

# Flash Notes – Drop and cease coverage

March 2020



## Investec GSF Global Value Equity

We downgrade the rating of the **Investec GSF Global Value Equity Fund** from “Approved” to “Not Selected”. The decision applies to all share classes of the fund and it means that we advise to reduce exposure or sell the fund. Rationale behind this cease coverage is further explained hereafter.

### Performance drift

The fund’s performance has been disappointing since beginning of 2018 and it is particularly significant on a **YTD basis: -46% versus -24.6% for the MSCI ACWI NR Index (as of 17.03.2020 for the I USD clean fee share class - LU0696274983)**.

Since end of 2017, the fund is consistently underperforming its Global Equity benchmark. 2018 was painful for the strategy, particularly the 4<sup>th</sup> quarter as highlighted in our Flash Notes - Fund update released in January 2019.

2019 and onwards has been extremely detrimental for all value equities, and this fund is no exception, with very binary performances’ outcomes. In the last 18 months, the fund experienced 6 months with a monthly relative performance greater than -3% and 2 months with an outperformance higher than +3%.

#### Investec GSF GIB Value Eq I Acc USD - Monthly Excess Returns

Currency: US Dollar Calculation Benchmark: MSCI ACWI NR USD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	-4.20	-3.53											-16.17
2019	5.62	0.42	-4.58	1.92	-4.60	0.70	-0.45	-5.68	2.91	3.32	0.71	-0.22	-2.05
2018	-2.53	1.06	0.32	0.73	-0.92	1.87	-0.27	-0.60	-1.04	0.21	-6.70	-2.10	-8.72
2017	0.18	-0.51	0.00	0.23	-3.23	2.95	0.08	0.32	3.22	-0.81	-0.91	1.99	4.21
2016	-1.59	-2.25	0.78	2.09	0.65	-4.59	1.65	2.65	-1.99	2.35	5.49	1.93	7.10

Source: WS Partners- Morningstar

This performance patterns highlights the significant fund’s volatility over the past 3 years (18.3%) compared to the MSCI ACWI NR index (12.5%) and higher beta (1.29).

#### Risk Metrics

Time Period: 01.03.2017 to 29.02.2020 Currency: US Dollar

	Std Dev	Sharpe Ratio (arith)	Information Ratio (arith)	Calmar Ratio	Beta	Up Capture Ratio	Down Capture Ratio	Max Drawdown
Investec GSF GIB Value Eq I Acc USD	18.25	-0.03	-0.61	0.06	1.29	102.82	143.51	-20.66
MSCI ACWI NR USD	12.47	0.42	—	0.49	1.00	100.00	100.00	-14.25
MSCI ACWI Value NR USD	12.62	0.04	-1.54	0.16	0.98	84.54	109.98	-14.87
EAA Fund Global Flex-Cap Equity	12.86	0.10	-1.70	0.16	1.02	88.10	109.58	-19.94

Source: WS Partners- Morningstar

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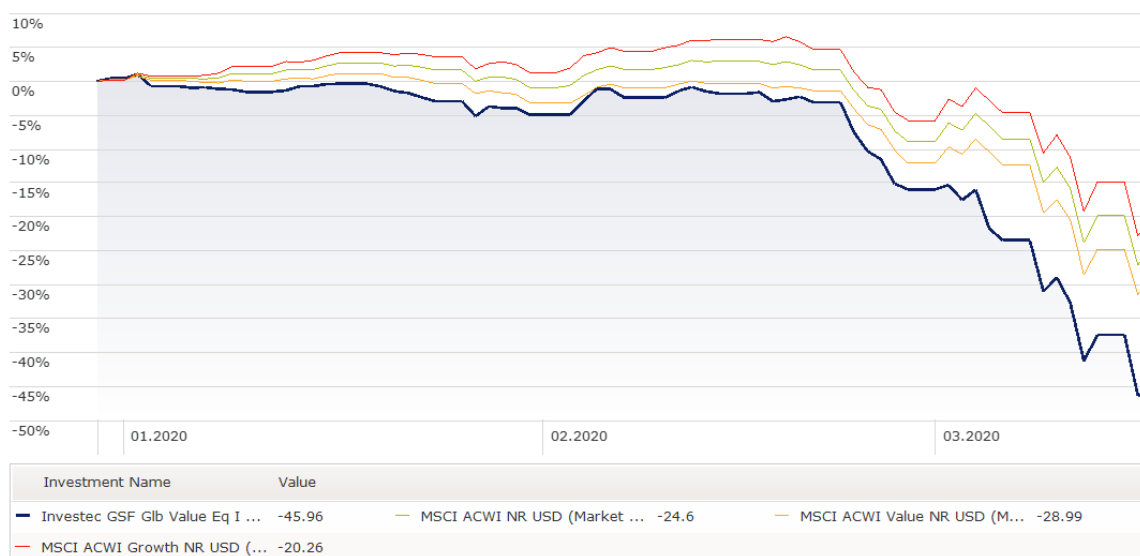
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### Style headwinds

The strategy failed to generate the expected alpha, even if it is fair to say that the market environment has been adverse for this strategy. The fund is a **pure contrarian and value approach**, investing in cheap, out-of-favour companies with appropriate balance sheets and fundamentals. Co-Portfolio Managers are bottom-up stock pickers focused on long-term investing and betting on mean reversion.

Valuation spreads between the most expensive and least expensive companies within sectors, have reached their highest level in two decades across global markets.

The underperformance of value is more visible on a YTD basis, the MSCI ACWI Value NR index returning -29% versus -20.3% for MSCI ACWI Growth NR index (in USD terms, as of 17.03.2019).



Source: WS Partners- Morningstar

The **value style is clearly a headwind**, and the fund's performance has been very disappointing relative to the MSCI ACWI NR index. However, if we compare it with its style benchmark, i.e MSCI ACWI NR Index, the fund is much more consistent overtime until end of last year (as shown in the table below).

### Investec GSF Glb Value Eq I Acc USD - Monthly Excess Returns

Currency: US Dollar Calculation Benchmark: MSCI ACWI Value NR USD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	-1.92	-2.38											-11.71
2019	6.22	0.87	-3.53	2.61	-4.37	1.10	0.32	-4.58	1.28	3.83	1.44	-0.21	3.96
2018	-1.68	1.90	0.33	0.41	1.00	2.09	-0.95	0.93	-1.62	-1.75	-7.01	-1.98	-7.34
2017	1.25	-0.17	0.58	1.20	-2.05	2.19	0.29	1.18	2.70	0.00	-0.73	1.86	9.92
2016	-1.82	-2.37	0.58	1.21	1.21	-4.53	2.05	1.95	-1.70	1.18	4.15	0.94	2.39

Source: WS Partners- Morningstar

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2018 has been clearly an exception with a -7.3% underperformance but largely explainable (again please refer to Fund Update – January 2019). **Where we are extremely concerned is about the YTD spread between the fund and its value benchmark (-17% as of 17.03.2020).** Both stock picking and allocation have clearly been detrimental, particularly within the financial sector (29.4% of the fund) and due to the overweight in the UK market.

### Risk-adjusted profile deterioration

The fund used to exhibit above average risk-adjusted returns but for the last rolling 2 years, the metrics have deteriorated significantly. In our WSP proprietary scoring model, the fund has dropped to the 2<sup>nd</sup> quartile for the last 3 years rolling measures, and we would like to emphasize the following metrics from a quantitative perspective (as of 28.02.2020):

- The fund ranks 3<sup>rd</sup> quartile for risk adjusted returns as measured by the Sharpe, Sortino and Calmar ratio, down from 1<sup>st</sup> quartile.
- The fund is 3<sup>rd</sup> quartile for excess returns over the last 12 months (-1.8% of underperformance versus the MSCI ACWI NR in USD).
- The fund displays a poor return asymmetry: it stands in the bottom quartile of the Global Flex Cap Equity for the down capture ratio (131%), coupled with 2<sup>nd</sup> quartile up capture ratio (102.1%). Those 2 metrics have deteriorated significantly: when we initiated the coverage of this fund in August 2017, they were respectively at 119% for the upside and 107.5% for the downside capture ratio.

### AUMs

In February 2019, the fund reached its AUM's peak at USD 93.7mn. Since then, the fund has been quite stable in its assets outside the performance effect with limited outflows. Since beginning of 2020, the severe underperformance started to trigger large outflows and the **AUMs have dropped to USD 38 mn**, a threshold where we are much less comfortable if the trend persists.

If the outflows amplify in the near future, **we doubt that the fund could remain cost effective** given the size of the fund. We also doubt that this trend could reverse anytime soon without a clear inflection in the fund's performance.

### Investment team

The fund is managed by Alessandro Dicorradò and Steve Wolley since January 2016, a strong value-rooted duo of Portfolio Managers (PMs). They are supported by 6 dedicated analysts united by the same value contrarian mindset.

Despite knowing the PMs for many years, we have limited access to the investment team for the fund's monitoring. Besides **corporate information produced by Investec for this specific strategy could be enhanced**, only quarterly performance commentaries are available, while most of other funds have monthly updates. More importantly, **Investec is not actively promoting its range of global equity products, outside**

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the **4-factor strategies**, which could raise concerns about the future for those funds given the material outflows.

### Low appetite and ownership

Demand for value equity funds has been scarce among Swiss and international investors. Usually, they tend to focus their investments in quality growth large cap funds as their sole investment to gain access to Global equities. It is very hard to see any sustainable inflection in this trend, at least in the short term.

### WS Partners view

Even if we acknowledge that the strategy faced a style headwind given its value contrarian approach, **the underperformance experienced by the fund for the last 18 months has reached unsustainable levels**. The fund not only failed to outperform its comparison index (i.e MSCI ACWI NR Index) but also its value versions and in a significant way. The fund also underperforms largely its Morningstar peer group YTD, on a 1Y and 3Y rolling basis. Stock selection has been the main detractor, which is questionable for a pure stock picker strategy. We think the **historical alpha drivers of the fund are not anymore clearly identified** and we have lost confidence on the ability of Portfolio Managers to deliver the returns that we expect for this kind of strategy.

For all the above-mentioned reasons, we cease the coverage of this fund and advise switching out whenever it is manageable for your clients.

#### Trailing Returns

As of Date: 29.02.2020 Currency: US Dollar

	YTD	Peer group decile	1 year	Peer group decile	3 years	Peer group decile	5 years	Peer group decile
Investec GSF Glb Value Eq I Acc USD	-16.30	10	-10.93	9	1.29	8	3.14	5
MSCI ACWI NR USD	-9.09		3.89		6.96		5.55	
MSCI ACWI Value NR USD	-12.31		-3.59		2.31		2.83	
EAA Fund Global Flex-Cap Equity	-9.56		-1.64		3.09		2.47	

#### Calendar Year Returns

Currency: US Dollar

	2019	Peer group decile	2018	Peer group decile	2017	Peer group decile	2016	Peer group decile	2015	Peer group decile
Investec GSF Glb Value Eq I Acc USD	24.55	5	-18.13	8	28.19	3	14.97	2	-2.75	6
MSCI ACWI NR USD	26.60		-9.41		23.97		7.86		-2.36	
MSCI ACWI Value NR USD	20.59		-10.79		18.26		12.57		-6.26	
EAA Fund Global Flex-Cap Equity	21.34		-15.75		24.45		4.67		-2.79	

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### Risk Metrics

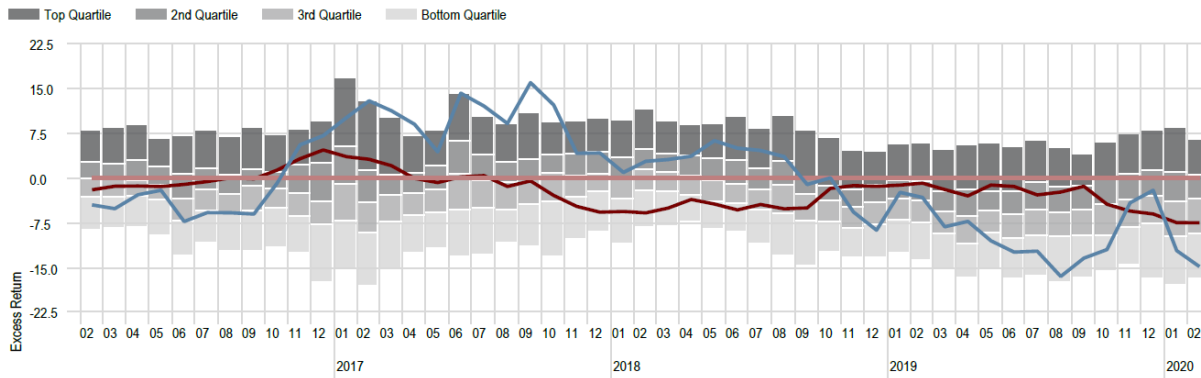
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### Excess Rolling Returns

Time Period: 01.03.2015 to 29.02.2020

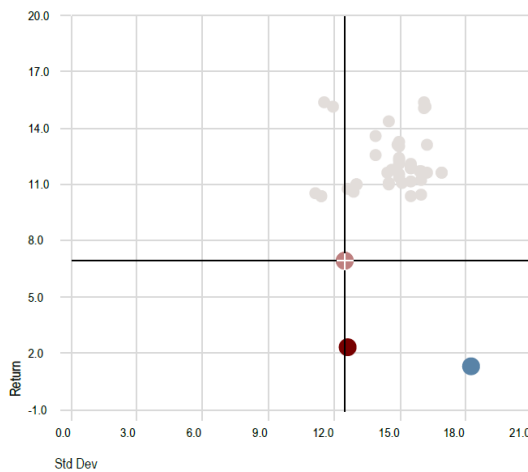
Currency: US Dollar Rolling Window: 1 Year 1 Month shift



### Risk-Return

Time Period: 01.03.2017 to 29.02.2020

Peer Group (5-95%): Open End Funds - Europe/Africa/Asia - Global Flex-Cap Equity



### Product Size

Time Period: 01.03.2015 to 29.02.2020



Source: WS Partners- Morningstar