2016 Report
May 2016 supplement to MondoAlternative
The alternative UCITS sector: 1st Report for 2016

The long/short approach is fertile ground for alphas

Banor's Luca Riboldi expects to see growth in telecoms and media securities, and is taking a selective view of the commodities and oil sectors

by Alessandro Moise

"The long/short approach is becoming the primary way to enable managers to add alphas to their portfolios. In periods when we're seeing negative trends for macro reasons, the long/short approach becomes an opportunity by providing for greater cover", explains **Luca Riboldi** to MondoAlternative. Riboldi is chief investment officer at Banor SIM and advisor for the Banor SICAV Italy Long/short Equity fund. He underscores the importance of having an anti-volatility strategy in a period when the central banks seem to have used up all of their ammunition and governments are thinking of adopting fiscal policies more favourable to economic growth. In this environment, there is no shortage of worthwhile investment alternatives. "We see the best opportunities in telecoms, media and, with a selective approach, also in the agricultural commodities and oil sectors", reveals Riboldi. He also expects a recovery in luxury sector securities.

The financial markets are increasingly uncertain and strongly influenced by central bank interventions. Given this scenario, how important is it to adopt an anti-volatility strategy?

That's a very topical question. The central banks have shot all of the arrows in their quiver, with zero rates just about everywhere. We'll need to pay particularly close attention to the decisions that governments will be taking, since what the central banks are doing right now is to push governments to adopt fiscally expansionary policies. The possibility of driving growth with rates as low as zero has been significantly reduced, so now the decision goes to those countries that can adopt expansionary strategies, like Germany, the United Kingdom and China. Our anti-volatility strategy is to opt for liquid securities in the portfolio. That way, we can move in and out quickly in the event of unexpected changes in the scenario. Another protection strategy is to buy put options, with a de-correlation of the sectors held in the portfolio.

Investors are looking for strategies that can offer stable returns. Why should the long/short approach be a valid solution? What are the strong points of this style of management?

The long/short approach is becoming the primary way to enable managers to add alphas to their portfolios. In periods when we're seeing negative trends for macro reasons, the long/short approach becomes an opportunity by providing for greater cover. I'm referring, for example, to bank securities. They've gone through some particularly troubling times in recent years and, with a long/short style, can be made less harmful to portfolios. The strong points of this strategy lie in greatly reducing portfolio volatility by focusing on sectors and companies where you can see value and, at the same time, covering yourself from any falls in the index. Because if the index is performing badly it's unlikely that a company will be able to rise.

In the coming months, do you think the performance of individual securities will be guided more by fundamentals or will it be influenced by other factors? What are the implications for managing a long/short portfolio?

Fundamentals are definitely what determines the performance of securities over the long term. In the very short term, however, it will be strongly influenced by three macro-variables that have made the market particularly volatile: commodities, currencies and China. That said, our choice is always to look at individual companies that we think could see good growth in profits and which are under-valued. If, on the other hand, we think they're dear and that profits might fall, we opt to go short.

What's your net exposure to the European stock market? And why?

On the Banor SICAV Italy Long/Short Equity fund, at the time of writing we have a net exposure of 35%, while gross we're at around 90%, of which 10% invested in corporate bonds. Taking the historic range we've had 25/75 as our net long, so in terms of net long exposure we're definitely in the medium/low segment because the financial sector still represents 1/3 of the index. Remaining with the financial sector, we're buying some senior bonds but not shares. We have some bank equity but we're decidedly under-weighted compared with the 33% of financial products in the index; in our portfolio they represent just 10%. That means our net exposure on Italy is fairly low.

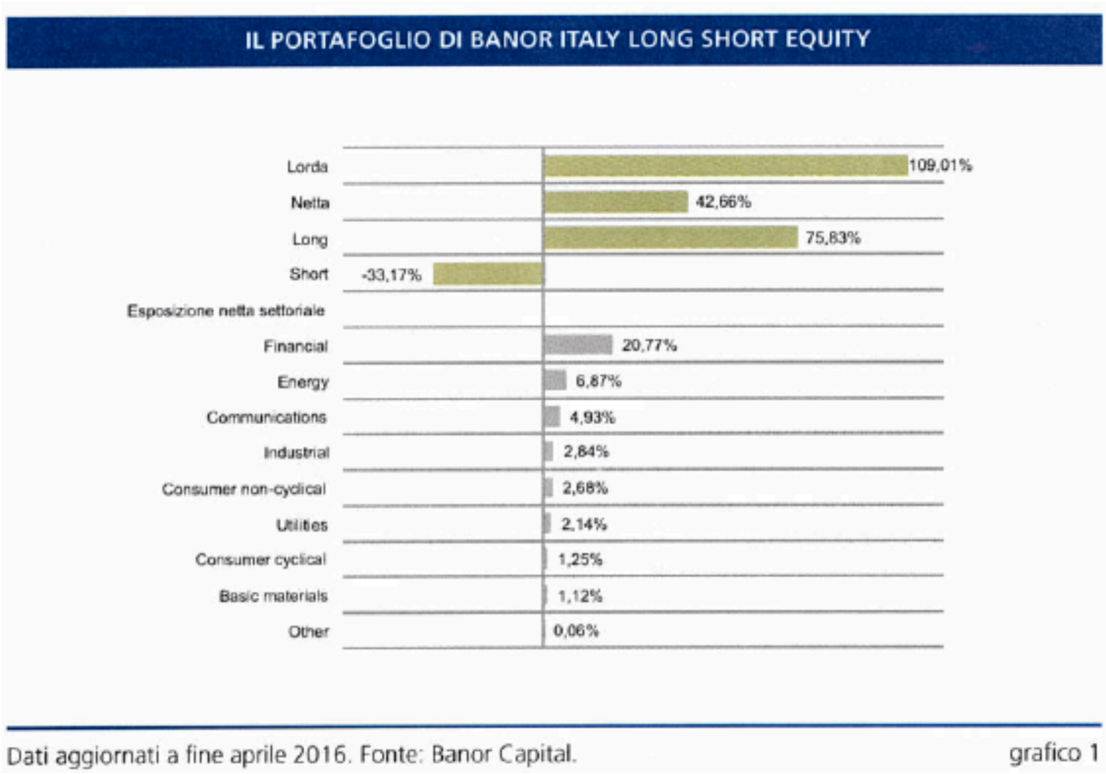
Last year you opted more for Italy than for other western countries, in relative terms. Have you changed your mind?

In 2015 Italy was performing much better, while so far this year the country has been the worst market, as a result of the extreme weakness of the Italian financial sector. Steps are now being taken to address and partly resolve the problems affecting the banks, both through the Atlante fund and through the actions of the central bank regarding the securitisation of bad debts. But we're still waiting to see the implementation of many reforms which could bring great benefits in terms of the stock market – but only if they're implemented. In conclusion, I'd say that as things stand at present, things probably won't get any worse but nor will they get any better with respect to last year.

Specifically, where do you see the best growth opportunities for the coming months? Which sectors?

In our view, the best opportunities are in telecoms, the media and, taking a selective approach, in the agricultural commodities and oil sectors. After many disappointing months, the luxury sector could be near to bottoming out.

Banor Italy's long/short equity portfolio



Data as at end-April 2016. Source: Banor Capital.

Could you give us some examples of companies you expect to achieve good growth rates in the future, and some examples of companies you'd include in the short part of your portfolio?

We like Telecom Italia, Ferrari, Mediaset and RCS very much, as well as Kering, in the luxury sector, which is benefiting from the relaunch of Gucci, the company's flagship brand. As for the short element, we take a fairly negative view of Italian asset managers – they have rather high fees compared with the international average and have benefited greatly from the flight of customers from Italian banks experiencing difficulties. We're also fairly negative on the UK house-building sector, which historically has never been this highly priced. Lastly, we're not very optimistic about certain global industrial companies exposed to investment by the emerging economies. Capital goods producers are really struggling and we see the arrival of new investment in this sector as unlikely, given the excess production capacity at the global level.

What will you do in the event of a pro-Brexit vote?

We view Brexit as improbable at the moment, but the uncertainty will have a negative impact on the market as the date of the referendum draws nearer. For this reason we already have an active hedging strategy, having shorted the UK house builders. We also have a fairly low net long position and are covered from any dips in the markets.

Then, if the UK leaves the EU, we'll look at the European sectors most exposed to British demand on a case-by-case basis.

What are your plans for the future?

The Banor Group is increasingly focusing on high-added-value solutions for the management of major private and institutional assets.

Banor SICAV will keep its focus on long/short value and absolute return strategies. And Aristea SICAV is looking to innovative strategies like frontier markets, enhanced liquidity management and flexible/multi-asset funds. The aim is to expand our retail client base (distribution) in continental Europe and our institutional clientele in the UK and America.

The firm

Banor Capital Limited is an independent investment management firm authorised by the Financial Conduct Authority. The firm was set up in London in 2011 by a team of investment professionals working together since 2001. Part of the Group established with its sister firms, Banor SIM S.p.A. and Banor SICAV, Banor's goal is to be the partner of choice for institutional and private clients by developing and managing, through Banor SICAV, a range of strong value-added products that encompass a range of investment strategies, markets and asset classes.

The Banor group's assets under influence (AUI) are in excess of 5 billion euro, of which €2.1 bn are under discretionary management. Banor SICAV is the group's Luxembourg-based UCITS IV umbrella fund with five sub-funds: three alternative long/short strategies (North America, Italy and Greater China), one equity (European Value) and one fixed income (Euro Bond Absolute Return). Since March 2015 Banor Capital has also managed segments of Aristea SICAV, including Enhanced Cash, an advanced liquidity management fund; the Global Flexible multi-asset fund; the Chiron Total Return balanced fund; and the New Frontiers Equity Fund, which focuses on emerging markets.