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UBP & amLeague partnership extracts alpha from best managers of amLeague Platform

UBP partners with AM League

UBP has signed a partnership with a “best-idea” platform called Asset Management League (AM League). AM League creates virtual investment mandates for a selected but competitive pool of active mutual fund portfolio managers. These mandates are often sponsored by institutional investors. The virtual trading portfolios are independently tracked, consistently benchmarked and publicly ranked by AM League. They have therefore a very interesting proprietary database of look-through “buyside” best ideas, which gives them special insight in the patterns of alpha generation and manager selection (the founder Antoine Briant had sold Asset Manager Ratings (AMR) to Fitch).

Performance in the fund management industry

Active management alpha (after fees) is elusive. Nevertheless, there is evidence for it in the short-term (<1 year) and among top quartile managers. Having said that, behavioural biases in manager selection – for example ‘chasing winners’ or ‘falling in love with a manager’ – typically make things worse – e.g. ‘buy high sell low’. Hedge fund short-selling alpha hasn’t been easier in the recent years. A systematic process can help avoid those biases and consistently identify short-term outperformers.

Several investors have turned to smart or alternative beta solutions in order to find a low-cost answer to the rise of passive. But those solutions generally failed to deliver the promised diversification benefits as they become correlated to traditional beta or underperformed materially.

The creation of “smart alpha” indices

We have the ambition to introduce a new answer to the search of liquid alpha and the rise of passive: “smart alpha” investment solutions. These retain the good aspects of smart beta ones (such as liquidity, transparency and flat fees) but instead exploit active managers ideas. The stock picks are driven by the selected active managers’ ideas while the weightings are effectively driven by the underlying conviction and are largely unconstrained. On the contrary, passive indices and ETF weigh up by market cap.

Furthermore, there is a systematic methodology to select the best managers and wrap their best ideas within investable rule-based indices. For example, their flagship AM League Euro 50 A index has been able to extract 5% of alpha p.a. since the 2011 inception.

Finally, “smart alpha” carries the benefit of a fund of funds – access to multiple portfolio managers ideas and hidden talent while not carrying multiple layer of costs.

The AM League Euro 50 A Index

The AM League EURO 50A Index® is comprised of 50 Eurozone stocks with quarterly rebalancing. It is kept unchanged intra-quarter except for corporate actions.

About 70 virtual competing portfolios from 40 asset managers can feed the index. Portfolio managers are judged by their uploaded ideas, which can or cannot be the ones they have in their own commingled funds, hence the past or official track record is largely irrelevant. There is a significant presence of carve-outs of global and low-carbon portfolios that are free challengers with little constraints.

AM League re-computes the trading P&L independently, applies estimates of trading cost and certifies the performance metrics. The quarterly selection is performed by looking-through the positions of best European portfolios (not necessarily run by European managers) in terms of risk-adjusted (beta-adjusted plus taking into

account tracking error) outperformance over the prior 9 months. Top 50 stocks in aggregate are eventually picked and benchmarked against the Eurostoxx 50 Total Return index.

Therefore, both the stock picks and the respective weighting derive from a systematic rule-based methodology, which was researched and set in early 2015 by AM League. The rules are robust and were published in late 2015 on their website and never changed. The index inception is March 2011.

The AM League EURO 50A Index® methodology is fully transparent but their underlying database is proprietary, with alpha capture mainly driven by their capability to access portfolios of best ideas in a way that isn't available to other players. For example, European carve-outs of global unconstrained (buy-side) portfolios with high active share.

UBAM Europe Market Neutral

UBP has launched a Ucits product with daily liquidity that will replicate the AM League Euro 50 A in the long book and overlay it with a dynamic index short overlay, hence creating a European Market Neutral fund (in EUR base currency).

The short leg is managed according to an internal overlay strategy that is live on several UBP products and has delivered alpha over a passive index short. It uses liquid listed index derivatives futures and options as well as long volatility futures on the Eurostoxx 50 Index.

The rationale to launch a market-neutral alpha capture fund is two-fold. From a top-down perspective, negative EUR rates spur demand for absolute returns at the same time when the economic outlook and the recent volatility justify some caution. From a bottom-up perspective, there is a strong demand for uncorrelated liquid alternative but also a lack of viable European equity market neutral products (Ucits, currency-based in EUR) since some of the best are capacity constrained whilst most have underperformed.

Performance

2020 has been one of the most volatile years in recent memory and represented a significant test for the strategy. The fund has been able to not only to deliver very consistent absolute return in EUR but also post positive returns in each quarter to date. Looking through industry indices, there has been lots of dispersion among competitors and many funds have suffered, despite their market neutral approach. In this context, the fund has shown outstanding performance versus peers.

In 2020, UBAM - Europe Market Neutral returned +11.2% (Class I EUR), comparing very favourably with the HFRX Equity Market Neutral Index (hedged in EUR) and the EuroStoxx 50 Index (total return) that returned -10.1% and -3.2% in 2020 respectively.

In terms of yearly contribution, our long book contributed positively +12% (gross of fees) to the overall portfolio, generating a positive alpha of +10% versus the beta-adjusted Eurostoxx 50 TR index reference. The short bucket contributed +1% (gross of fees) on an absolute basis, but generated an beta-adjusted alpha of +3%. Interestingly, the short book was particularly helpful in March when it added +3% of Alpha alone, highlighting the benefits and complementarity of the underlying strategies.

Takeaways

- ◆ *Active management alpha (after fees) is elusive. This is true for both mutual and hedge funds strategies. Furthermore, behavioural biases in manager selection typically make things worse.*
- ◆ *A systematic process can help avoid those biases and consistently identify short-term outperformers. There is significant evidence of active management alpha in the short-term (<1 year) and among top quartile managers.*
- ◆ *UBP has partnered with AM League SA to launch an innovative investment solution that should bridge the gap between the index business and active management.*
- ◆ *AM League SA has run a trading platform where asset managers' best ideas are independently tracked and consistently ranked since 2010. They have also created "smart alpha" indices by implementing an algorithmic quarterly selection of the best portfolios. These indices are fully investible and can be customised further, for example, by adding ESG constraints.*
- ◆ *UBP's first new product is a European equity market neutral daily liquid UCITS investment solution. It will replicate the holdings of the flagship AM League Euro 50 All Index on the long side plus adding a dynamic*

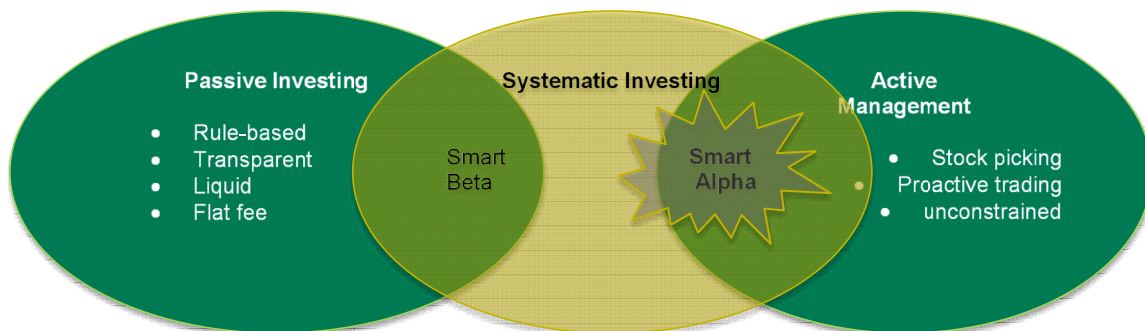
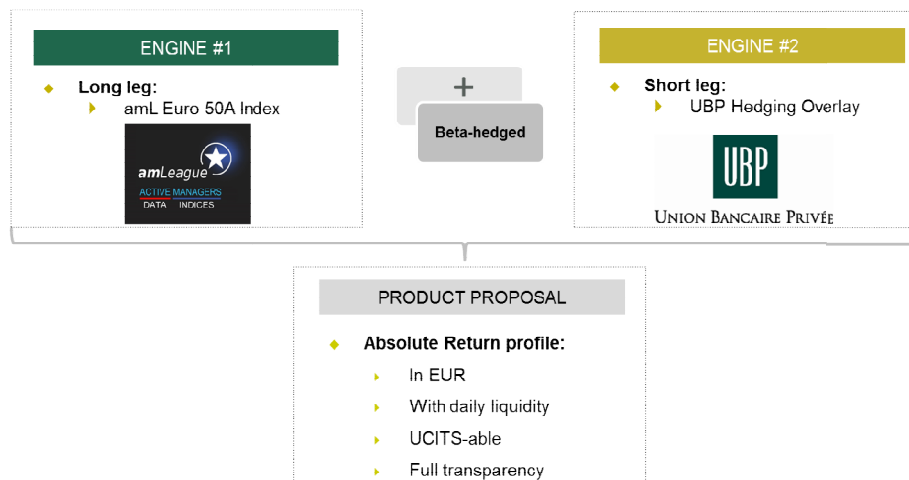
short overlay. The systematic strategies are complementary to each other and aim to generate value both on the long side and the short side.

- ◆ The product partnership has the ambition to create "smart alpha" solutions that provide diversification to traditional portfolios but also to other passive/smart beta type strategies.
- ◆ Furthermore, it has the benefit of a fund of funds – access to multiple portfolio managers ideas and hidden talent while not carrying multiple layer of costs. And it will offer for look-through implementation and transparency.
- ◆ Strong absolute and relative performance in 2020 in a very challenging year

UBAM - Europe Market Neutral

AM League & UBP Collaboration - Product profile

Combining two alpha generating engines



Daily NAV evolution of UBAM - Europe Market Neutral vs. Eurostoxx 50 TR & HFRX Market Neutral (Hedged in EUR)

