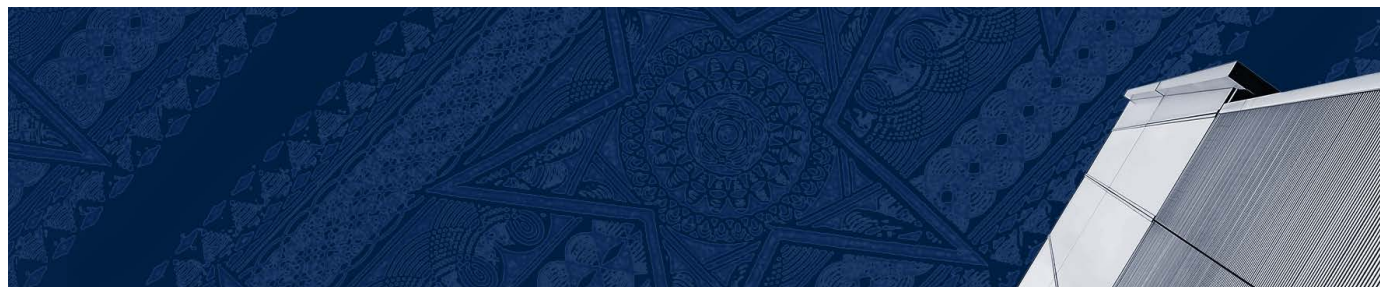




Perspective



R-co Valor Balanced, reap the opportunities in the equity and fixed-income markets with a risk-balanced profile



Yoann Ignatiev and Emmanuel Petit,
Co-fund managers of R-co Valor Balanced
Rothschild & Co Asset Management Europe

R-co Valor Balanced is a diversified fund based on two expertise of Rothschild & Co Asset Management Europe in equity and fixed-income markets. It seeks to generate a long-term performance while paying special attention to the fund's volatility. Yoann Ignatiev and Emmanuel Petit, the co-fund managers, describe its distinctive features.

Could you present R-co Valor Balanced?

Yoann Ignatiev: R-co Valor Balanced combines two of our main expertise at Rothschild & Co Asset Management Europe in international equity and fixed-income markets that we implement through two buckets. We are two fund managers who have spent the past decade working together on diversified funds, and therefore we benefit from a deep shared experience in managing this type of products.

Emmanuel Petit: Our aim is to generate a long-term performance by investing in International equity markets with no constraint as to investment style or geographic area and no benchmark, while reducing portfolio volatility through our exposure to fixed-income markets. We pay special attention to volatility, which is an essential concern. In this way, we take a relatively defensive approach.

What differentiates R-co Valor Balanced from other diversified funds?

Y. I.: R-co Valor Balanced enables two fund managers with different approaches, working methods and cultures to work together. It is a real asset in terms of diversification. We nevertheless share the same philosophy in fund management and each bucket is actively managed. The first may be invested in equities and bonds from any geographic area. The second is solely made up of bonds, predominantly Investment Grade. As a result, R-co Valor Balanced can take up to 55% exposure to international equity markets but can also be fully invested in fixed-income markets.

E. P.: Within each pocket our stock-picking is intended to contribute directly to the fund performance in any market environment. The bonds are not selected only to cut portfolio risk and provide a protective cushion to moderate volatility from the equity position. Each bucket acts as a diversified performance driver. This diversification added to the decorrelation between the asset classes must, ultimately, allow us to ease the volatility of the fund.

How your two fund manager profiles complement each other?

Y. I.: The complementarity essentially comes from our knowing of our respective asset classes and investment universes. Both of us manage other funds invested in distinct geographic areas. I have significant experience in North America, Europe and China while Emmanuel has in-depth knowledge of the European fixed-income markets.

“Our aim is to generate a long-term performance by investing in International equity markets while reducing portfolio volatility through our exposure to fixed-income markets...”



E. P.: R-co Valor Balanced is mostly invested in euros, but thanks to our double approach we can seek out additional sources of performance in international equity markets. Also, we face somewhat different issues in terms of stocks and bonds picking. On the credit side, we look closely at duration and credit risk, while in equities, thematic choices and quality of stock-picking predominate. This means we can benefit from diversification in our risk-taking.

What is the interest of such an investment solution in the current environment?

Y. I.: An International equities fund with a core of bonds in euros makes good sense in a market shaken by fears for the US growth cycle, weakness in Emerging markets and all the uncertainties we have had to face lately. It can be a sound move to cut equity exposure while still retaining some room for manoeuvre and reducing fund risk and volatility without being solely invested in bonds with their still relatively low yields.

E. P.: Over the full current economic cycle, we have seen growth in risky assets and also in the bond market. If the equity markets were to decline, this would probably be in a higher rate environment. In these circumstances, it becomes especially important to manage exposure in light of these rising yields, by adopting the right positioning. To adapt to this environment we have to manage duration, watch credit spreads and gradually adjust the selection of bonds to limit risks while continuing to generate performance. But, logically, the rise in interest rates is not going to happen overnight.

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“In the fixed-income bucket two-thirds of our allocation is in investment grade bonds rated BBB...”

Could you describe your investment process?

Y. I.: In the equity pocket, we combine a top-down approach with fundamental analysis to identify investment opportunities, reduce or add positions and define the allocation between asset classes. The stock picking is discretionary, based on strong convictions, with a positioning in specific investment themes with strong growth potential and unbenchmarked.

E. P.: In the fixed-income bucket, flexibility is the hallmark of our management. We start from analysis of economic fundamentals, complemented by fundamental analysis of each issuer to define the right strategy in terms of duration, curve positioning and sector allocation. We use dedicated monitoring tools to analyse the three main risk factors: market risk, credit risk and liquidity risk. We see issuer diversification as key, to prevent portfolio performance from being overly vulnerable to an isolated event. This is how we avoid exposure to individual risks by remaining alert to each position's weighting based on its quality.

Can you give us a breakdown of your allocation?

Y. I.: Currently, equities make up 40% of our allocation and bonds just under 50%. The rest is cash. By region, the bulk of our equity exposure is in North America, followed by Europe and China. Sector-wise, our top choice is for tech sector growth stocks, financials, healthcare and industrial, mining and energy stocks.

E. P.: When it comes to bonds, we prefer investing in mid-range maturities that can hedge against the risk of a rate hike. Two-thirds of our allocation is in investment grade bonds rated BBB. To capture risk premiums and generate additional yield, we use satellite strategies through subordinated bank debt and high-yield bonds.

Completed writing on 29 January 2019



Recommended investment period: 3-5 years

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