

Media Release of May 9, 2019

A new market neutral fund offers investors uncorrelated returns

Investors know how difficult it is to find alternative investment strategies that show little correlation to stock and bond markets during periods of stress. To address this need, Bellevue Asset Management launched a market neutral European equity strategy with daily liquidity on April 30, 2019. The sector-neutral Luxembourg-domiciled BB Europe Equity Market Neutral Fund (LU1947777287) is based on a systematic factor investment strategy. The fund is managed by a team of three experienced investment professionals at Bellevue Group's StarCapital subsidiary, an investment boutique in Oberursel near Frankfurt am Main.

Bond returns have fallen by half in recent years. That has forced many investors to take on more and more equity and interest rate risks. What is often overlooked, however, is that most asset classes and investment strategies are highly correlated with stock market returns. "We construct an uncorrelated portfolio by using the positive effects of factor investing. Our portfolio also differs from the typical long/short vehicles in that it employs a large number of factors and each group of factors is given an equal weighting," explains Jens Kummer, Director and Senior Portfolio Manager at StarCapital.

Highly negative and significantly positive returns offer high alpha potential

The new fund's investment universe consists of liquid European blue chips. Analyses conducted by the investment team have shown that there is a large number of stocks that outperform or underperform the overall market by a wide margin, especially in the European stock market. This high concentration of outlier returns represents attractive alpha-generating potential with low volatility. Each stock in the fund's universe is assigned to one of 14 sectors. The five most attractive stocks in each sector are bought and the five most unattractive stocks are sold, which results in a market- and sector-neutral long/short equity portfolio with 70 long and 70 short positions, all of which are equally weighted.

Factors help to identify the winners and the losers

Every stock in the investment universe is screened using 19 different factors grouped in five equally weighted factor categories. The first group screens stocks based on valuation metrics such as price/book and price/earnings multiples. The second factor group focuses on a company's growth outlook, using factors such as return on equity and net profit margins. The third factor group assesses qualitative criteria such as balance sheet structure and earnings predictability. The fourth factor group focuses on momentum indicators while the fifth measures so-called "diversifiers". Diversifiers should be particularly constructive performance elements in periods when the other factor categories are weak. Mean reversion and relative strength indicators figure prominently in this group.

Positive annual returns with mid-range volatility

The investment team has computed the MARS L/S Factor Allocation Index since July 2016. This index is based on equal long and short exposure of 50%. The BB Europe Equity Market Neutral Fund will be fully invested in both the long and short segments. The portfolio will be rebalanced every month and implemented via total return swaps. The aim of the strategy is to generate a positive and stable return over a rolling 12-month period, regardless of the performance of the traditional asset classes. Volatility should be within a range of 4% to 8% over the medium term.

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Bellevue Asset Management

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