The Interview – Julian Rogers-Coltman, FF&P Capital Management: “We are mindful of the risk further bad news as the peripheral European economies continue to deteriorate”

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Julian Rogers-Coltman (pictured), chief executive of Fleming Family and Partners Capital Management, says the absolute return asset manager’s two surviving funds are well set to capitalise on the continuing market volatility, but he acknowledges that fundraising will remain difficult until fears of a double dip recession dissipate and it becomes clearer how weaker European countries can escape the sovereign debt trap.

GFM: What is the background to your company and funds?

JRC: Founded in 2000, Fleming Family and Partners is one of the UK’s most successful multi-family offices, with EUR4.1bn under management and advice. In 2004, Fleming Family and Partners launched Fleming Family and Partners Capital Management, a specialist fund management business with a mandate to enter into partnerships with talented fund managers focusing on absolute return management, providing a boutique environment with an institutional infrastructure.

Fleming Family and Partners Capital Management, which is based in London and regulated by the Financial Services Authority, manages two pan-European equity absolute return funds, with a predominant focus on western, central and eastern Europe. Both funds are Irish-domiciled, Dublin-listed, Ucits III-compliant funds with sterling, dollar and euro share classes. The B share classes in sterling and euro are capital gains tax-efficient, with distributor status.

Launched in October 2007, FCM European Total Return Fund takes a low volatility (2 to 4 per cent) approach to seeking positive returns from pan-European equity markets. The fund combines opportunistic fundamental stock selection with tactical asset allocation and focuses on capital preservation, with stringent risk management. The target return is Euribor plus 300 basis points per annum over a full market cycle.

FCM European Opportunities Fund was launched on October 15, 2007 and since January 2009 has been an Irish-domiciled Ucits III fund. Its objective is to produce consistently high risk-adjusted returns from pan-European equity markets. The fund aims to capture the majority of the Euro Stoxx 50 upside; both funds use Euro Stoxx 50 index put options and stop-loss parameters to minimise downside risk.

The two funds are managed by industry heavyweights Günter Ferstl and Reinhard Ploder. With a combined industry experience of 29 years, 11 of them working together, and a proven absolute return track record since 2003, the two managers run funds that use the same strategies as those they previously employed at Uniqa, Austria's largest insurance firm.

There they managed more than EUR500m in two total return funds, with the Uniqa Total Return Fund achieving an annualised return of 10.57 per cent between 2003 and 2007 and the Uniqa Opportunities Fund posting an 18.89 per cent annualised return between 2004 and 2007.

In 2009, the European Opportunities Fund returned 13.73 per cent with volatility of 7.95 per cent, while the European Total Return Fund gained 6.41 per cent with volatility of 2.98 per cent. Since Fleming Family and Partners Capital Management launched the funds at the peak of the market, the funds have returned 4.5 per cent and 4.34 per cent respectively compared with a decline of 40 per cent in the Euro Stoxx 50 up to the end of August.

Over the last 12 months, in risk-adjusted terms, the European Opportunities Fund outperformed all of its absolute return peer group. Despite difficult equity markets this year, during which the Euro Stoxx 50 has lost 10 per cent, both funds have made money, with the European Opportunities Fund gaining 10.16 per cent with annualised volatility of 8.11 per cent, and the European Total Return Fund gaining 3.25 per cent with annualised volatility of 2.95 per cent.

GFM: Who are your key service providers?

JRC: Our auditor is PricewaterhouseCoopers in Dublin, the funds' administrator is Northern Trust International Fund Administration Services (Ireland), the custodian is Northern Trust Fiduciary Services (Ireland) and legal counsel is William Fry.

GFM: How and where do you distribute the funds? What is the profile of your client base?

JRC: Our funds are distributed across Europe from our London and Vienna offices. Clients tend to be institutional and wealth management companies; our assets are nearly 100 per cent institutional.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

JRC: Fleming Family and Partners Capital Management had five funds going into 2008 and unfortunately three of them failed to make it through the crisis. This was due to a number of reasons, but our largest fund, an eastern European long/short equity hedge fund, suffered heavy redemptions despite good performance.

However, our two remaining funds performed well during the crash, minimising losses to a fraction of the market's, and have bounced back well. Both NAVs are at all-time highs and asset growth has resumed, despite investor sentiment remaining extremely nervous. Our cost base has been downsized to reflect current assets under management and the business is now trading profitably again.

GFM: What is your investment process?

JRC: Our investment process combines tactical asset allocation and fundamental stock selection, with no style bias. Our time horizon for stock picks is between six and 18 months. Our return target for small and mid-cap stocks is an upside of more than 20 per cent, while the target for large-cap stocks is more than 10 per cent.

GFM: How do you generate ideas for your funds?

JRC: We aim to discover under-researched and/or early-stage investment ideas through our own research, including country and company visits.

GFM: What is your approach to managing risk?

JRC: For the FCM European Total Return Fund, the risk budget for stop-losses across the portfolio is 5 per cent of NAV, that is, a 50 per cent equity exposure permits a 10 per cent stop-losses on positions. Equity exposure above 15 per cent is hedged with European index puts on a nominal value basis, on average 5 per cent out of the money. Tactical portfolio risk management involves equity exposure being reduced to zero if necessary.

For the FCM European Opportunities Fund, the risk budget for stop-losses across portfolio is 20 per cent of NAV, and equity exposure above 50 per cent is hedged with European index puts on a nominal value basis, on average 5 per cent out of the money. Tactical risk management involves equity exposure being reduced to between 5 and 15 per cent of the NAV if necessary.

GFM: How has your recent performance compared with your expectations and track record?

JRC: Both funds have produced sound, positive returns in 2010, through accurate asset allocation and good stock-picking. European equity markets are finally balanced between macro negatives and micro positives. The sovereign debt crisis continues to curtail rallies while good-quality companies are seeing balance sheets grow as profits return. We expect markets to continue to range and therefore our performance should continue to produce steady investor returns.

GFM: What opportunities are you looking at right now?

JRC: We are looking at good companies with growth opportunities, usually driven by exports, but we are mindful of the risk to the markets of further bad news from the peripheral European economies, which will continue to deteriorate. At some stage this will cause more turmoil, which we believe will present a good buying opportunity.

GFM: What events do you expect to see in your sector in the coming year?

JRC: We see further sovereign debt concerns and a continued devaluation of the dollar, leading to a potential trade war with China. We expect emerging countries to grow and help companies exporting to them, but see volatility continuing as weaker European countries deteriorate. Corporates will continue to accumulate cash as profits grow steadily, and it is likely that M&A activity will increase as banks become more confident about lending, putting a floor under markets.

GFM: How will these developments affect your own portfolios?

JRC: Our equity exposure is historically low, so we feel comfortable that our downside risk is covered. A bigger risk is a sharp rally if corporate earnings strengthen and double dip concerns recede, so our managers are watching markets carefully.

GFM: How do you assess investors' current expectations?

JRC: Investors remain concerned about the downside risk to equities, having seen extreme volatility over the past two years. They recognise equities offer good value, but are not confident enough to step back into the market in a material way. In Europe, equity investors have their lowest allocation to equities for at least 15 years, as they fret over the future of the weaker countries in the eurozone.

GFM: What differentiates you from other managers in your sector?

JRC: Our managers are expert stock-pickers focused on the most robust part of the European equity markets, German-speaking Europe. They have considerable experience in identifying high-quality companies, which they may have followed for decades, with close relationships to the management team.

In addition, they have honed their macro research capabilities to minimise downside risk through their flexible approach to equity allocation. Finally, their use of put option hedging gives an additional layer of risk management that protects investor capital in volatile markets.

GFM: How do you view the environment for fundraising over the coming 12 months?

JRC: We believe it will remain difficult until fears of a double dip recession dissipate globally, and the picture becomes clearer on how the weaker European countries will escape the sovereign debt trap. Once visibility improves, we see markets rallying and investor confidence returning quite quickly, as interest rates are likely to remain low in the medium term, and equities will offer an attractive alternative to cash. This, we believe, could lead to substantial inflows.

- Absolute Return

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