Trender innen kapitalforvaltning – muligheter og utfordringer for investorer

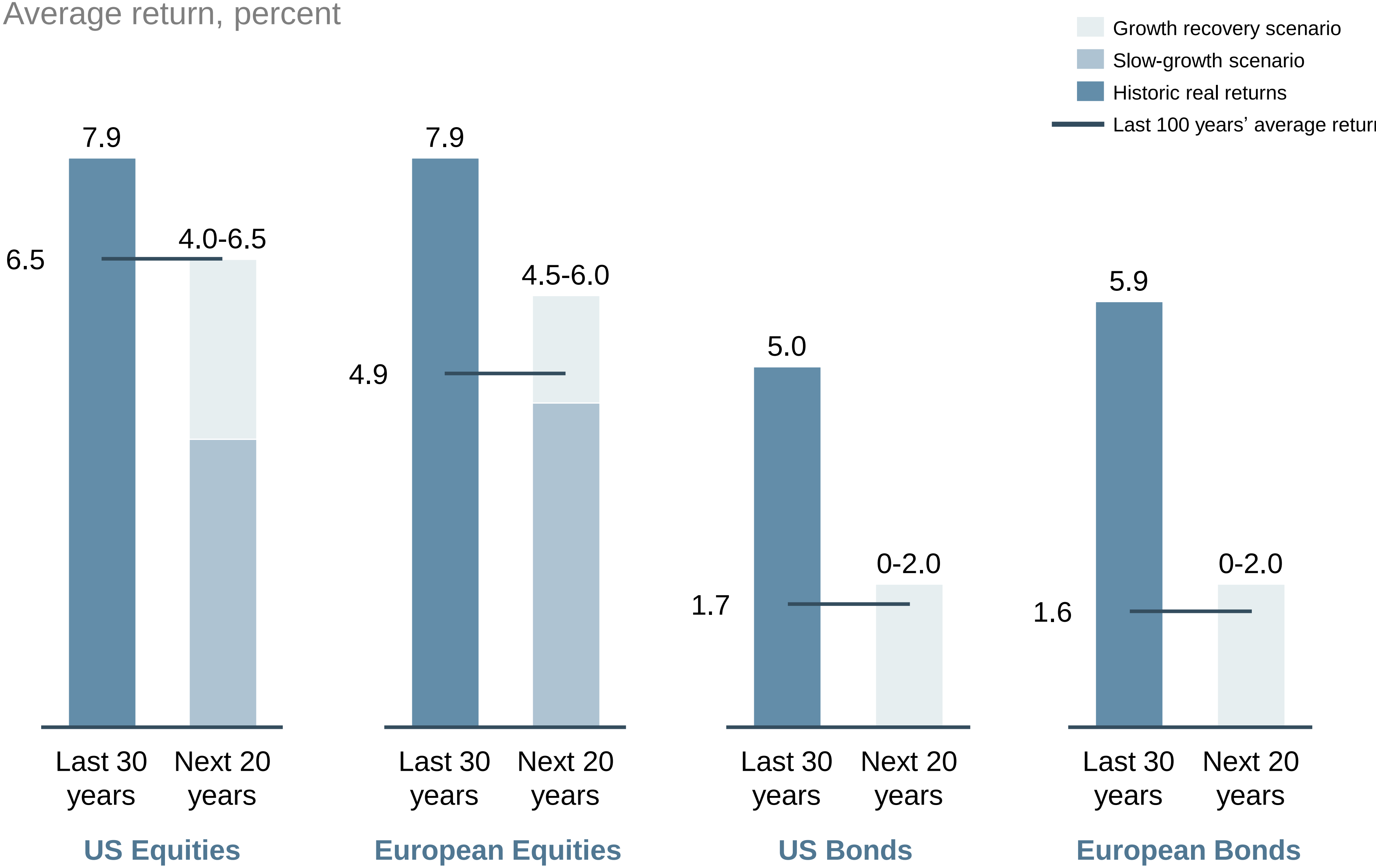
First Fondene Lunsjseminar

20. oktober 2016

Fram Capital Partners

Capital market returns are expected to come down compared to past years

Average return, percent

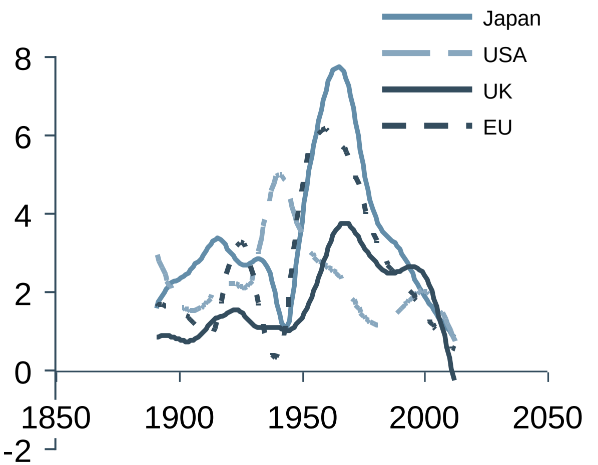


Source: MGI

Declining productivity, subdued GDP growth and inflation have caused very accommodative interest rate policies and very low long-term yields

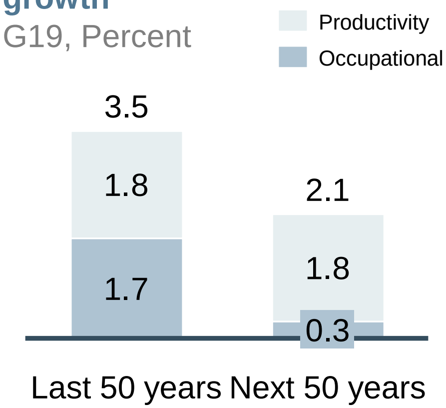
Average growth in productivity

1891-2012, Percent



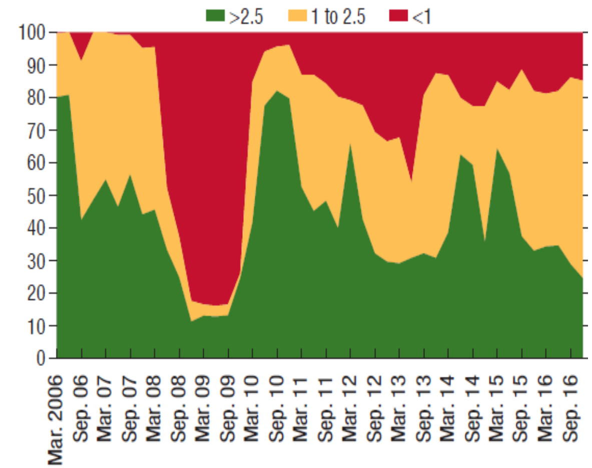
Share BNP growth from productivity vs. occupational growth

G19, Percent



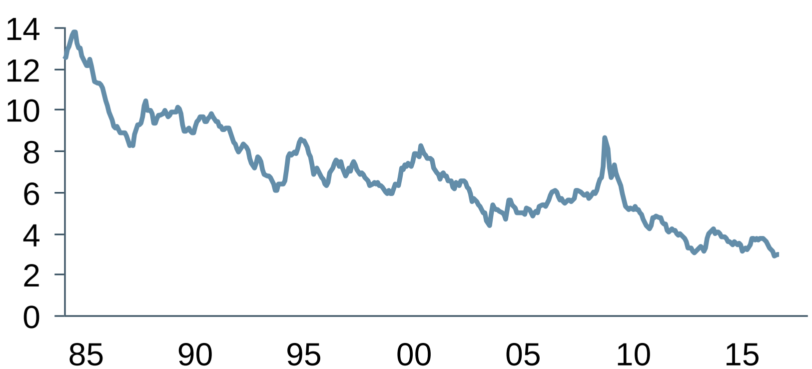
Distribution of level of real GDP

Percent, 2006-2016



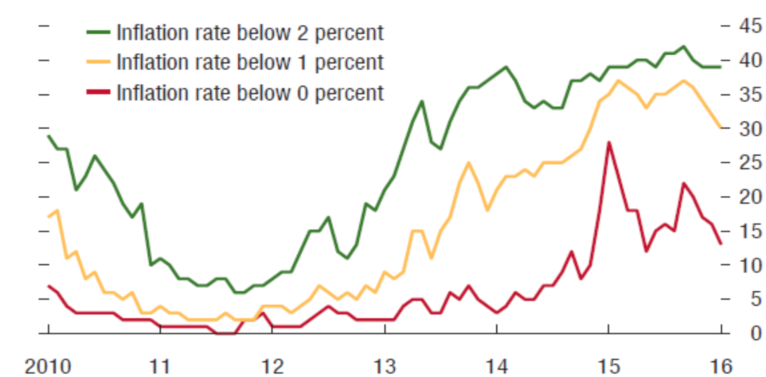
10 year US Corporate Bond Yield

1984-2016, Percent



Consumer Price Index Inflation rates

2010-2016, Percent



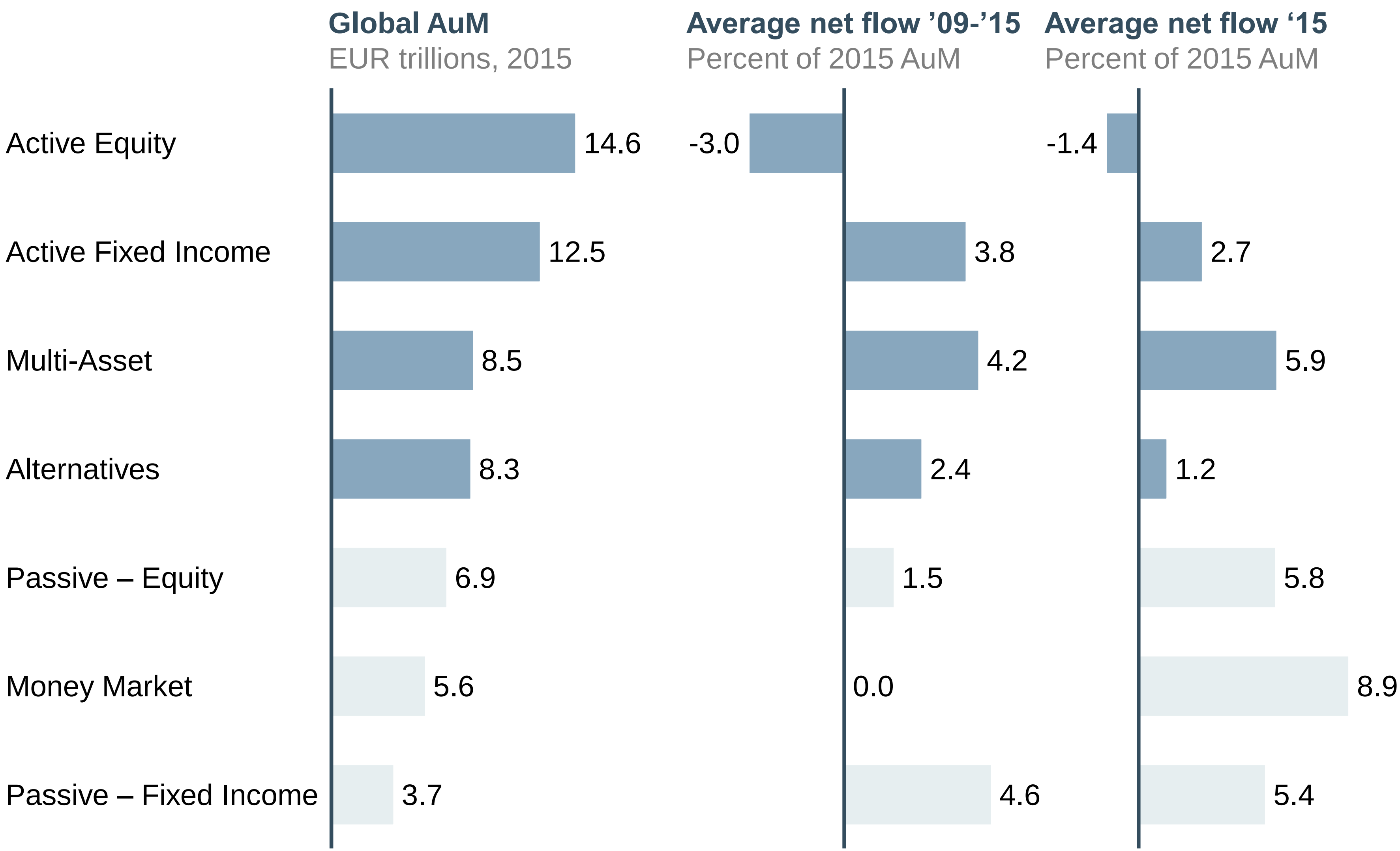
Source: Country statistics, IMF

Discount rates have come down driving long-term duration asset class prices up

	Change in discount rate	Effective duration	Impact of change in discount rate	Expected return given change in discount rate	Difference to actual return
S&P 500	-1.5	21	4.4	10.1	+4.9
MSCI EAFE	-1.0	19	2.6	8.3	-2.4
MSCI Emerging	0.8	19	-2.5	3.8	-2.7
30-year US Treasury	-1.5	21	3.8	8.1	-0.2
30-year Bund	-2.8	27	8.3	12.6	+0.6
30-year JGB	-1.8	29	6.2	10.5	-0.7
30-year Gilt	-2.1	22	5.3	9.6	+0.7
MSCI US REIT	-1.6	19	3.7	9.4	+7.3
Cambridge Associates Private Real Estate	-2.9	17	5.6	11.3	-1.3
Cambridge Associates Private Equity	-1.5	31	6.1	12.1	+2.2
Cambridge Associates Venture Capital	-1.5	23	5.1	11.9	+4.0
Cash	-3.0	0	-1.5	0.0	+0.1
HFRI Index ("Alts")	-1.5	2	-1.0	5.0	-0.8
S&P/GSCI reduced Energy Index	-1.5	1	-1.3	1.8	-9.3

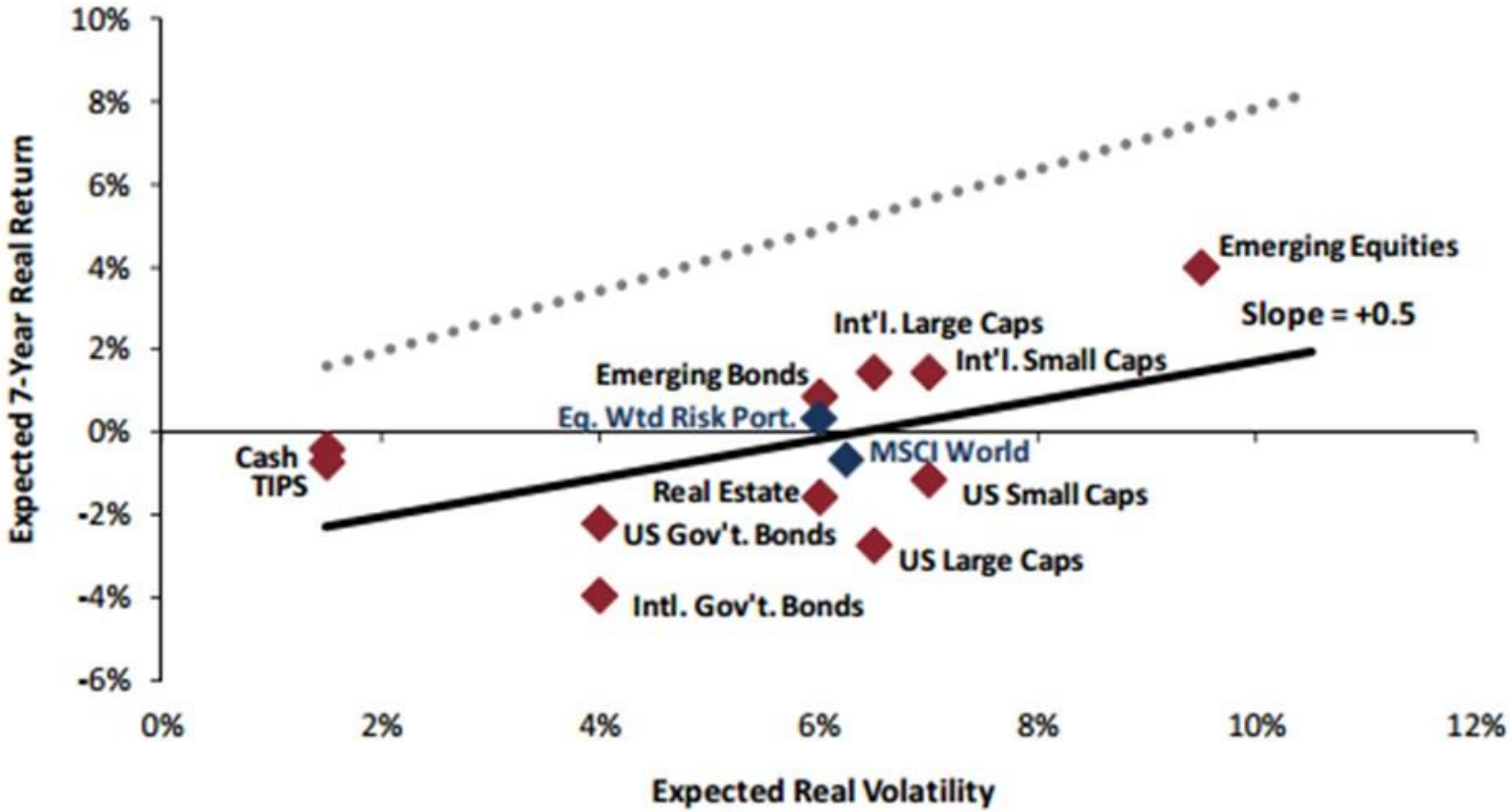
Source: GMO

Fairly large shifts between different asset classes and investment strategies



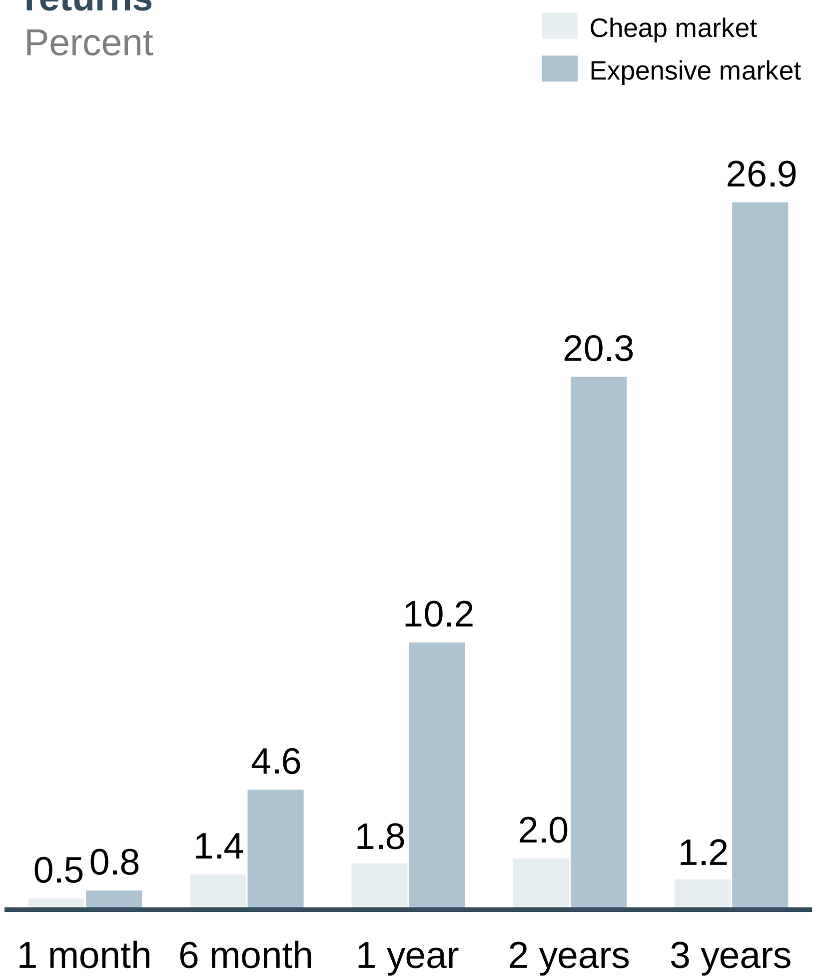
Source: MGI

The risk/return equation has shifted downwards and flattened making it even more important to look for less pricey sub-asset classes and alphas

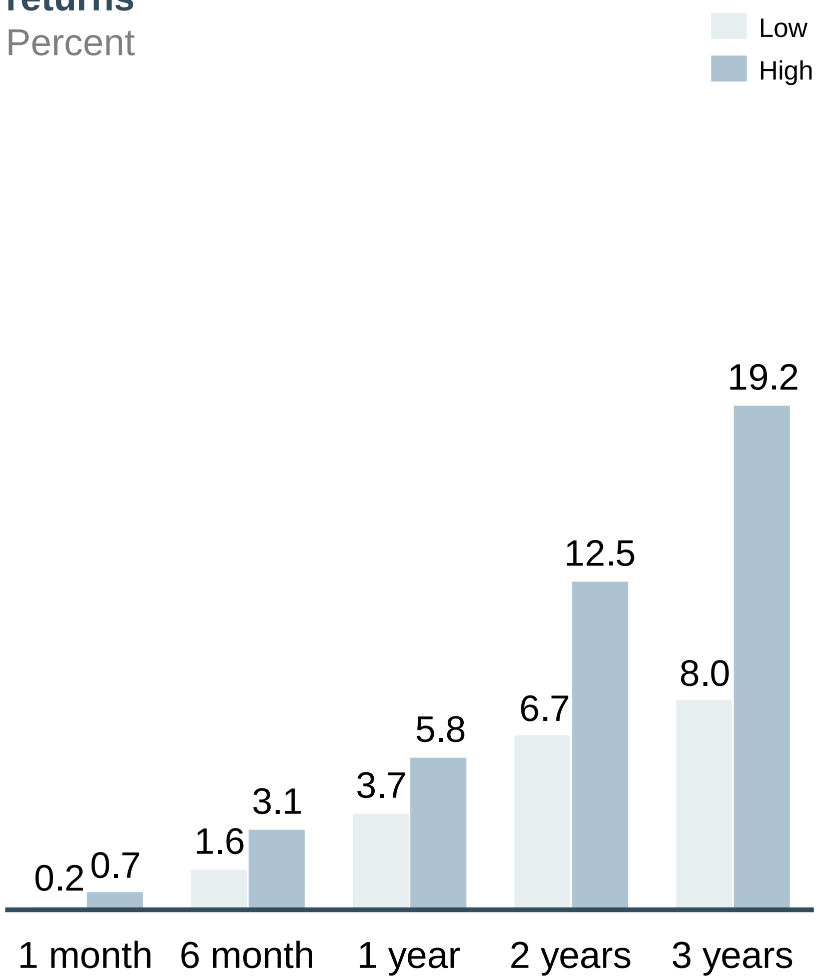


Value-driven strategies matter- starting valuation has substantial impact on equity and bond returns

Impact on starting valuation on S&P 500 returns
Percent



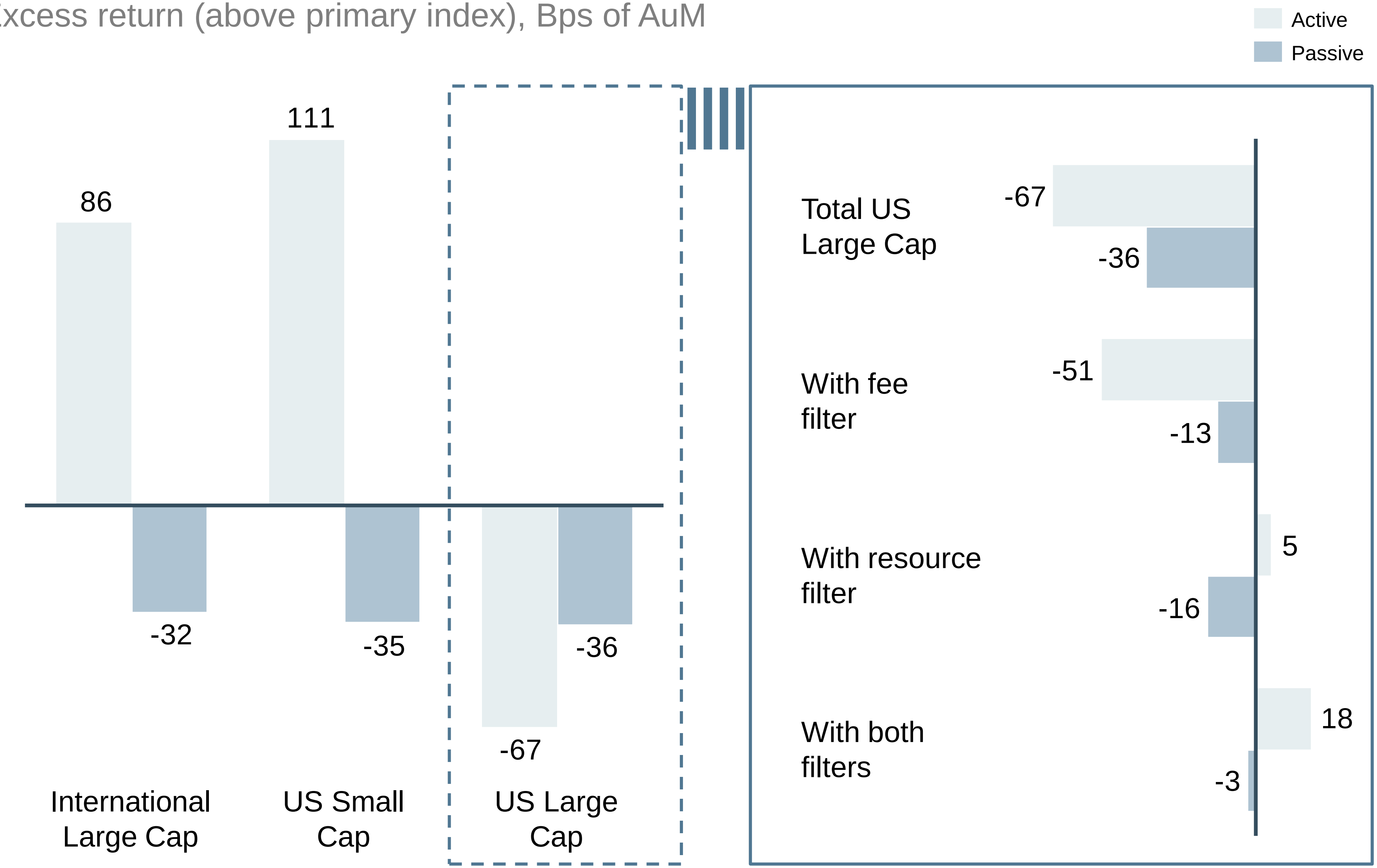
Impact on starting yield on treasury bond returns
Percent



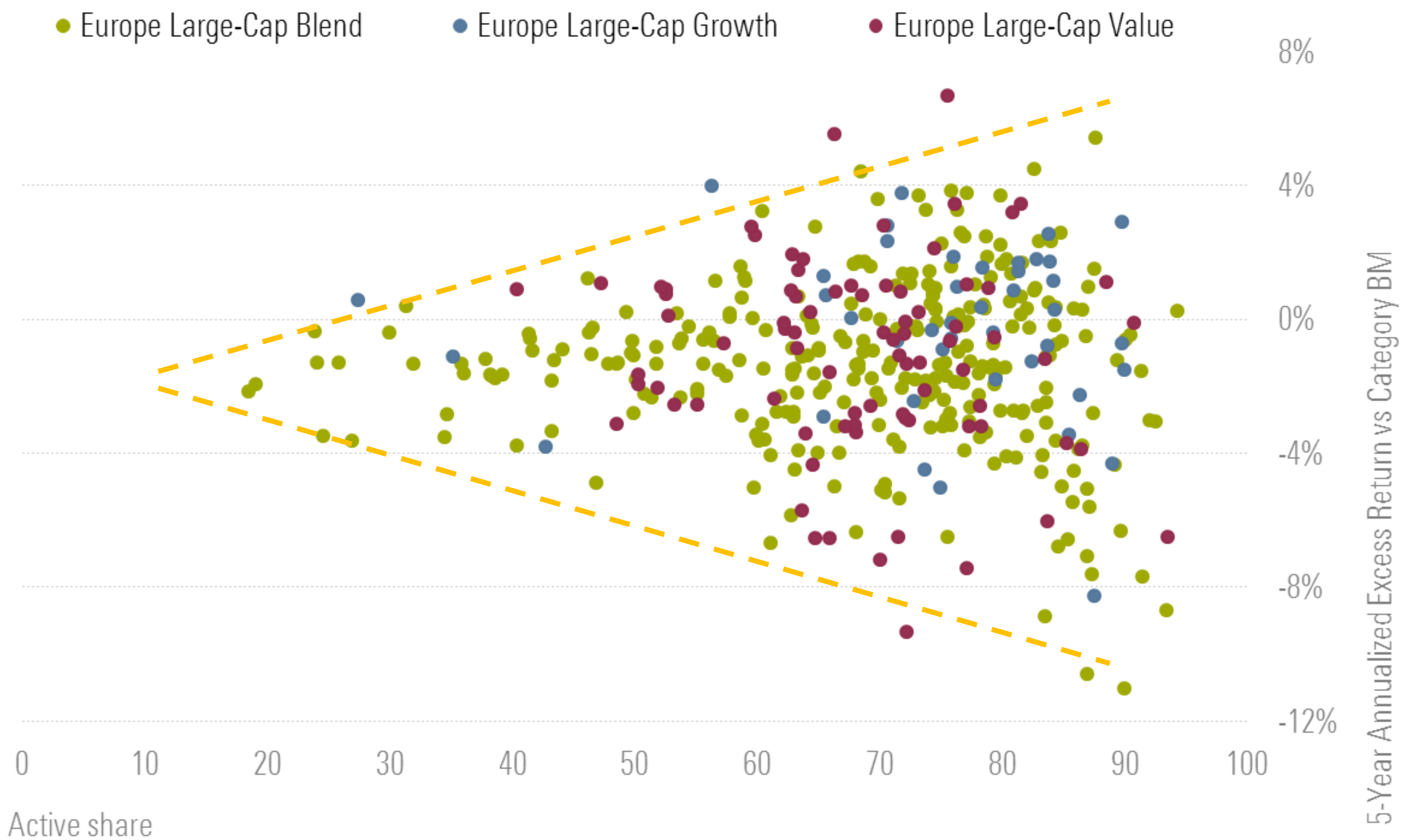
Source: Bloomberg, Datastream, Barclays, GMO

It is not about passive vs active management; it is about passive *and* picking the right active managers – even in Large Cap the best create better returns

Excess return (above primary index), Bps of AuM

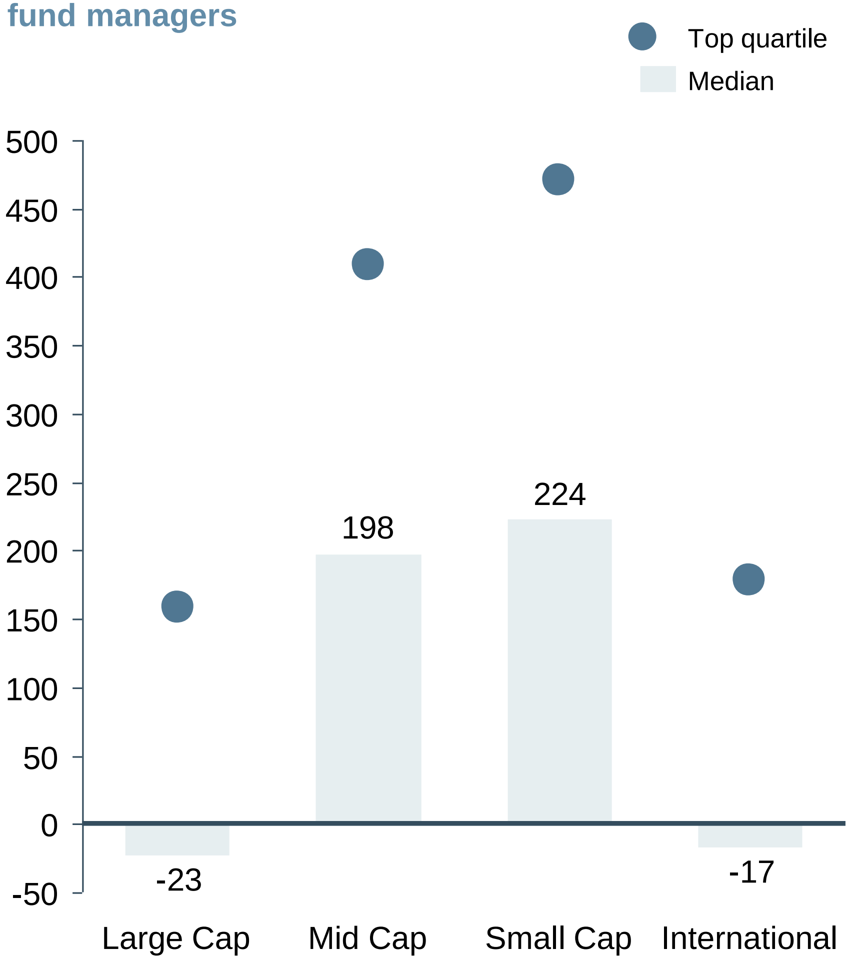


The higher active share in a fund, the larger the spread in return among funds and the higher the return of top quartile fund mangers



Top quartile active fund managers significantly outperform passive – question is therefore not active vs. passive, but which active managers to use

Performance difference – Top quartile vs. median fund managers



The six P's (performance drivers)

Platform (the Firm): Is there a culture of investment excellence and stewardship? Is the firm financially stable and viable?

People: Are the key fund managers experienced, talented, and passionate? Do they have the courage to have a different view but the humility to correct a mistake?

Philosophy: Does the firm have a clear philosophy on how it seeks to add value that is universally shared by its investment personnel?

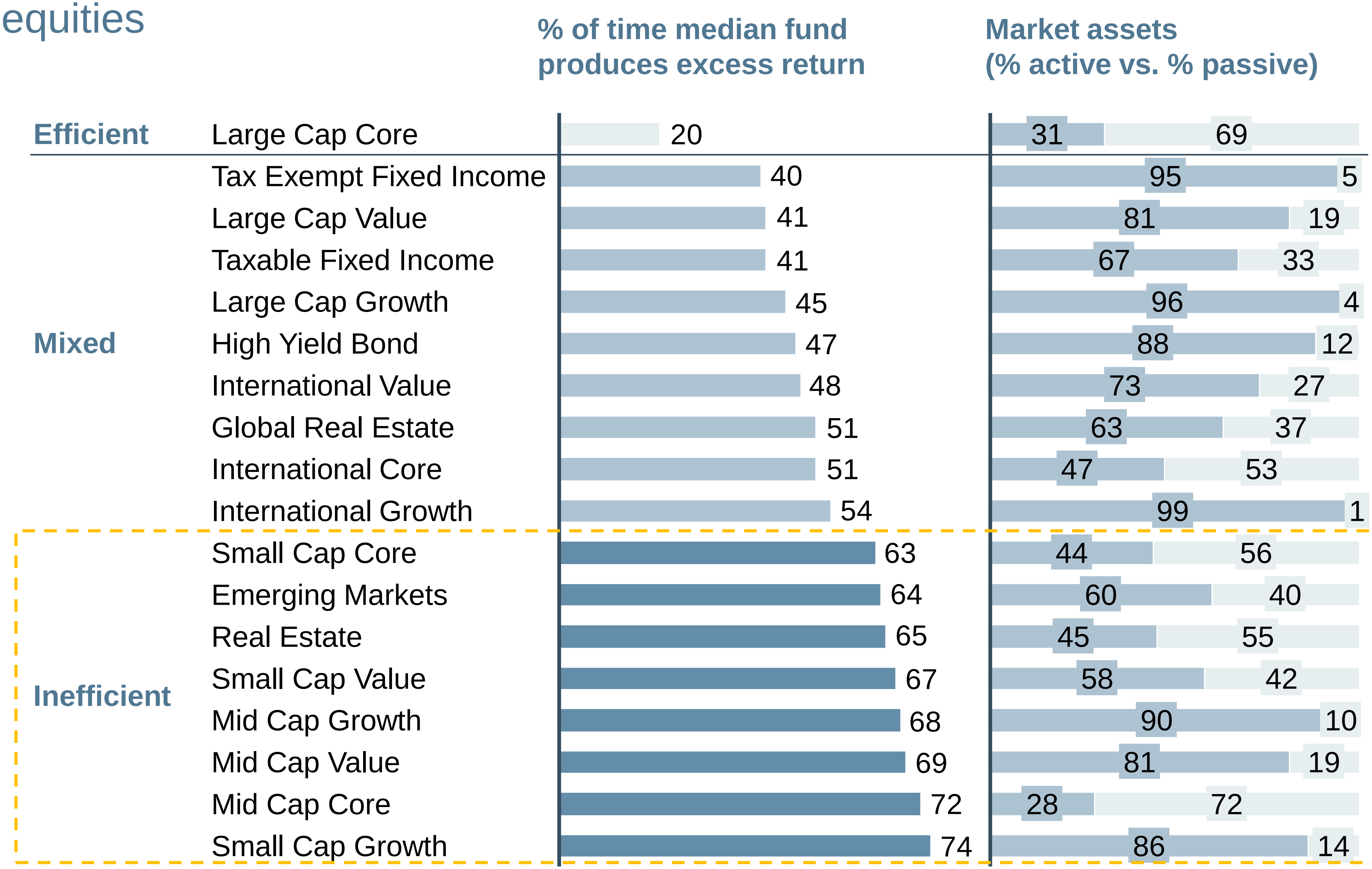
Process: Does the firm have a competitive advantage enabling it to execute its process well and consistently over time? Can the process be effectively implemented for the assets to be managed?

Portfolio: Do the firm's historical portfolio holdings and characteristics align with its philosophy and process?

Performance: Are the firm's drivers of historical performance logical? Are they sustainable over the long term?

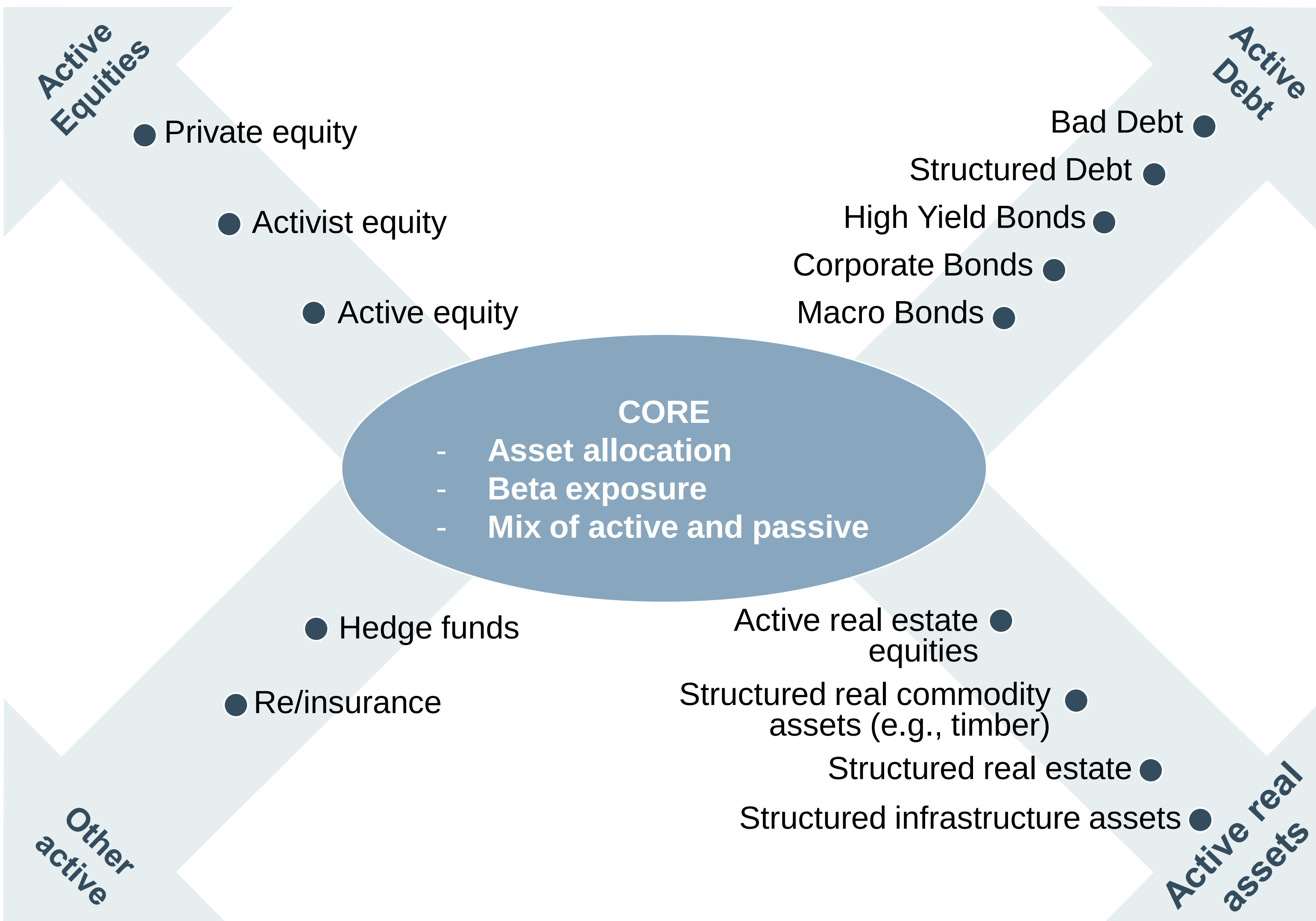
Source: Morningstar

Active mandates are particularly applicable in markets with lower efficiency, where they more often tend to beat passive, e.g., Nordic(mid/small cap) equities



Source: Morningstar

Composing the right portfolio – hub & spoke model with core asset classes in hub, and active “spokes” with equities, debt, real assets and «other»



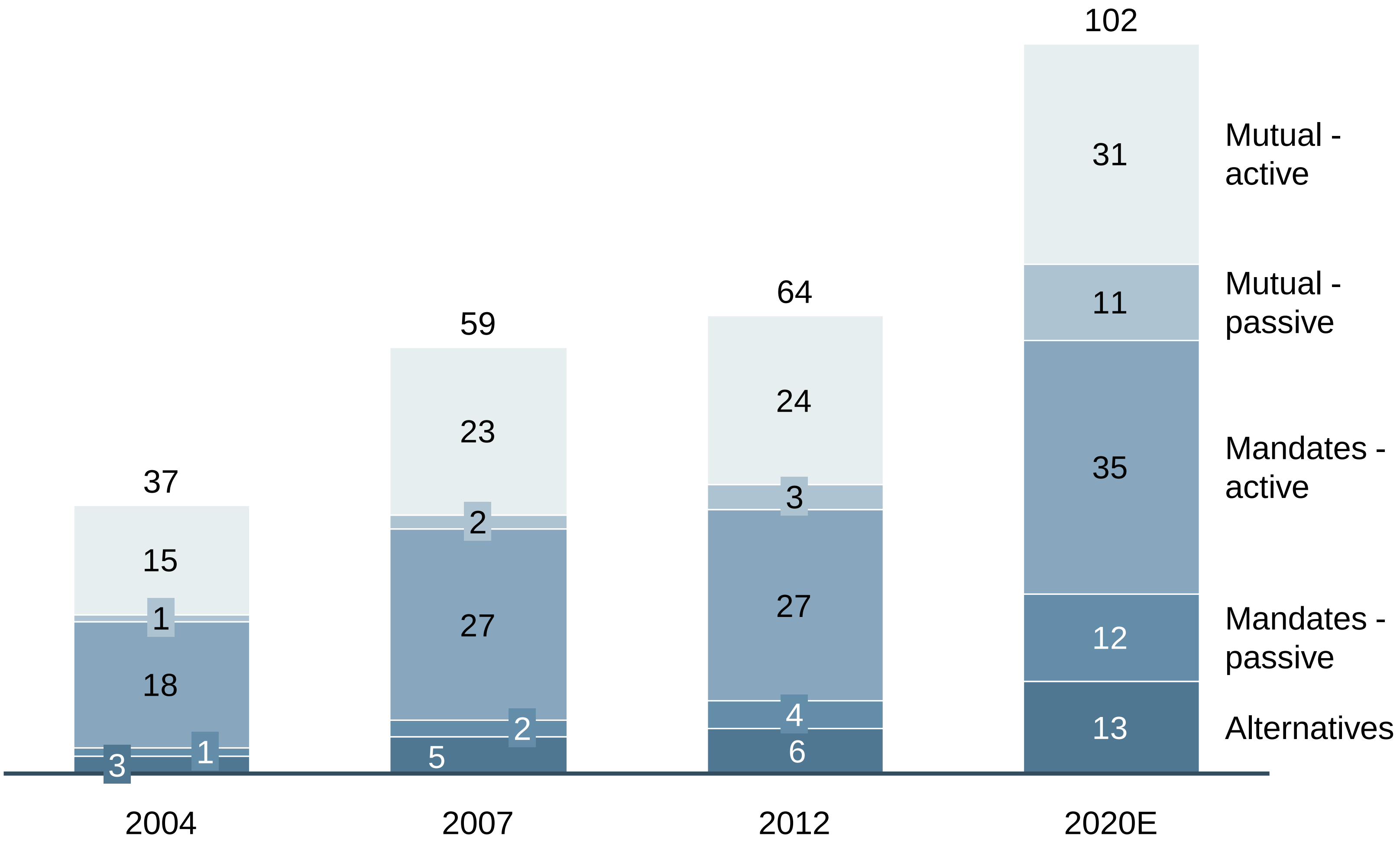
Different business concepts are targeted at different investor segments

		Online providers	Retail banks & insurers	Private Bank/ Wealth mgrs	Active fund managers	Direct investments by captive unit
Retail/affluent customers	Mass market with less complex needs and lower investable assets	✓	✓			
Advisory-focused HNWI and 2nd tier institutional	More focus on advisory and services than investment returns			✓		
Return-focused HNWI/UHNWI and 2nd tier institutional	Focused on return, spend time on selecting the right fund managers				✓	(✓)
Prime institutional	Defines model portfolio, does some direct investments and some via external fund managers				✓	✓

Appendix

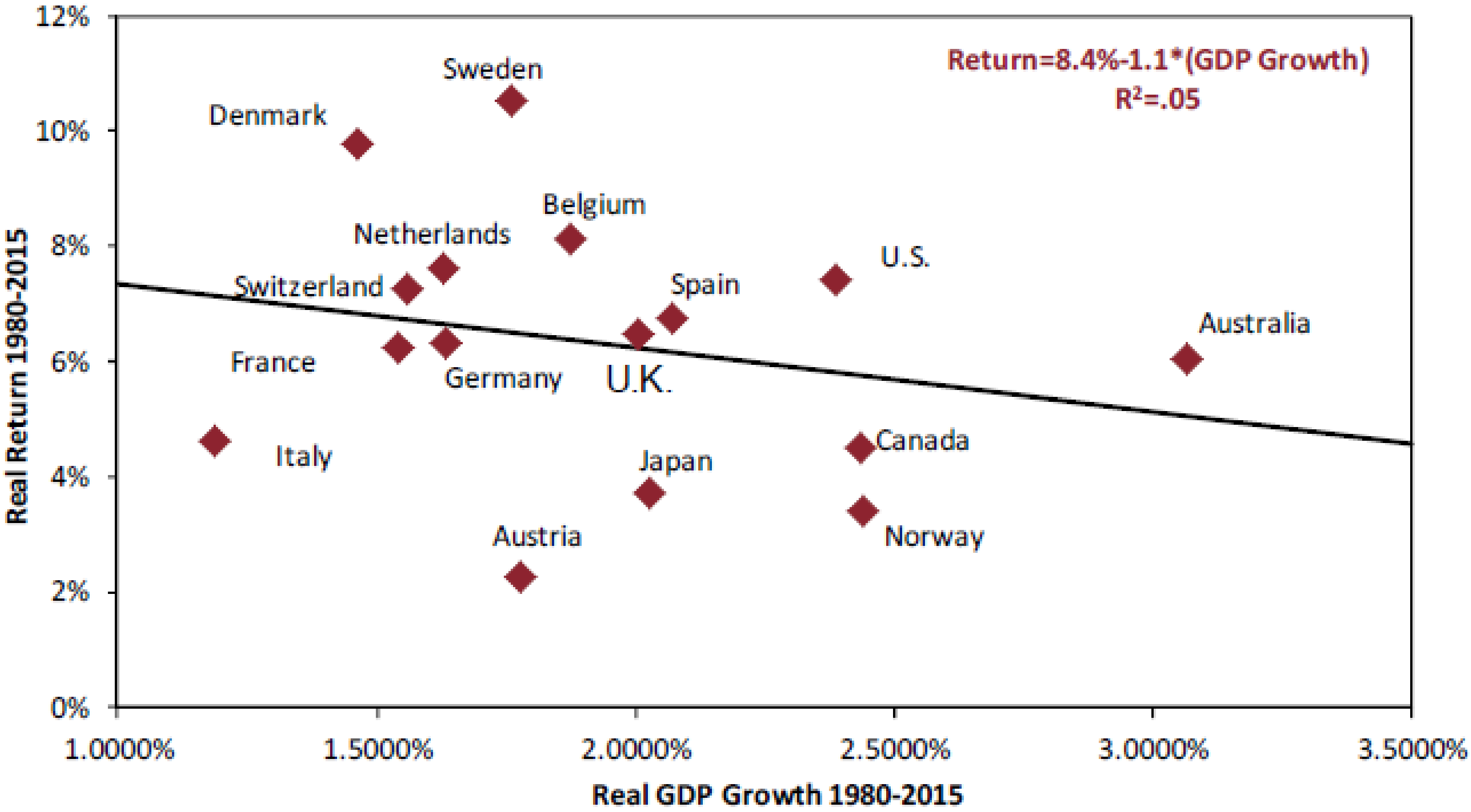
High growth within more specialized equity, debt, real estate and «other» strategies

EUR trillion, Year-end 2015



Some countries, e.g., Sweden and Denmark have had strong real returns despite low real GDP growth last 25 years

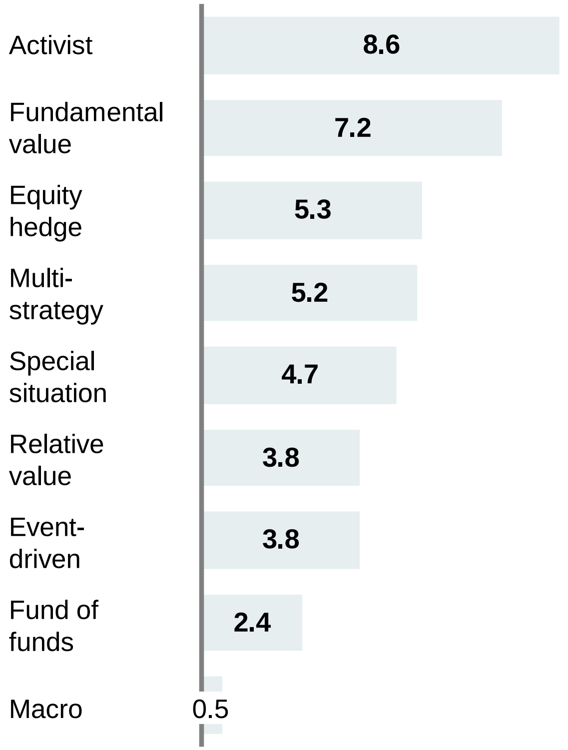
Percent



Activist investors are growing in size and number, enabling them to extend their reach

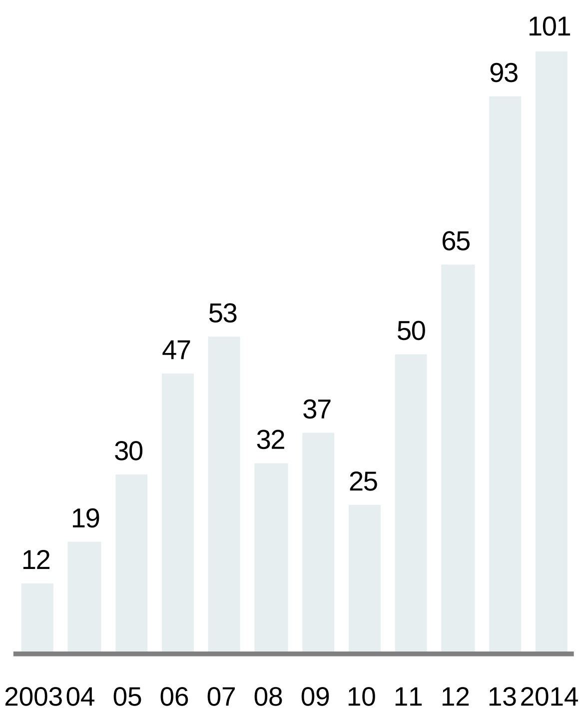
Activist strategies are becoming more common relative to other hedge fund strategies…

YoY growth by fund strategy
Percent change



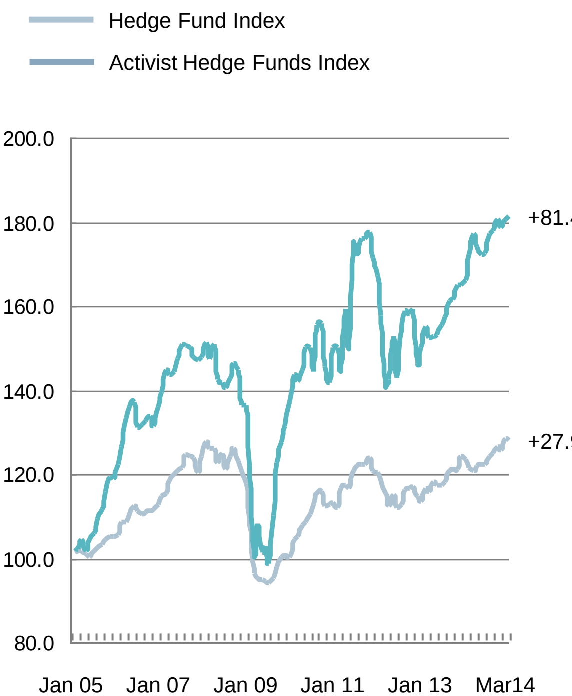
…Activists have increasingly more capital to fund their campaigns…

Global activist fund AUM[1, 2]
$Billions



…Activists are generating higher returns than hedge funds in general

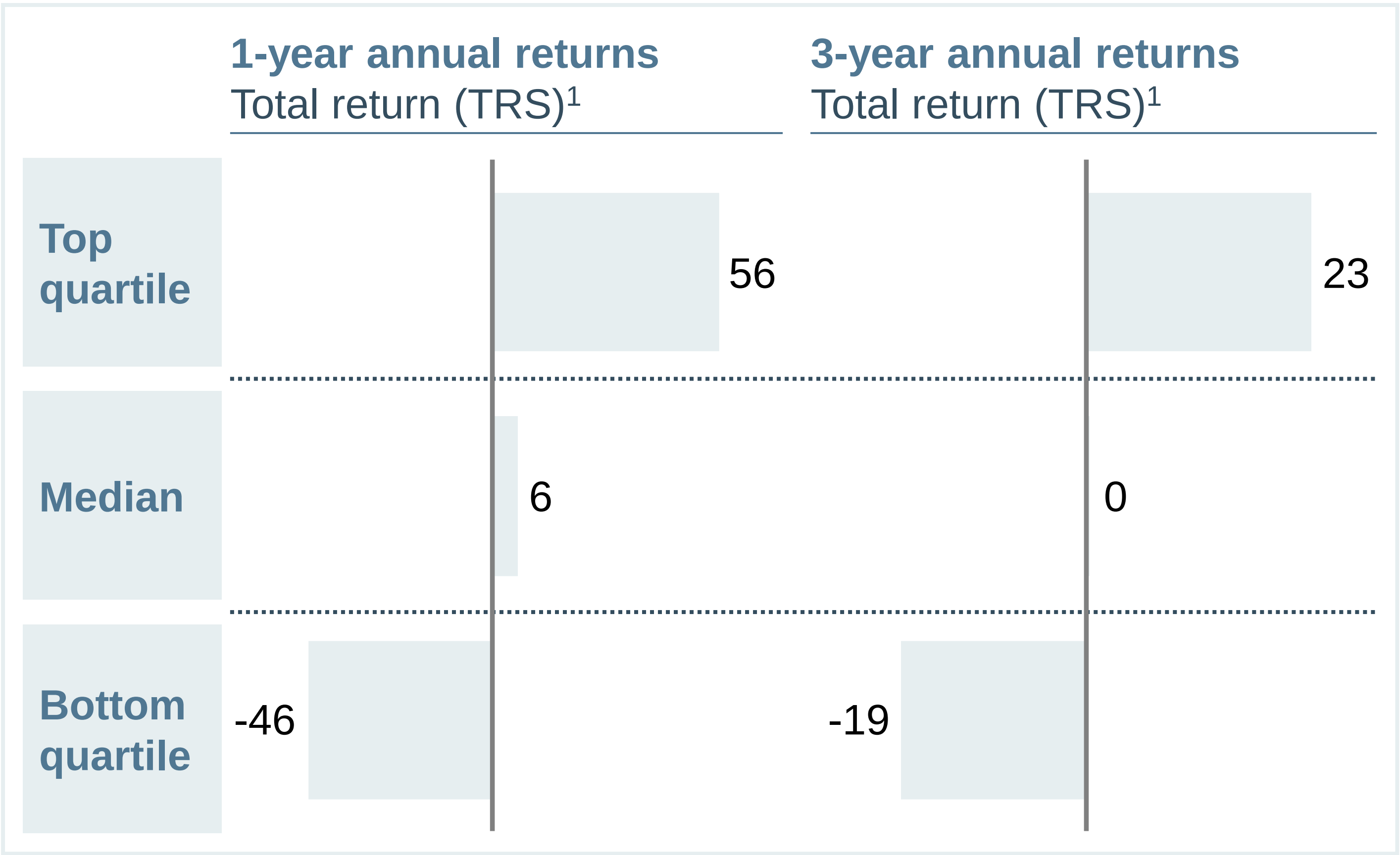
HFR activist index vs. Dow Jones Global Hedge fund index
Indexed returns



1 Represents Q1 2012-13 Y-o-Y change in net asset value of Hedge Fund Research's Strategy Indices
2 2014 figure represents period ending Q1 2014

SOURCE: Barclays; Hedge Fund Research; FactSet and Thompson Reuters

Top quartile activist investors create value in the near- and long-term

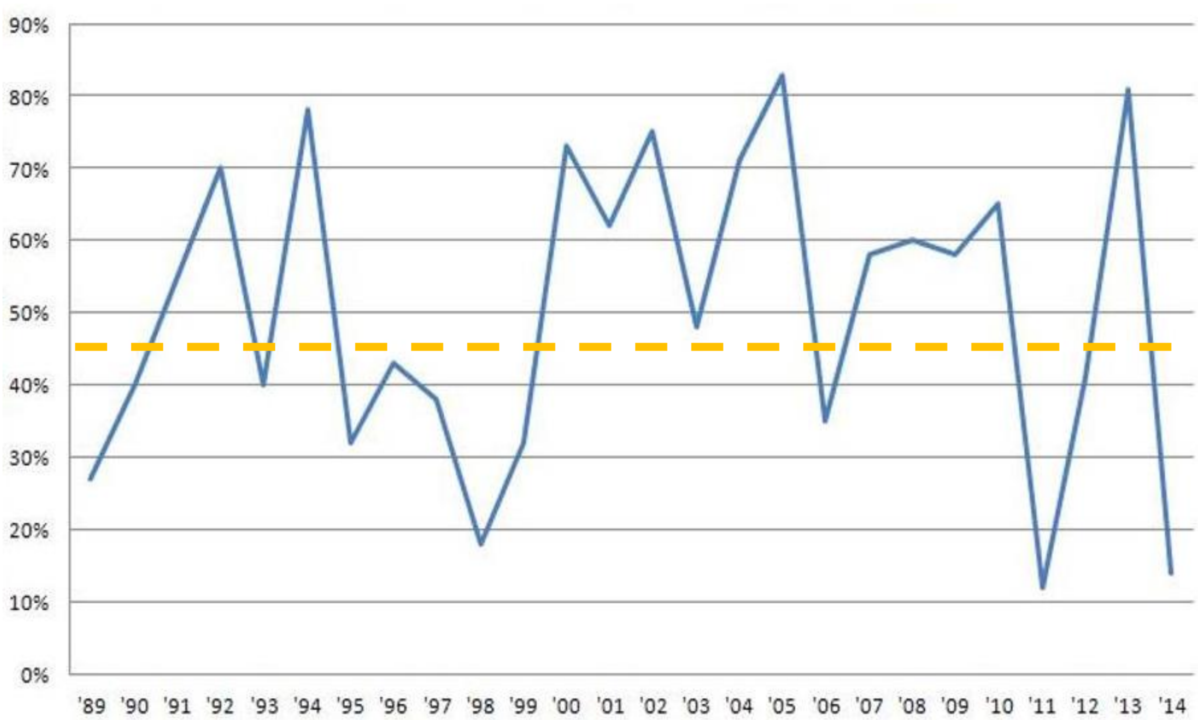


Note: N = 283 for 1-year returns and 169 for 3-year returns of the total 582 campaigns which had 1-year and 3-year TRS data available
1 Returns beginning 1-month prior to the campaign launch date of the target company; end-date is until termination for acquired securities

SOURCE: Capital IQ, Datastream

Share of active managers beating passive varies over time, one key driver is that a period of high performance pulls more fund managers into the market

Share of active mangers beating passive managers
Percent, Large Cap



- Share of managers out-performing passive seems to oscillate around 45%
- Periods of strong outperformance are followed by sudden drops in performance, reasons for this could be
  - Only the very best can out-perform the market
  - Significant out-performance attract more fund mangers to active management
  - Share of mediocre vs. good is distorted and share of fund managers not beating passive increases
  - This is followed by less successful fund managers leaving the scene and share of out-performers again rises