# TALKING TWEAKS

A long-term investment view is essential for independent asset managers, but one big advantage of independence is the ability to move in and out of asset classes quickly. With interest rate hikes, geopolitical risks and the Fed's promise to unwind its balance sheet all keeping investors on edge, we asked four independent asset managers what they're doing to fine-tune their strategic picks right now




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*'At the moment our biggest concern is our duration risk, based on the fact that long-term interest rates will have to go up'*

*'Combining a number of investment themes with different time horizons is an important part of portfolio diversification'*

URS IMBER
Swiss Wealth Protection
Minusio

At Swiss Wealth Protection, we use tactical asset allocation to respond swiftly to market developments by shifting our allocations to less sensitive asset classes and sectors. A couple of months back we moved tactically into more conservative defensive stocks, adding to pharma names such as Novartis, Roche and Bayer. We also bought energy names, as they seemed to be undervalued at the time. We think companies such as Royal Dutch Shell and Total did their homework by reducing their risk and increasing profitability.

We changed our tactical positioning because some fundamental figures in the US are slowing, plus companies' valuations are quite high. We think the fourth quarter will be very positive but we also believe it is impossible to shift quickly when fundamentals are turning. We are changing our allocation gradually.

Currently we overweight equities (55%) in a balanced portfolio, while 15% is allocated to alternatives and 30% to bonds. Alternative investments were just 10% in March, but we increased this position, buying long/short strategies in order to mitigate volatility in our client portfolios.

When it comes to macroeconomic events we are looking very closely at the elections in Italy next year. We are prepared for it already, having moved towards more a defensive allocation. The next step will be to take profits if we have a good end of the quarter and maybe even increase exposure to alternatives again.

JULIEN JAMMET
Pentagram Wealth Management
Geneva

With central banks looking set to gradually reduce their support for the economy and with volatility likely to increase, it is essential to fine-tune our investments. As an independent asset manager, our unconstrained and flexible approach enables us to take and implement decisions in a quick and effective way, without any conflict of interest.

The supportive global economic environment has dramatically reduced the risk of a recession but investors have to deal with one of the most unloved bull markets in history. As a result, managing the global exposure as well as the beta is at the core of our process.

Confidence in the economy should not eclipse tail risks – the magnitudes of which are often hard to predict. Our long core equity positioning is quite stable and consists of a mix of mutual funds and mid/large caps (generally with lower beta and strong visibility), which are managed within in-house products. The satellite is made up of passive investments such as ETF tracking indices.

We go long ETFs because we're in an environment that supports risk-taking. Exposure can be reduced either by selling them or by purchasing ETFs short in a risk-averse environment.

For example, to offset the country risk in the light of the recent political developments in Spain, we decided to buy an ETF short on the IBEX rather than cutting our long single names.

Even if we continue with pro-risk asset allocation, the realisation of a tail risk could jeopardise our current allocation. We monitor indicators such as greed and fear, which may signal some overconfidence in the industry.

JOÃO CAIANO
TASK Wealth Management
Geneva

At TASK we believe that having a long-term strategy for asset allocation is essential when it comes to constructing clients' portfolios. We review our asset allocation periodically, challenge our long-term views on the markets and measure the possible outcomes of our positioning.

We also constantly monitor numerous market indicators and have the ability to move in and out of each asset class at any given time. As a result, when playing a short-term theme, our first choice will be liquid securities such as single lines or ETFs. On the other hand, we prefer high alpha vehicles for our core asset allocation.

This year has provided two examples of our flexible approach: one in January, when we decided to increase our exposure to equities, and another in September, when we decided to increase our exposure to financials.

We started the year with valuations that looked attractive. The euro was depressed against the US dollar, earning revisions were on the upside, sales were improving and margins still had room to grow, so we decided it was time to increase our exposure to the equity markets. In September, following the Fed's decision to begin shrinking its balance sheet and given our view on long-term interest rates, we decided to increase our exposure to financials.

At the moment our biggest concern is our duration risk, based on the fact that long-term interest rates will have to go up as the economy is improving. However, we see little sign of growing inflation on the horizon. We have slowly started our reduction by buying short-term bonds and loan funds, but if the Fed and the ECB become more aggressive, we could accelerate this move.

PATRICK PICENONI
Altrafin Group
Zurich

Altrafin is long-term oriented and values continuous cash flows. At the same time, it is part of our DNA to see opportunities in market weaknesses and exaggerations – maybe because a large proportion of our clients are entrepreneurs. We believe that combining a number of investment themes with different time horizons is an important part of portfolio diversification.

An example of this principle was the Brexit vote. We hedged sterling beforehand and used the panic in the days after the vote to buy equities, especially UK multinationals. Another example was the US election. We hedged parts of our equity exposure, but when the sentiment shifted after the result, we changed direction and joined the Trump reflation trade in the (very) early hours of 9 November.

One other example would be our recent USD/EUR hedges. This March we saw extreme positions long the euro and short the dollar. The macro situation did not support this: growth in Europe was starting to look stronger than in the US, current account surpluses were widening, the trust in the US government to deliver on its promises was declining and the probability of further rate hikes in the US was decreasing. Only the interest rate differential and the political uncertainty in Europe favoured a strong dollar.

The French election was the expected turning point. We dissolved our hedges in two steps in August and September. Market sentiment had turned pro-euro, the Fed's hawkish language was surprising the market... and of course the euro had appreciated considerably.

The Altrafin team always analyses three variables: macro, micro and market (sentiment). We are very opportunistic when it comes to the execution of investment ideas using debt, equity, ETFs, mutual funds, futures and options – whatever we think is the most efficient way forward.