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# **FORGET THE TRACK RECORD**

**Funds pioneer Eckhard Sauren  
gives fresh talent a shot**

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CURSE:**

Barings' Deng  
stands firm



## Fund selector: **Eckhard Sauren**

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**Eckhard Sauren** loves to listen. The quiet man of fund selection and founder of the eponymous fund group tells **Emily Blewett** where he gets his best ideas and why when it comes to under-performance he's all ears

# TALK TO ME



## Fund selector



A fund manager being interviewed by Eckhard Sauren should not expect a barrage of questions. Nonetheless, he should still be prepared to talk.

Sauren, who rates and selects managers at his self-founded Cologne-based business Sauren Fonds-Research, would rather listen than interrogate.

'We don't have a catalogue of questions when we interview a manager. We want to listen to them and find out about their individual talents and know-how.'

'What's important is that we don't form our own assumptions of a manager in order to judge but that we allow space so that he can demonstrate his own free intuition.'

Sauren, along with three other managers – Hermann-Josef Hall, Ansgar Guseck and Matthias Weinbeck – runs 12 funds at the company, would rather take a back seat when it comes to macro.

'Our competence is in selecting good managers. It is not in making the right decisions regarding sector or currency bets.'

'Our philosophy is that you can never be more cunning than the market. Even when the market really looks bad, it can still rise or fall further in a way that surprises. You can't have the skill to counter that.'

'We don't need to make the right market calls. We want to be the best in that we select the best managers.'

The discipline of listening to investment ideas rather than leading them remains integral to Sauren's asset allocation strategy and his team are not swayed by headlines.

Sauren is willing to remain neutral towards country sectors, despite high-profile political and economic factors.

The company's exposure to emerging markets, for instance, has remained within a strict 10-13% of the total €2.24 billion in assets managed and has increased only proportionately over the last 10 years.

'It's stayed the same because our exposure to emerging markets is guided by the fact that we recognise it's a good source of alpha and as such remains an important part of any portfolio. We are not swayed by the changing macro headlines.'

'Also, we wouldn't say Europe looks so terrible that we should replace all of our European exposure with an allocation to the US, for example. The managers overseeing our European allocation have delivered good performances despite the market downturn.'

### Alpha-predator

A bias towards European equities compared with the US has proved to be a handicap recently, yet Sauren still expects returns from his managers in the long term.

'We allow for phases of underperformance because we think most managers can only generate alpha over a longer period of time. If the underlying conditions are unfavourable and the performance is due to a bad market, then that is absolutely fine.'

Sauren says he would rather see pure alpha investment rather than consistent yet marginal benchmark outperformance.

A name that crops up a few times is renowned European stock picker, Nicolas Walewski, who runs the **Alken European Opportunities** fund.

'Walewski, we think, is the best European equity manager in the market,' says Sauren, who has kept the manager in his portfolio for the past four years.

'He had a catastrophic year in 2008 and then he covered himself with a brilliant year in 2009. Last year it was bad again but then this year he's outperformed by 10% when markets are so bad. That is what we look for.'

### Flexible approach to talent spotting

While some selectors will shun managers who don't have a track record of more than five years, past performance isn't everything for Sauren's team.

## 'We allow the manager space so that he can demonstrate his own free intuition'

Stephen Hornung, founder of Discover Capital, is a case in point. Presented with a Sauren award last year, Hornung's qualities shone through despite a relatively slim track record.

'We met Hornung when he only had a track record of six months. His previous experience was just as an equities analyst at DJE Kapital.'

'His analysis was even then so convincing that we bought into his fund. So from examples like these, we don't stipulate a minimum period for a track record,' says Sauren.

### Size can be a drag

A selector of hedge funds as well as long-only funds, Sauren has a taste for managers who can think independently and his team has a bias towards boutiques.

'When we find a great manager who is able to run funds using an undistilled approach and with the right volume, then we invest.' Boutiques, he says, are often the best hunting grounds for this kind of investment.

Jupiter Asset Management is one such firm that allows managers enough room to act on their conviction, says Sauren.

'Jupiter, we find, is a mixture of a big fund house and a boutique.'

'The problem with big volume funds at big fund houses is that managers' ideas are watered down by the limitations placed on their individual investments. It also takes them much longer to turn around the allocation of their funds.'

Philip Gibbs at Jupiter gave up the Global Financials fund in October last year in order to focus on his Absolute Return fund. Sauren at once snapped up the opportunity to invest.

'We have held Philip Gibbs in our portfolio since he focused on smaller funds. Now we have a super manager who invests with €350 million.'

### While you were sleeping

Sauren and his team's biggest offering to clients, he says, is that the company can speak to individual managers on an equal footing.





## Fund selector: Eckhard Sauren

The selector team has been analysing funds together for 11 years and currently scans a universe of 200 managers.

As far back as he can remember, Sauren has never needed to invest in an ETF or other passive instrument, he says.

For him, talent comes from managers, not models. This means getting personal.

'We would really like to know 100 managers extremely well rather than know 500 a little. You can't have too broad a universe otherwise you start to miss things.'

Some of the best opportunities come when managers break away from large fund houses in order to set up independent funds, says Sauren.

'Graham Clapp, for example, managed the biggest equity fund for over a decade at Fidelity. Yet when he made himself independent, he was the biggest investor in his own fund.'

'The market didn't invest in him even though he had a track record of more than 10 years. When there are changes, the market seems to sleep and needs time to digest. That's when we get our best ideas.'

### Refining the market

According to Sauren, today's fund market requires more sophisticated analysis.

One dominant trend comes from absolute return strategies.

'In the absolute return sector you can see how managers perform regardless of market conditions and it really shines through in their allocation strategies.'

'This is going to become an even bigger trend. Before, it was relatively easy to compare a European equity manager against an index and a bond manager likewise. Now portfolios have become more complex which means that you need to have a more qualitative analysis of funds.'

'Ultimately, this will mean that selectors need to take a more exacting view. They will have to understand precisely where alpha is being generated away from market trends.'

### Recalibrating the approach

Selectors are only beginning to wake up to a different and more dynamic allocation style, says Sauren. Active management will get more active, he believes.

'The modern bond fund manager can build a portfolio with high yield expectations where risk is fenced in through all kinds of derivative instruments.'

'If you think back even three years, the difference between Italian, Spanish and even German bonds was at 0.1%. You couldn't generate anything through that.'

The effect will be that selectors will also have to be more active in their scrutiny of funds, says Sauren.

'The times where you could just catch a good wind from the market are gone,' says Sauren.

'Today, the importance of a multi-asset portfolio driven through specialist managers has never been greater. You can generate off-benchmark ideas in equities, bonds and absolute return – and within the European market.'

### The world at your computer screen

Cologne may not be the first place you'd think of for finance yet in an asset management industry driven by a global and mobile network of managers, the fund selection firm's setting is less relevant, Sauren explains.

'We are mostly in London to find managers and not in Frankfurt or Cologne where we are based.'

'We don't think that managers need to sit at the location in which they are invested. We haven't found any managers, for instance, that we like based in South America. It is the quality of the manager and not just their location.'

'For South America, we would rather invest in BlackRock's Will Landers who is based in Princeton or First State's Jonathan Asante who is based in Edinburgh. Providing they have good contacts with the companies and visit them frequently, it is their stock-picking skills that count.'

### Who's winning at Sauren?

Managers Europe-wide and the US will be attending the Sauren Awards held in Frankfurt this September. Since 2003, the company has awarded gold awards to the most promising fund managers across a range of asset classes.

As one of the most well-known names in the German fund management industry, Sauren sees his ratings and selection business as quite separate.

'I don't see that there is any kind of conflict of interest with the ratings and the selection side. It's not like we are in an equity market where we can move a stock price.'

'It's more of a disadvantage as we put our best ideas very transparently into the market and other wealth managers and fund selectors then also get the idea to buy these funds and the increasing volumes will mean it's harder to generate alpha.'

This year, one of the special prizes will be for 'fund personality of the year'.

We've got our own ideas but until September, mum's the word. ●

**A German language version of this article will appear on the Citywire Deutschland website as the site goes live in October.**



## ECKHARD SAUREN

### Evolution of Sauren Fonds-Research

<b>1991</b>	Founded by Eckhard Sauren as an independent multi-management firm
<b>1999</b>	Sauren introduces one of the first fund of funds, the Sauren Global Growth fund, to the German market
<b>2002</b>	Sauren ratings launched as first gold medals are awarded to managers
<b>2012</b>	Sauren has 12 funds of funds under management with asset totalling €2.5 billion

### Hobbies

Even outside of fund selection, Eckhard Sauren is into competitive sport. In his spare time, when he's not with his family, he can be spotted on Cologne's football pitches and racing tracks.

'I am president of the Kölner Renn-Verein EV and I keep my own horses.'

'I am a dedicated watcher of football though I also do like to play from time to time.'

