Amsterdam Investor Forum 2017

International Asset Management uses barbell strategy to generate alpha

London-based International Asset Management Limited has been investing in hedge funds since 1989. Over that time it has seen a great deal of change in the industry, honing its technique for uncovering talented fund managers with a clearly defined investment edge.

That experience has proven crucial given the tough time that hedge funds have had since 2012; a period since when unparalleled central bank intervention has made the process of generating investment alpha harder than ever.

"In terms of what we look for in a manager, it focuses on differentiation, predominantly in the liquid side of the market," says Andrew Gibson, Director. "We've always been focused on client demand in Europe and we listen to the needs of family offices and institutions. That said, you've got to be realistic in terms of what is achievable today in terms of 'high alpha' based on the transparency and liquidity requirements of investors."

Gibson will be appearing at the Amsterdam Investor Forum on the panel entitled **"Seeking alpha: how allocators look under the hood"** and will also be in attendance at the pre-event on the afternoon of 7th March. This will comprise a number of roundtable sessions to offer managers and investors more intimate discussions and knowledge sharing opportunities on topics shaping the funds industry today and in the future.

Such is the level of competition that hedge funds face in respect to low-cost passive strategies, smart beta strategies etc., that managers have to work hard to build a truly differentiated offering to attract asset allocator dollars. They need to evidence repeatability of the investment process and deliver a scalable business proposition to catch the eye of investors.

"You can always find these opportunities because markets are, at the end of the day, still driven by people. If you are thinking of setting up a hedge fund business, or are looking to develop your business, my advice is make sure you have a strongly differentiated offering. It has been a tough time for alpha generation. It has compressed, largely because beta has grown thanks to the lowering of interest rates, reduced volatility and quantitative easing by central banks," says Gibson.

When it comes to investing in hedge funds, Gibson says that IAM relies on two things to generate performance for its clients.

The first relates to the alpha generation of those managers that are carefully identified that IAM invests with in a patient, discerning fashion. There is, says Gibson, an emphasis on achieving proper differentiation based on the risk culture of individual managers: how individualistic and creative is the portfolio management team in terms of looking at the world and applying pragmatic risk management?

"The second element of alpha," comments Gibson, "is can you find a way of achieving consistent levels of alpha by adding tactical exposure to the portfolio? Last year, if you were on the front foot, as CCC credit spreads widened out in Q1 and retraced two thirds of the way to levels last seen in 2007/2008 that provided a good margin of safety. This would have been a shorter-term window of alpha generation, over says six to nine months.

"The core of the portfolio should always be to seek out 'all weather' alpha on a consistent basis but the cyclicality of the markets is such that it should also allow you to sometimes generate more tactical sources of alpha and beta from managers; those who have dry powder to reallocate capital when the market opportunity arises."

Indeed, Gibson confirms that one of the biggest shifts for IAM over recent years has been this increased focus on tactical and idiosyncratic managers within the portfolio:

"We have tactical managers on one end of the barbell and those doing a lot less trading with whom we have a high degree of conviction on the other end of the barbell; excellent fundamental stock pickers who are more long-term in their investment approach that we have invested with for many years. We have a mix of discretionary and systematic managers in the portfolio; real entrepreneurs with independent and repeatable processes within scalable strategies."

Gibson says that the portfolio today is approximately 80% allocated to longer-term structural alpha generation and 20% to shorter-term tactical alpha generation, with the US market making up the majority of that 20% allocation: primarily in US equity long/short and risk arbitrage strategies and long/short credit strategies.

"The lens we are looking for (with respect to manager allocations) is that prior to 2012 there were more notable tailwinds in equities but since then the fundamental approach – for equity long/short and global macro – has been whittled away. We run three risk styles: decorrelated, variable and directional. The latter two have had to be shrunk and we've focused more on the decorrelated risk style. We've reduced the beta of the portfolio and focused on managers that are focusing more on idiosyncratic opportunities and processes developed specifically by a portfolio manager or a team, or combining top down and bottom up analysis to find alpha.

"The same applies to the fixed income relative value space, quantitative equity and market neutral space where managers are doing things in a differentiated, successful way and who are less affected by the momentum shifts that we've seen in the markets in recent years due to QE," explains Gibson.

Gibson is looking forward to attending AIF 2017.

"There's a level of engagement and inclusiveness and varying degrees of perspective around how ABN AMRO Clearing run the AIF event," concludes Gibson.