selection and liquid alternatives fund selection.

Each brings expertise on a particular asset class hence gets involved in fund selection decisions as, for example, is the case for European equity funds with Reyl's head of Investments and Portfolio Management Cédric Özazman *(pictured left)*, a specialist in the segment.

"We have a concentrated buy list of 15 to 20 funds, quite the opposite of a shopping list that encompasses all segments. It is a way to implement our convictions. Though the model carries some limits, we try to find the adequation between our human resources – one cannot follow 40 funds at a time – and clients' needs which can differ from our convictions," says Jonathan Cohen, portfolio manager in charge of traditional long-only fund selection.

"Fund selection at Reyl is first aimed at matching the various client investment profiles and needs we have to fulfil for portfolio construction.

It logically includes allocation to classical funds in the US or in Europe on the equity side for instance.

“Now, given our model, we can bring added value by selecting funds that fall into the niche category and stand out from the rest of the market. As an example, we have conducted funds research on Nordic credit,” he adds.

Sub-debt favoured

Funds are generally kept in the portfolio for over a year. A three-year track record is required for the portfolio manager as well as $100m in assets under management for a minimum fund size. Though Cohen pinpoints these rules can be circumvented if the team has a strong enough conviction on a manager.

The use of ETFs? A rarity in Reyl’s allocation grid says Özazman, whose team utilises passive funds when active ones cannot fit the team’s allocation view – for example, to obtain exposure to a specific theme.

“We currently hold an ETF focused on US medtech. There are, perhaps, active healthcare equity fund managers maintaining a US medtech bias, but it remains hard to find. Sometimes a sectorial ETF will do the trick. Obviously, we also use ETFs for tactical purposes on a limited investment horizon – 6-9 months,” he says.

In the fixed income bucket, the Geneva bank’s investment unit avoids currently European government bonds, since the European Central Bank’s first interest rate hike is not expected before mid-2019 and returns do not look appealing.

“Nordic debt forms an interesting alternative. Once we are hedged against currency risk, we perceive more returns compared to eurozone debt,” Özazman argues.

Cohen *(pictured left)* adds that subordinated debt has long been a favoured play of the unit, especially through a fund from Algebris. “Subordinated debt suffered a bit last
year, but not as much as US credit. We are raising the question of whether it has become overcrowded or not. We are beyond the mid-cycle point and need to be more cautious on the asset class at some point,” Cohen assesses.

Özazman notes: “European banks took measures long after their US counterparts, but at least they have acted to resolve structural issues. These issues haven’t been resorbed fully yet in some countries like Italy. Banks in Spain, France are being well recapitalised. Their balance sheets are robust enough to avoid systemic risk of the sovereign debt.

“The asset class has recorded high levels of net inflows in recent years. As a result, positions taken by subordinated debt funds are quite large. There is perhaps a need to bring more granularity and diversification. We look at corporate hybrid bonds, which carry a less aggressive profile and are even more niche.”

Another strong credit bet over the last couple of years has been emerging market local currency. Cohen says the unit took profits on the asset class at the end of last year and that the idea is to reallocate this bucket to another part of the EM debt spectrum, namely increasing the bucket of EM high yield corporate bonds.

Asked about unconstrained fixed income funds, Cohen explains such vehicles have been removed since mid-2015 given the unit’s preference for niche segments.

“That said, having some unconstrained investment solutions in an allocation grid can make sense since a few months. We want to know what is in portfolio and there is a need for defined guidelines,” he says.

The team has decided to lengthen duration in portfolio following the Federal Reserve's recent announcements, staying short duration through inflation-linked funds while some other funds, mainly US credit vehicles, keep a six to seven-year duration in aggregate. Özazman highlights there is no reason to pursue a pronounced bet on short duration and being underweight US credit.

European smid bias
Regarding equities, Özazman and Cohen acknowledge a bias on European small and mid-caps. Reyl's head of Investments and Portfolio Management argues that it is where innovation can still be found even though it cannot compete the level of innovation seen in the US market. Says Özazman, "a number of niche companies are worldwide leaders in their markets and provide growth perspectives that we would not see in the large cap segment."

However, his colleague Cohen points an issue with several European small and mid-cap equity funds, especially these invested in Swiss smid cap equities, that have reached a size that is not coherent with their investment policies according to him.

"They carry an important liquidity risk. Liquidity-wise you cannot only rely on three Swiss large cap stocks. If the market overheats or is subject to an aggressive sell-off phase, we would not be confident being in this type of funds," Cohen adds.

China A-shares may well be a further addition to Reyl & Cie's fund buy list. The long-only fund selector explains that the team receives solicitations from their Singapour peers whom they work with on the emerging market bit of their portfolios.

"Appetite for China A shares is there. We wonder what is the most coherent for us, whether holding a pure and dedicated China A shares strategy or a fund that can invest China A shares but not exclusively. Work is in progress but we definitely have a strong conviction on China," says Cohen, who also views "fashionable" total return funds as an eventual additional option " but maybe later in the cycle."