bfinance

Quarterly Analysis

Manager Intelligence and Market Trends

August 2021

Contents

bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 390 clients in 40 countries and has 10 offices globally. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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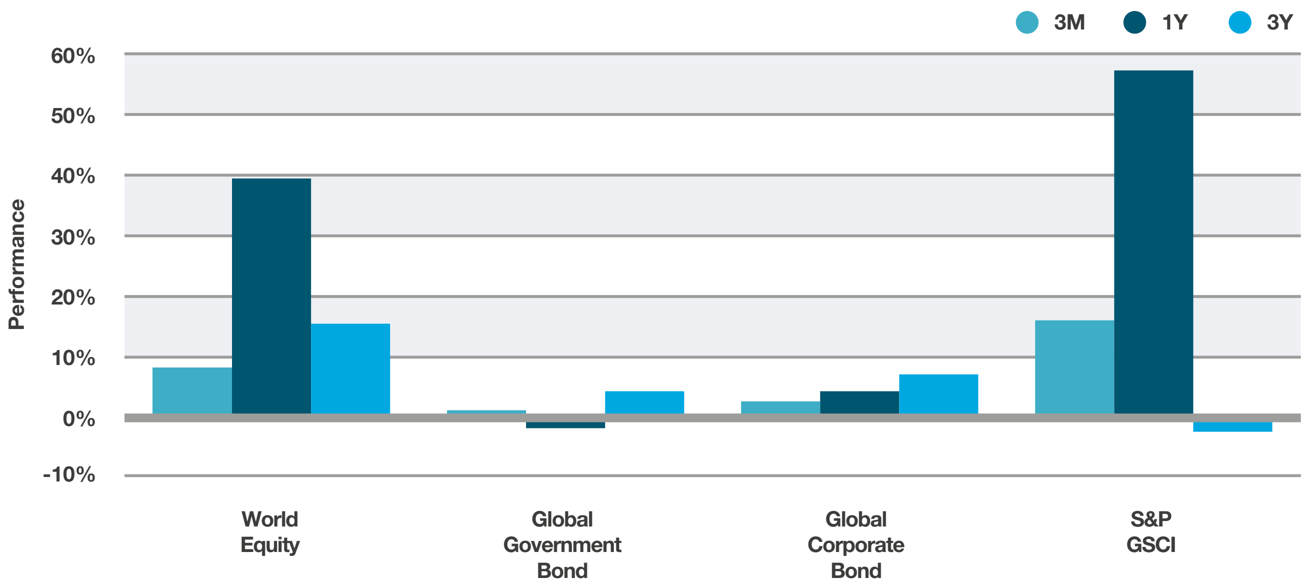
At a glance...

- As populations in developed markets gradually gain protection from Covid-19 infection, managers are embracing risk-on positioning despite the regional difficulties created by the ongoing spread of the Delta variant: At the end of Q2 2021, multi-asset managers' average equity exposure sat nearly 8% above the long-term average.
- bfinance recorded a remarkable 53% increase in new manager searches through the 12 months to 30 June. Investors are seeking to participate in the global economic recovery and diversify their holdings to address, among other things, inflation and interest rate risks.
- As the global economic recovery gained ground in Q2, equity markets continued their upward trajectory and active managers struggled to keep pace in terms of performance. The quarter put a pause on the resurgence of the Value style.
- Private market search activity remained robust in Q2, accounting for 45% of all search activity in the trailing 12 months to 30 June. Industry-wide fundraising statistics indicate that Q2 may be one of the strongest on record, with a total of USD 379 billion raised across all strategies—when all contributions are fully tallied, the final total may actually exceed USD 400 billion, which would constitute a new quarterly record.
- With inflation rising and the risk of interest rate increases looming on the horizon, fixed income investors have continued to shift from conservative strategies to higher-yielding market segments, such as emerging market debt and US corporate high yield. We have also noted an increased in searches for multi-sector strategies.

PERFORMANCE OF PUBLIC MARKETS TO 30 JUNE 2021

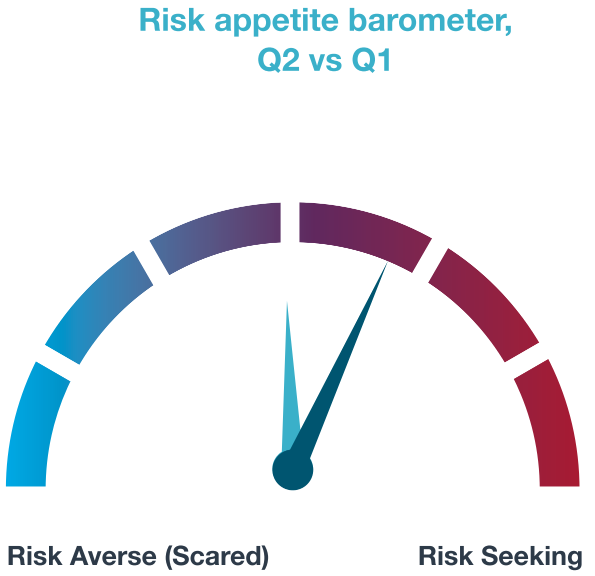


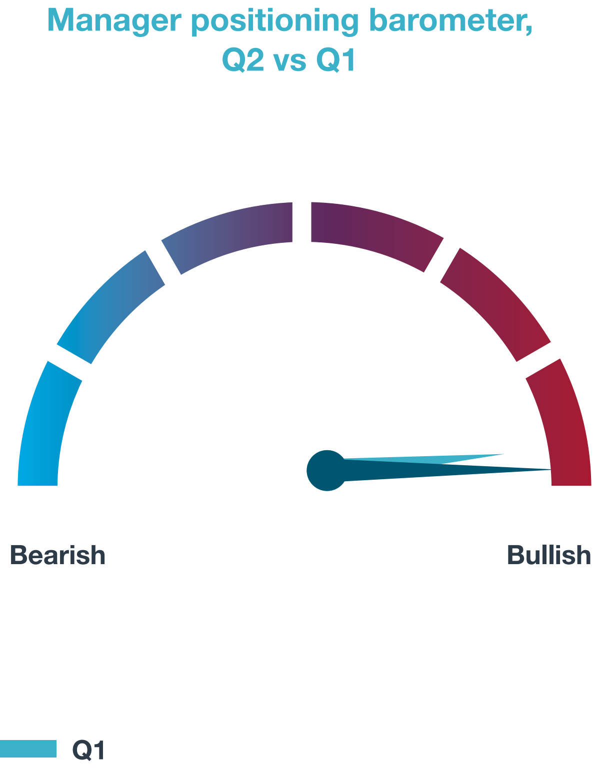
Source: bfinance/Bloomberg

World Equity: MSCI World NR (USD)
Global Government Bond: Barclays Global Aggregate Treasury (USD Hedged)
Global Corporate Bond: Barclays Global Aggregate Corporate (USD Hedged)
S&P GSCI: S&P GSCI TR (USD)

Risk snapshots

Buoyed by an ongoing global economic recovery, managers embrace risk





Source: bfinance (see page 5)

Risk snapshots continued

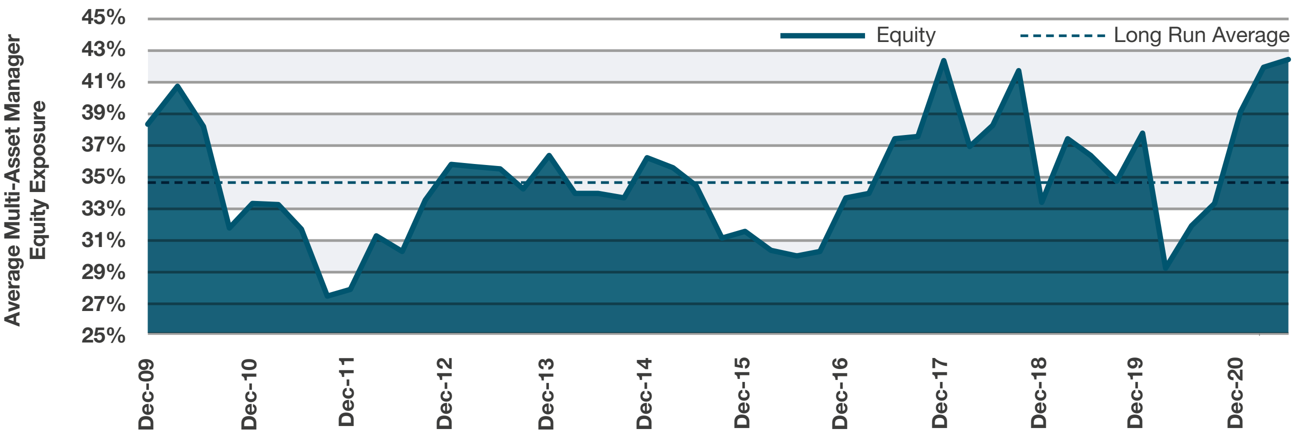
Risk aversion

In the second quarter of 2021, the upward trajectory evident at the start of the year gained speed and momentum on the strength of global economic recovery, which continues unabated. Although the spread of the new, highly transmissible Delta variant cast a long shadow across emerging markets, developed markets continued to reopen—and asset managers committed ever more strongly to risk-on positioning.

The shift is reflected in the bfinance Risk Aversion Index, which is driven by a range of indicators, including implied volatilities, gold prices, CDX and others. This indicator moved in favour of risk-taking as managers gained confidence in the recovery, ending the quarter at 0.64.

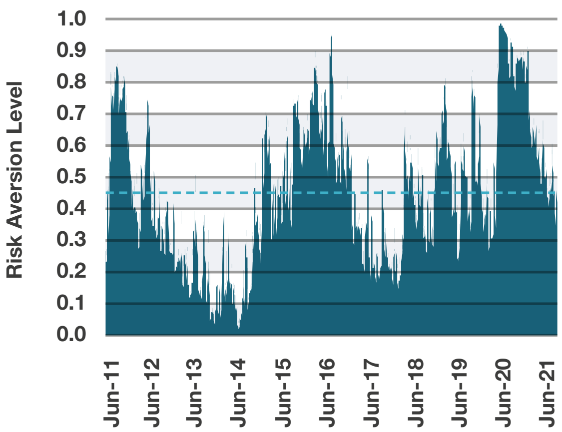
As optimism took hold, multi-asset managers moved to increase their risk positioning: At the end of Q2, average equity exposure of multi-asset managers tracked for this barometer sat at 42.5%—only marginally higher than Q1's 42%, but nearly 8% above the long-term average.

MARKET POSITIONING OF MULTI-ASSET FUNDS



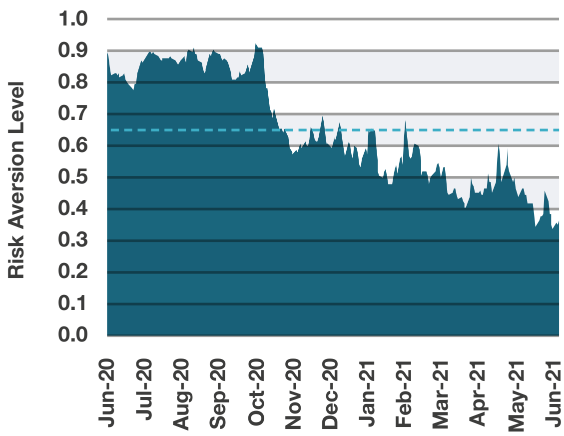
Source: bfinance. This graph shows the current and average exposure to equities held by a range of multi-asset managers. This is based on proprietary analysis performed by bfinance. The managers analysed vary in strategy from macro and GTAA through to bottom-up allocation strategies.

THE BFINANCE RISK AVERSION INDEX: 10-YEAR VIEW



Source: bfinance/Bloomberg

THE BFINANCE RISK AVERSION INDEX: 1 YEAR VIEW



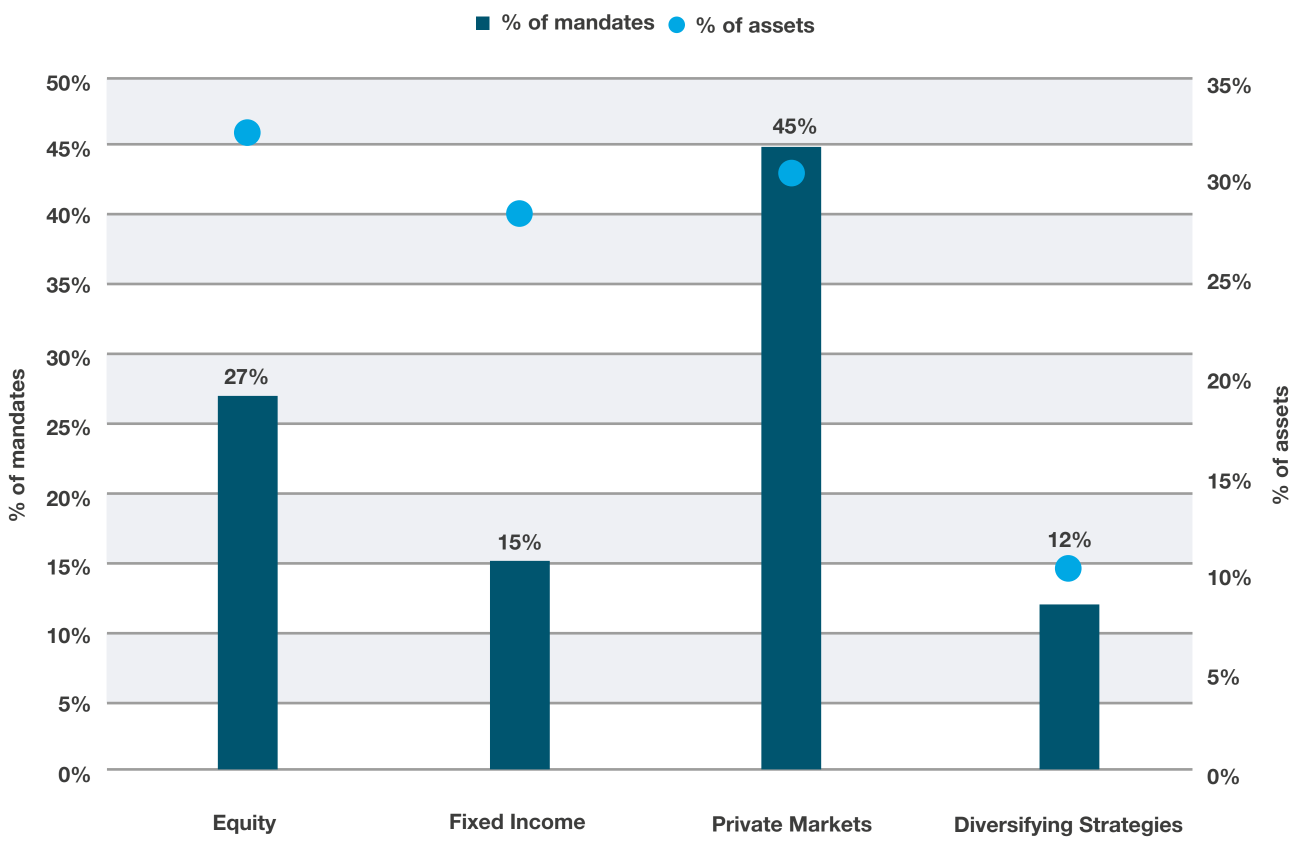
Source: bfinance/Bloomberg

The bfinance risk aversion index is a proprietary measure we use to calculate how risk seeking (nearer zero) or risk averse (nearer 1) the market consensus is. It ranges between 0 and 1. The internal algorithms used incorporate indicators of market expectations of future volatility (e.g. implied volatilities in equities and FX), the level of classic safe haven investments (gold) and market expectations of corporate default (e.g. CDX).

Investor activity

Search activity surges by 53% YoY as investors actively seek out new investment opportunities

NEW MANAGER SEARCHES, 12 MONTHS TO 30 JUNE 2021 (BY ASSET CLASS)



Note: these figures only represent projects initiated within the specified periods and do not include pre-existing client engagements that continued during the year.

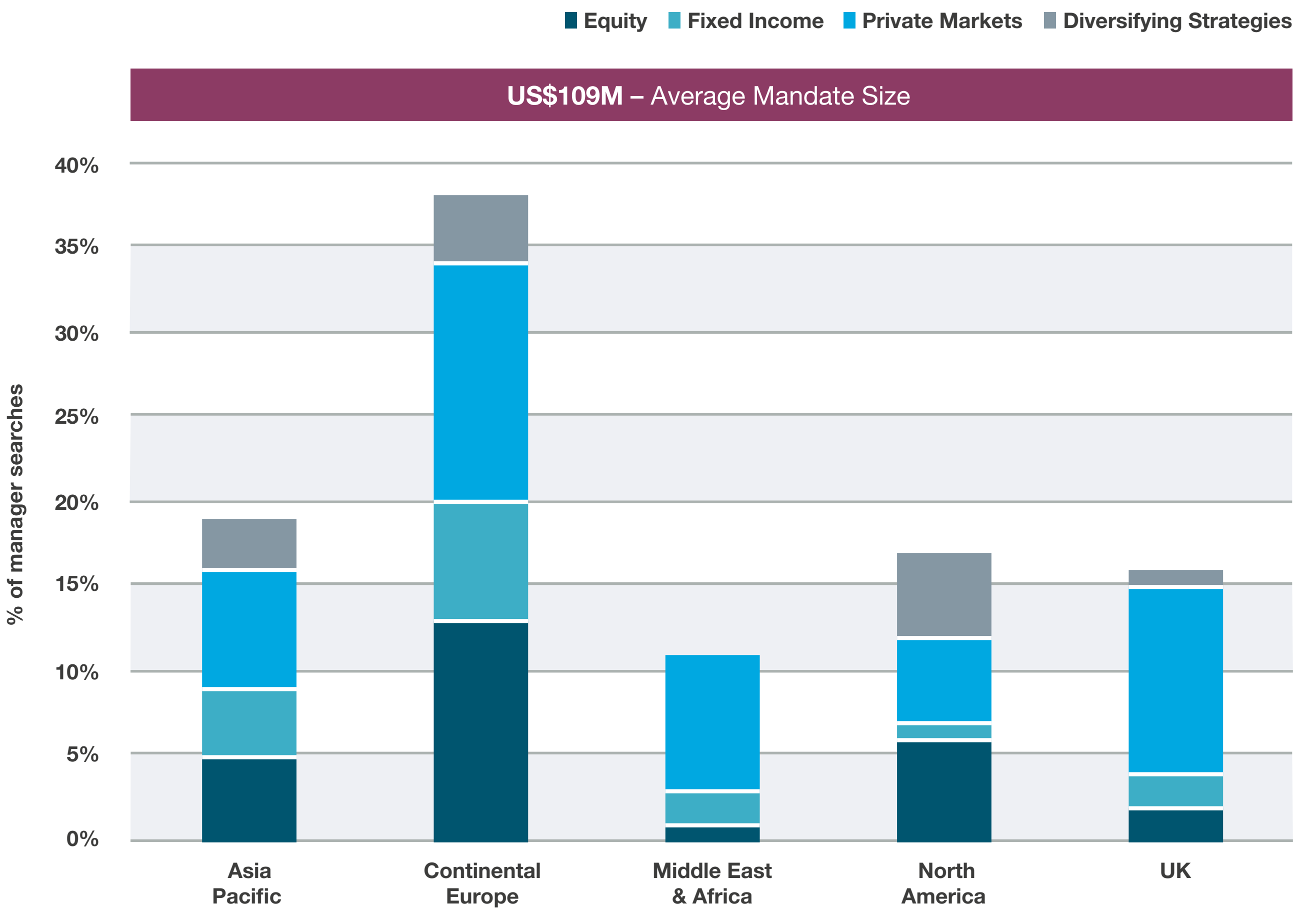
Investor activity continued

The global economic recovery, which became firmly established in Q2 2021, has continued to support rising investor optimism and search activity. For the trailing 12 months through 30 June, the number of manager searches conducted by bfinance increased by 53% year over year. The average mandate size during the 12 months to 30 June was USD 109 million.

Investors remain closely focused on opportunities in **Private Markets**: this sector accounted for 45% of all manager searches initiated in the trailing 12 months to 30 June—a slight decline from 48% at this time a year ago, but one which should be viewed in the context of the large overall increase in search activity. Clients have been looking at niche strategies to mitigate risk and find profitable—and even unusual—sources of yield. Private Debt continues to compel investor interest, but Real Estate has also seen a resurgence of attention from asset owners as they see to reposition their portfolios to address structural changes in the market.

Equity strategies, meanwhile, garnered 27% of all new searches over the same period, up from 18% at this time last year, with many asset owners seeking to increase the geographic diversity of their holdings and reorient from a style perspective. Although **Fixed Income** and **Diversifying Strategies** (Hedge Funds, Multi Asset etc.) represented a declining proportion of overall searches, investor activity remained relatively stable versus the prior year. Indeed, 2021 has brought a notable surge in positive sentiment towards hedge funds after two years of strong performance, with new investors entering this sector for the first time (see *How to Build a Hedge Fund Portfolio*).

NEW MANAGER SEARCHES (BY INVESTOR LOCATION)

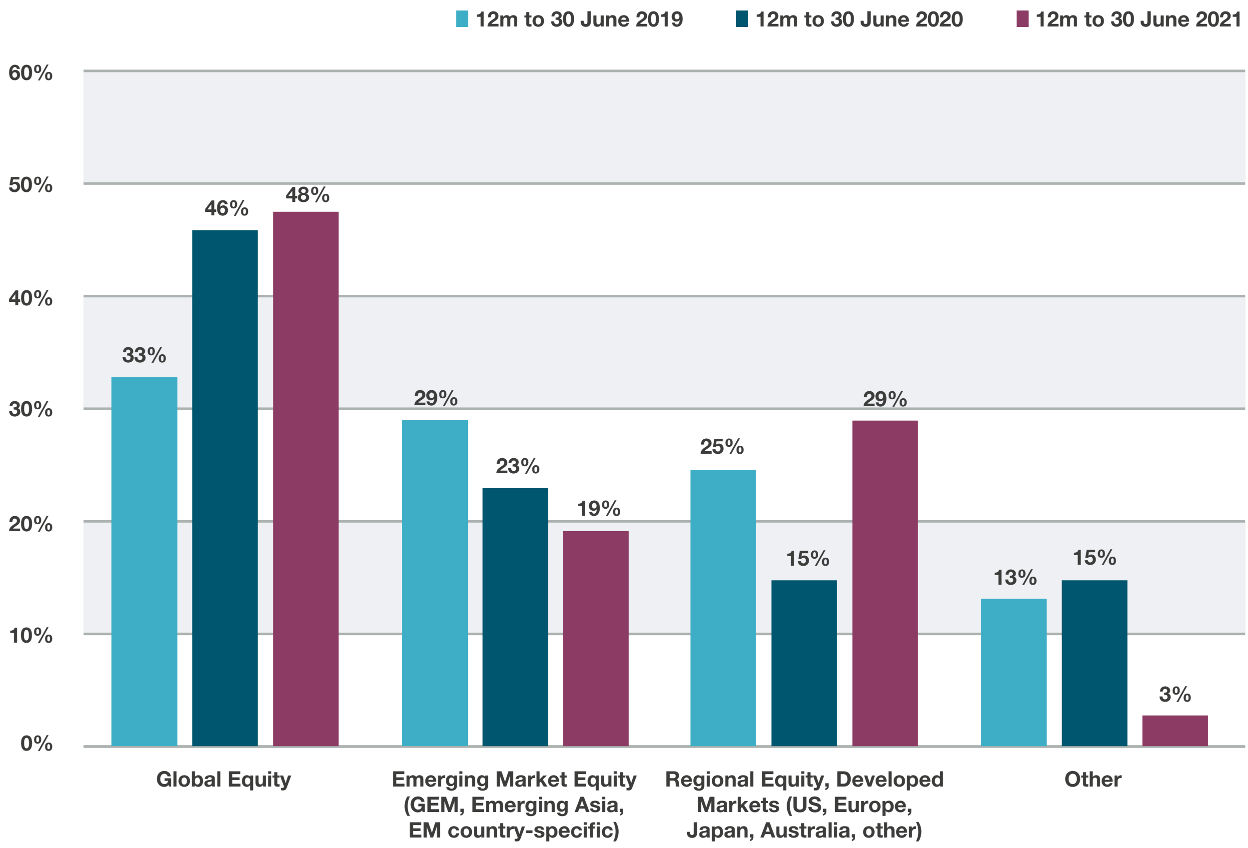


Note: these figures only represent projects initiated during the 12 months to 30 June 2021 and do not include pre-existing client engagements that continued during the year.

Equity

Global equity searches benefit from investors' interest in geographic diversification

NEW EQUITY MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Equity continued

Investor trends

Demand for Developed Market equities has gathered momentum over the past 12 months, with Global Developed Markets manager searches rising from 46% to 48% of all equity searches and Regional Developed Markets searches rising from 15% to 29% of the total. Conversely, new searches in Emerging Markets—whether global, regional or country-specific such as China—have declined from 23% to 19%.

Recent searches have encompassed a range of styles, both systematic and discretionary. Several have catered to investors' needs for very specific product structures. We also note activity within highly niche asset class segments, such as European microcap, Canadian income, Sharia-compliant Saudi Equity and more.

Asset owners have shown a growing interest in the Value style, as discussed in the recent paper *Redefining Value: Managers Under Scrutiny*. Recent searches and enquiries have been concentrated primarily on the 'Quality Value' and 'Moderate Value' sub-sectors, rather than more conventionally-framed Value investment approaches. Although the outstanding performance delivered by this factor in Q4 2020 and Q1 2021 has dropped off in Q2, we see investors continuing to evaluate their style exposures and pursue improved diversification in this area.

ESG remains a huge theme within manager search and selection. In equities, we see an increasing number of investors ramping up their ESG expectations and requirements irrespective of the style of the desired strategy, such as Income, Value or Growth.

Equity continued

Market snapshot

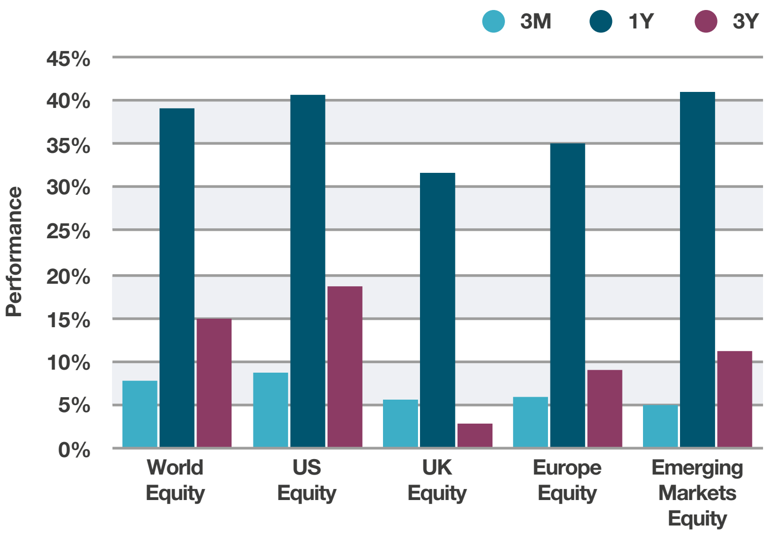
Globally, equity markets continued their upward trajectory during Q2 2021: the MSCI World Index rose +7.7% (in USD) during the quarter. Gains in most regions were supported by ongoing Covid-19 vaccine programs and increasing economic activity as countries gradually reopened, which helped boost corporate earnings.

US equity markets rose during Q2, with gains in large caps helping to push the major indices to record highs. Growth in GDP, consumption, and industrial activity continued to strengthen; this upward shift contributed to a significant jump in headline inflation risk as the US Consumer Price Index for All Urban Consumers rose to +5.4% year over year as of 30 June. With that risk firmly in view, investors watched markets wobble around the expected timing of interest rate increases and bond buybacks, or tapering, by the US Federal Reserve (the Fed).

European and UK equities gained during Q2 as ongoing vaccine rollouts, accommodative monetary policy from the European Central Bank, and fairly strong company earnings underpinned positive sentiment. Beneath this headline performance, however, mixed economic and market results told a slightly different story: lockdowns and re-opening schedules varied significantly across countries and inflationary pressures rose concurrently. Supply-chain disruptions, such as the semiconductor shortages that weighed on the automobile sector, affected production in a variety of industries.

Emerging Markets delivered a moderate +5.0% return during the quarter. This result masks considerable regional variation: the MSCI EM Latin America Index rose +15.0% while emerging Asia was more muted, rising by +3.8%. Concerns over inflation, US dollar strength, and the Delta variant weighed somewhat on investor sentiment.

EQUITY MARKET PERFORMANCE IN USD (TO 30 JUNE 2021)



	YTD USD	YTD LOCAL
World Equity	13.0%	14.2%
US Equity	15.3%	15.3%
UK Equity	12.1%	10.9%
Europe Equity	12.5%	16.1%
Emerging Markets Equity	7.4%	7.9%

Indices Used
World Equity: MSCI World Index in USD and in Local Currency
US Equity: S&P 500
UK Equity: FTSE 100
Europe Equity: Euro Stoxx 50
Emerging Markets Equity: MSCI Emerging Markets Index in USD and in Local Currency

Equity continued

Manager watch

Q2 2021 effectively halted the resurgence of the Value style, which had emerged in late 2020 and continued its dominance into early 2021. In stark contrast to Q1, developed market active managers in bfinance's custom Value style composites—Deep Value and Value—and the Income style composite trailed the MSCI World Index. Amongst all active management composites, Growth was dominant: High Growth gained +2.5%; Growth rose by +1.7%; and Quality Growth delivered +1.6%. On a trailing 12-month basis to 30 June, the Value style cohorts still led at the end of Q2, supported by the magnitude of the Value rebound earlier in the year, whereas the Growth composites performed more strongly over longer time horizons, such as five and ten years.

Within emerging markets, active manager performance during Q2 was more nuanced and mixed across style groups. Our Deep Value and Value manager composites outperformed the MSCI EM Index; while Core and Quality composites lagged. Comparable to developed market active manager groups, the High Growth style group led Emerging Markets, with +4.8% outperformance in the quarter.

The struggles of Low Volatility managers continued, with underperformance in our style group composite in Q2 for both developed and emerging markets.

Looking beyond our tailored manager style group composites to the broader universe of active strategies, we note that Q2 proved a challenging quarter in general. Overall, only 36% of active managers across developed markets outperformed the MSCI World Index in Q2, compared to 57% over the past 12 months.

MANAGER PERFORMANCE (TO MARCH 2021)

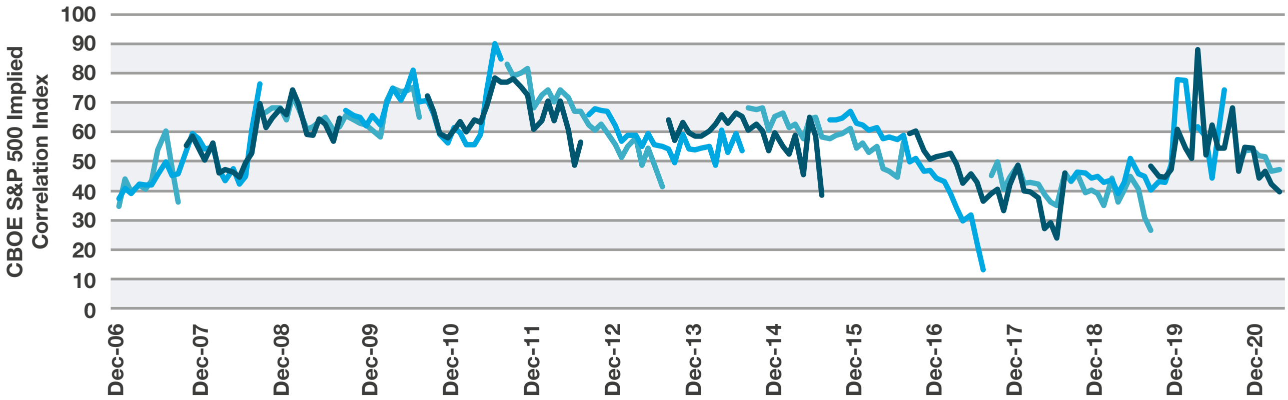
	3m	YTD	1Y	3Y (p.a)	5Y (p.a)
Global Equity Composite*	**7.3%**	**12.3%**	**39.2%**	**16.1%**	**16.5%**
MSCI World NR (USD)	7.7%	13.0%	39.0%	15.0%	14.8%
MSCI ACWI NR (USD)	7.4%	12.3%	39.3%	14.6%	14.6%
Outperformance vs MSCI World	**-0.5%**	**-0.8%**	**0.2%**	**1.1%**	**1.7%**
Outperformance vs MSCI ACWI	**-0.1%**	**0.0%**	**-0.1%**	**1.5%**	**1.9%**
Global EM Composite*	**5.5%**	**8.7%**	**44.7%**	**13.3%**	**14.2%**
MSCI EM NR (USD)	5.0%	7.4%	40.9%	11.3%	13.0%
Outperformance	**0.4%**	**1.2%**	**3.7%**	**2.1%**	**1.2%**

Source: bfinance/eVestment

The Global Equity Manager and Global EM Manager composites show the performance of a sensible and representative sample of managers that invest in global equities and global emerging markets equities respectively. We use these composites as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

Equity continued

CORRELATIONS BETWEEN STOCKS



CBOE Indicies measures the implied correlation between stocks that make up the S&P 500. The series measures the expected average correlation of price returns of S&P 500 Index components, implied through SPX option prices and prices of single-stock options on the 50 largest components of the SPX for different maturities.

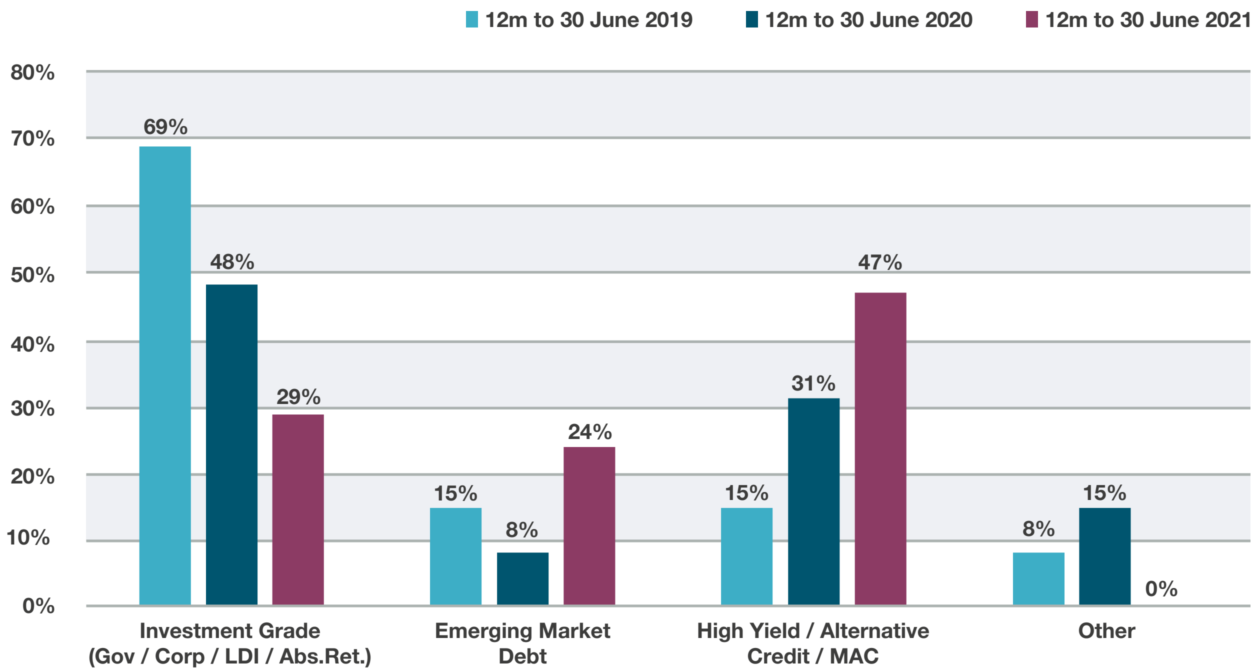
News from the equity manager world

- **Amundi** agrees to acquire **Lyxor Asset Management** from **Société Générale** for EUR 825 million. The deal covers Lyxor's ETF and alternative management capabilities and is expected to complete by February 2022.
- **Aviva** plans to refocus on sustainable strategies and core UK and global products within its equity platform. As part of the shake up, David Cumming, CIO of Equities, departs.
- **Columbia Threadneedle** announces the acquisition of **BMO's** EMEA asset management business (the deal is expected to close in Q4 2021). The firm announces that William Davies will replace Colin Moore as CIO when he retires, effective January 2022.
- **GIB Asset Management** hires three portfolio managers from **Mobius Capital** to run a Global Emerging Markets strategy.
- **Macquarie** enters into an agreement to acquire **AMP Capital**'s global equity and fixed income businesses.
- Jamie Mariani moves from **Martin Currie** to **Trillium Asset Management**, part of **Perpetual**, as portfolio manager on the Global ESG Equity Strategies team.
- Fabiana Fedeli leaves **Robeco**, where she was Head of Global Fundamental Equities, to join **M&G** as CIO for Equities.
- **Vontobel** hires Christel Rendu de Lint from **Union Bancaire Privée** to lead the firm's Sustainable Equity boutique and adds Elenda Tedesco to run an impact strategy.
- **Wells Fargo Asset Management** announces its new brand, **Allspring Global Investments**, and first CEO Joseph Sullivan; the changes take effect later this year when Wells Fargo AM is acquired by Reverence Capital and GTCR and becomes an independent asset manager.

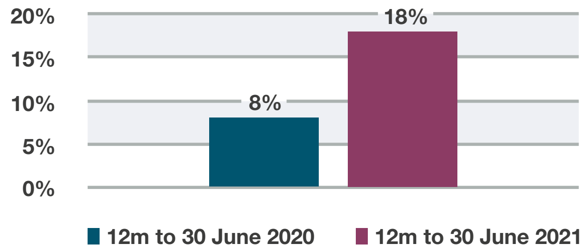
Fixed income

Demand for higher yielding assets continues to rise

NEW FIXED INCOME MANAGER SEARCHES, YEAR ON YEAR



PERCENT OF SEARCHES FOR 'MULTI SECTOR' (ABSOLUTE RETURN FI, MULTI ASSET CREDIT, ETC.)



Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Fixed income continued

Investor trends

Demand has continued to shift from conservative strategies towards higher-yielding segments.

In total, only 29% of new fixed income manager searches from bfinance clients in the 12 months to June 30th 2021 fell within the 'Investment Grade' category shown on the previous page, defined broadly across sovereigns, corporate bonds and so forth (with the exception of Emerging Market Debt, which is shown separately). By contrast, this group represented 69% of new fixed income searches two years earlier, when the appetite for Investment Grade Credit appeared to be at its peak, and 48% of searches last year.

On the higher-yielding side, we note strengthened investor interest in emerging market debt, which represented a quarter of new searches over 12 months, up from 8% in the previous year. This has included a particular focus on *blended strategies* that feature both local and hard currency bonds. There has also been a notable increase in demand for US corporate high yield bond strategies, especially those with a shorter-duration and higher-quality profile. Asset owners are eyeing interest rate risk amid a shifting macroeconomic picture.

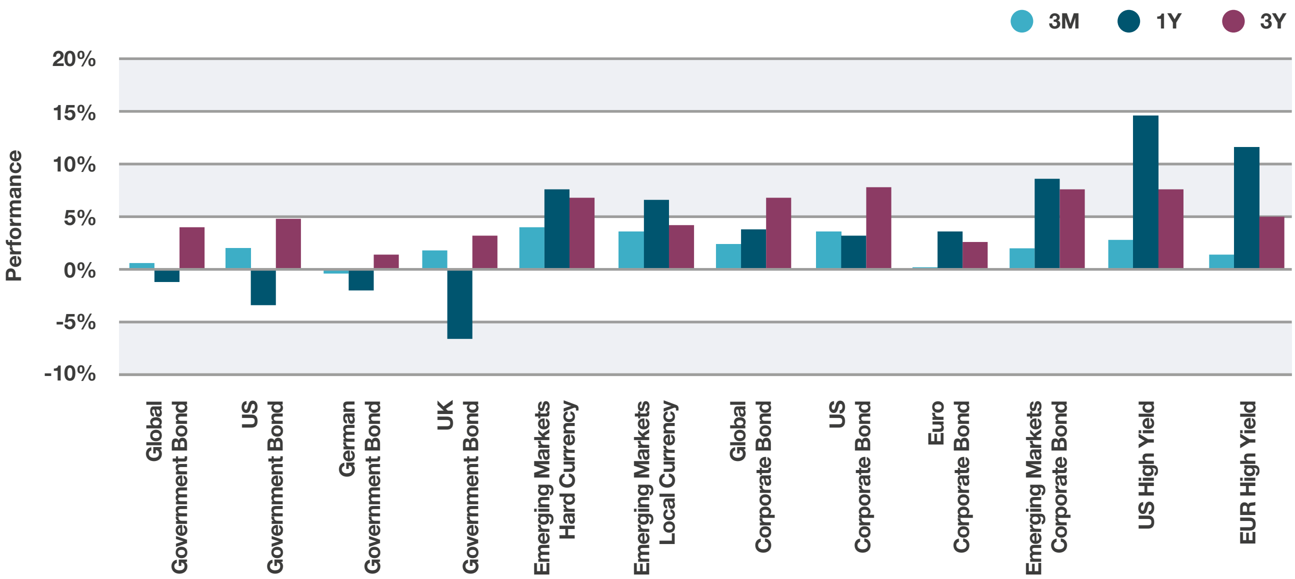
With investors seeking to diversify the sources of return in fixed income portfolios and withstand potential macroeconomic scenarios, we also observe a rise in searches for multi-sector strategies. This is an extremely varied category, including relatively conservative absolute return fixed income and more aggressive, yield-generative offerings (see *Multi-sector Fixed Income: Back in Focus*).

The need to improve diversification is also helping to support rising interest in quantitative, multi-factor-based credit strategies—these, in essence, enable an investor to diversify away from traditional approaches to credit selection. Factor investing in fixed income and the implementation challenges which are associated with the space were explored in a 2020 white paper: *The Rise of Factor Investing in Fixed Income*.

Market snapshot

US Treasury yields declined in Q2, with further fiscal stimulus becoming less likely and the market coming around to the idea that inflation may have peaked. The 10-year Treasury fell from 1.74% to 1.47%, but is still up YTD after its dramatic Q1 rise.

PERFORMANCE OF BOND MARKETS TO 30 JUNE 2021



Indices used: Barclays Global Aggregate Treasury (USD Hedged): BofA ML US Treasury (USD Unhedged); BofA ML German Federal Government (EUR Unhedged); BofA ML UK Gilt (GBP Unhedged); JPM EMBI Global Div (USD Unhedged); JPM GBI-EM Global Div. (USD Unhedged); Barclays Global Aggregate Corporate (USD Hedged); Barclays US Aggregate Corporate (USD Unhedged); Barclays Pan-European Aggregate Corporate (EUR Unhedged); JPM CEMBI Broad Div (USD Unhedged); BofA ML US High Yield (USD Unhedged); BofA Merrill Lynch Euro High Yield (EUR Unhedged).

Fixed income continued

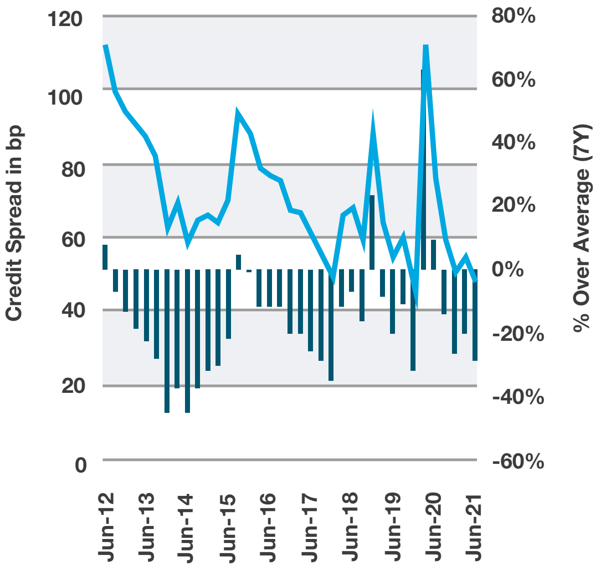
Market snapshot *continued*

On the other side of the Atlantic, European government bonds underperformed US counterparts (German 10-year up from -0.29% to -0.20%), driven by a growing optimism about recovery.

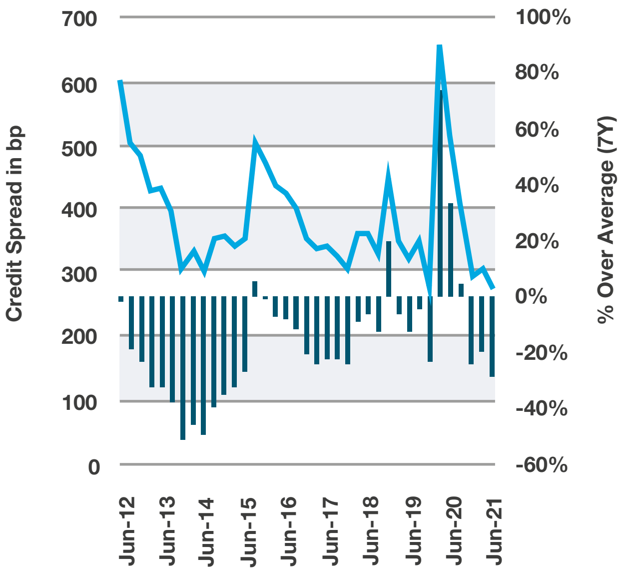
US investment grade bonds posted positive performance of 3.4% in Q2—a dramatic change versus Q1—as rates rallied and earnings exceeded expectations, but remained in negative territory YTD (-1.1%). Positive returns were seen across all ratings categories, with AAA-rated bonds benefitting the most due to their longer duration (~12 years). Spreads tightened by 11bps in Q2, most notably in financials and BBBs. **European investment grade** posted a small gain in Q2 (0.28%) and yields remained broadly unchanged, while spreads tightened by a further 5bps, ending the quarter at 95bps. Spreads have ranged from 94bps to 104bps during 2021, trapped between expensive valuations and strong technicals. Lower-rated bonds outperformed higher quality peers, with BBB-rated bonds gaining 0.44%.

US high yield bonds posted a positive return of 2.8% in Q2 while yields fell to a record low in June (4.3% at end-Q2) and spreads rallied to their lowest levels since October 2018 (370bps at end-Q2) as equities and Treasuries rallied.

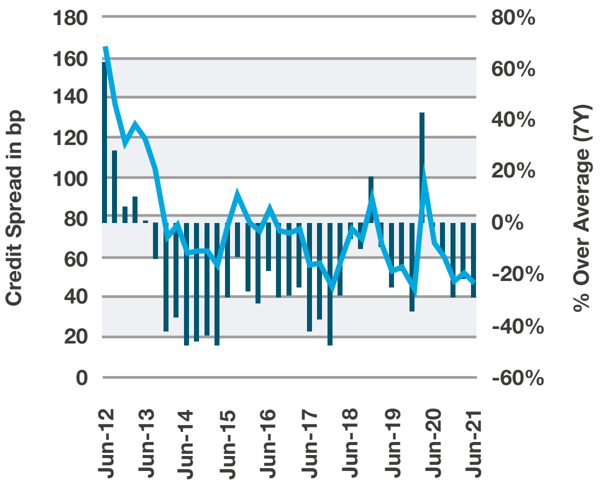
US IG CREDIT SPREAD
CURRENT VS AVERAGE



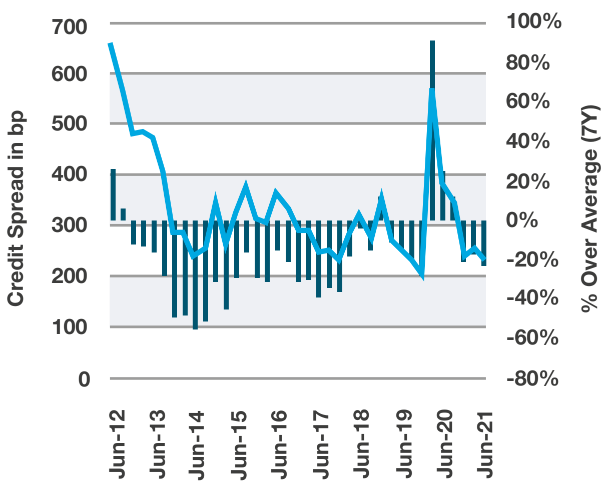
US HY CREDIT SPREAD
CURRENT VS AVERAGE



EUROPEAN IG CREDIT
SPREAD CURRENT VS AVERAGE



EUROPEAN HY CREDIT
SPREAD CURRENT VS AVERAGE



Source: bfinance, Bloomberg.

Fixed income continued

Market snapshot continued

Lower-quality bonds have done best YTD (CCC +7.25%), outperforming single-B (+4.19%) and BB-rated bonds (+2.38%). The most cyclical areas of the market—Energy, Transportation and Gaming/ Leisure—drove outperformance in Q2 and YTD.

European high yield bonds gained +1.3% in Q2, with spreads tightening further to reach 307bps, driven by expectations of growth and a benign outlook on corporate defaults. As seen in the US market, lower quality bonds outperformed (CCC +2.5%), B +1.7%, BB +1.1%).

After a rough Q1 for **Emerging Market Debt**, Q2 saw a significant—if not complete—reversal of losses. **Hard Currency** bonds were up 4.1% after falling 4.5% in Q1, despite concerns about Chinese growth and a rise in Covid-19 cases in Asia; IG and HY sectors were both positive, with the latter outperforming. African and Latin American countries delivered stronger results, led by Venezuela (+46.8%). **EM Corporate debt** gained 2.1%, bringing YTD performance to 1.3%, with further spread compression and high-yield issuers outperforming investment grade. Oil and gas (+4.3%) was the top performer. **Local currency debt** returned 3.5% in Q2 (-3.4% YTD), with bond and FX returns benefiting from a positive macro backdrop, a weaker US dollar and a rise in commodity prices. Tighter monetary policies in countries like Brazil (which boosted policy rates by 75bps in June), Mexico, Russia and Hungary supported local currency performance.

MANAGER PERFORMANCE (TO END MARCH 2021)

	3m	YTD	1Y	3Y (p.a)	5Y (p.a)
US Investment Grade*	**3.34%**	**-0.59%**	**4.91%**	**8.28%**	**5.58%**
Barclays US Corporate IG	3.55%	-1.27%	3.30%	7.79%	4.90%
Outperformance	-0.20%	0.68%	1.61%	0.49%	0.68%
Euro Investment Grade*	**0.49%**	**-0.07%**	**4.77%**	**3.44%**	**2.90%**
Barclays Euro Corporate	0.29%	-0.39%	3.61%	2.63%	2.05%
Outperformance	0.19%	0.33%	1.16%	0.82%	0.85%
US High Yield*	**2.76%**	**3.96%**	**15.60%**	**7.48%**	**7.45%**
BofA ML US High Yield Master II	2.77%	3.70%	15.62%	7.15%	7.30%
Outperformance	-0.01%	0.26%	-0.02%	0.33%	0.15%
EUR High Yield*	**1.56%**	**3.19%**	**11.84%**	**5.35%**	**5.45%**
ML European Curr HY Constr. EUR Hedged	1.45%	3.02%	11.47%	4.92%	5.01%
Outperformance	0.11%	0.17%	0.37%	0.44%	0.44%
EMD – Hard Currency*	**4.31%**	**0.02%**	**10.61%**	**7.19%**	**5.69%**
JPM EMBI Global Diversified	4.06%	-0.66%	7.53%	6.71%	4.86%
Outperformance	0.26%	0.69%	3.08%	0.48%	0.83%
EMD – Local Currency*	**3.88%**	**-3.28%**	**8.23%**	**4.52%**	**3.77%**
JPM GBI-EM Global Diversified	3.54%	-3.38%	6.57%	4.12%	3.25%
Outperformance	0.35%	0.10%	1.66%	0.40%	0.53%
EMD – Corporates*	**2.53%**	**1.33%**	**12.12%**	**8.25%**	**6.87%**
JPM CEMBI Broad Diversified	2.10%	1.28%	8.67%	7.51%	5.79%
Outperformance	0.43%	0.05%	3.45%	0.74%	1.08%

Source: bfinance/eVestment

The Fixed Income Manager peer groups show the average performance of a sensible and representative sample of managers. We use these peer groups as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

Fixed income continued

Manager watch

Active investment grade credit managers provided modest alpha generation over the period: 86% of Eur IGC managers and 62% of US IGC managers outperformed their benchmarks (median +13bps and +6bps respectively). European managers that were overweight BBB-rated issuers benefited, as did US managers that were overweight AAAs.

Generating outperformance in high yield debt proved to be more challenging in Q2. Just 49.5% of US managers beat their benchmark (median -2bps), as did 65% of their European counterparts (median +10bps). Many managers were cautiously positioned towards lower-rated debt (CCC and under) and Energy—both of these proved to be detractors in Q2.

Within emerging market debt, actively-managed hard currency strategies delivered good performance with 74% of managers outpacing the benchmark (median +33bps) in Q2. In a supportive environment for emerging markets, managers with long risk exposure and more specifically an overweight in high-yield securities did better than their peers.

Similarly, 77% of EM corporate bond managers outperformed (+27bps).

Meanwhile, 77% of local currency EMD managers beat their benchmark (median +42bps). Long positions in EM FX and on local yield curves were winning trades during the period, while certain managers also anticipated the hawkishness of selective EM central banks to counter the risks of rising inflation.

Fixed income continued

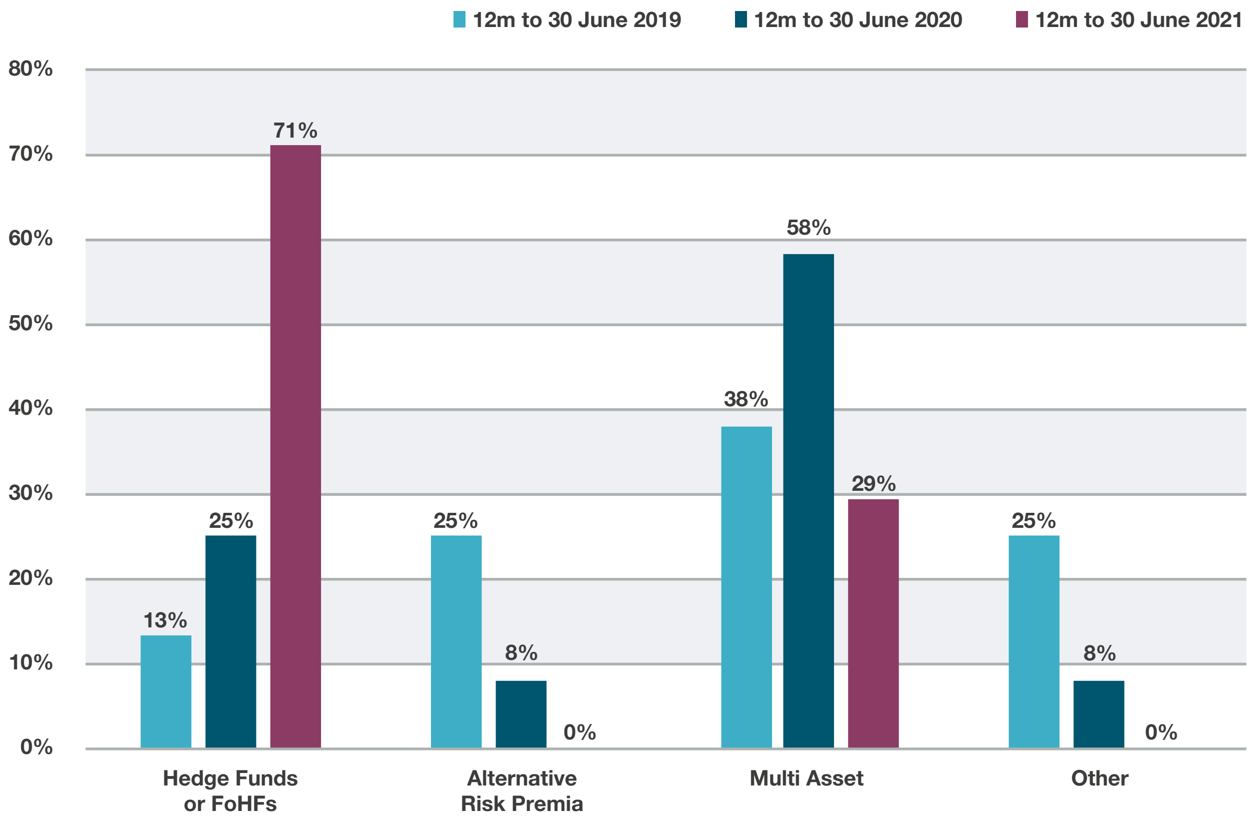
News from the fixed income manager world

- Amundi hires Amaury d'Orsay as Head of Fixed Income from **Credit Agricole CIB**. He takes over from Eric Brard, who is retiring. Amundi also hires Raphael Chemla as a Senior Credit PM; he was formerly Head of High Yield and Subordinated Debt at **Edmond de Rothschild Asset Management**.
- Amy Kam (formerly of **GAM**) moves to **Aviva Investors** as an EMD PM, where she will co-manage the Emerging Market Corporate Bond strategy alongside Head of Hard Currency EMD, Aaron Grehan. Global Head of High Yield Kevin Mathews leaves the firm; his co-PMs Brent Finck and Sunita Kara have become Co-Heads of Global High Yield.
- **AXA IM** promotes Marion Le Morhedec, formerly Head of Active Fixed Income for Europe and Asia, to become Global Head of Fixed Income.
- **DWS** hires Frank Engels in June 2021 as Global Head of Fixed Income, effective 1 October, 2021. Engels joins the firm from **Union Investment**, where he led the asset manager's portfolio management business as well as the Multi Asset division since January 2018.
- Damien Vermonet moves to **La Banque Postale Asset Management** as a PM on their Convertible strategy.
- Joe Pak and Gaurav Saroliva move to **Allianz Global Investors** as PMs on the Macro Unconstrained Fixed Income team. Pak joins from **Rothesay Life**, where he was lead PM on the EUR 2 billion European periphery bond portfolio and on the firm's Macro Absolute Return portfolio. Saroliva was Head of Macro Strategy at Oxford Economics.
- **Janus Henderson** announces that Head of Global Bonds Nick Maroutsos will be leaving the firm on 1 October.
- Erika Wranegard moves to **Lombard Odier Investment Managers** as a PM for the Fixed Income team.
- **Sanso Investment Solutions** hires Etienne Gorgeon as a PM and as a member of the investment committee. He was formerly Head of Capital Market Strategies at **Tikehau Capital**.
- Credit Portfolio Manager Matthew Henly leaves **abrdn (Aberdeen Standard Investments)**.
- **BNP Paribas Asset Management** appoints Olivier de Larouziere as Chief Investment Officer for Global Fixed Income.
- **BlueBay Asset Management** hires Tom Mowl as a PM focusing on US and European Structured Credit.
- Victoria Robinson moves **Nomura Asset Management UK** as a PM within the unconstrained Fixed Income team based in London.
- Jonathan Golan moves to **Man GLG** as a Credit Portfolio Manager, managing a strategy focusing on corporate bonds and, separately, a new dynamic bond strategy.

Diversifying strategies

Event driven strategies surge on record deal flow in public markets

NEW 'DIVERSIFYING STRATEGIES' MANAGER SEARCHES, YEAR ON YEAR



Note: These figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Diversifying strategies continued

Investor trends

Global demand for a broad range of liquid alternative strategies remained strong in Q2 2021 as investors continued to turn toward hedge funds and other absolute return multi-asset strategies to help diversify equity risk while maintaining usefully positive return expectations.

This quarter, we initiated a number of projects for investors making their first allocations to liquid alternatives as well as searches for seasoned investors seeking to replace or extend existing manager allocations. Throughout the quarter, we have continued to see considerable search activity amongst wealth managers, but pension plan investors have also been a core driver of our project numbers. By geography, we have observed investors paying particularly close attention to Asia-focused hedge fund strategies.

Looking ahead to Q3, activity remains well-diversified by investor type, geography, and target investment strategy. The bulk of our hedge fund search projects are focused on European and North American allocators.

Manager watch

What a difference a year makes: All our hedge fund strategy composites realised positive performance in Q2 2021—and more than half of those composites saw material gains that pushed year-to-date figures into mid-single digits and trailing 12-month returns into double digits.

The **Equity Long/Short** composite posted gains of 2.3% for Q2 2021—and even though that result was slightly lower than Q1, it was still strong, lifting year-to-date gains to 5.0%. Against a backdrop of rising equity markets, directional styles outperformed their more market neutral peers: **Small Cap Equity Long/Short** was the strongest composite amongst those directional strategies, adding +3.9%, while **Long-biased Equity Long/Short** and **Variable Net Exposure** composites added +2.6% and +2.5% respectively.

Even amongst the positive news in Q2, however, some composites lagged their peers. **Credit Long/Short** was the weakest of all the composites through Q2, adding just +0.8%. Notably, however, the composite's returns in all three months of Q2 remained positive, bringing its unbroken run of gains to 15 consecutive months. Long-biased Credit Long/Short strategies were the strongest of the sub-styles, generating a return of +1.3% in Q2, while **Credit Arbitrage/Market Neutral** and **Multi-Strategy Credit** composites each added +0.4%.

Event Driven strategies surged in Q2: in aggregate, the **Event Driven** composite posted gains of +3.0% for the quarter with a corresponding year-to-date gain of +5.3% and trailing 12-month returns of nearly +15%—the strongest return of the single-strategy composites by a significant margin. Further details on this strategy and the underlying drivers of returns can be found in our recent article "*Riding the Wave: Event-Driven Strategies Surge on New Deal Flows.*"

MANAGER PERFORMANCE TO 30 JUNE 2021

	3m	YTD	1Y	3Y (p.a)
bfinance Equity Long/Short Composite	2.33%	4.97%	12.19%	4.97%
bfinance Event Driven Composite	2.99%	5.29%	14.93%	5.70%
bfinance Credit Long/Short Composite	0.80%	2.14%	8.03%	5.09%
bfinance Macro & Trading Composite	1.57%	1.61%	4.64%	3.69%
bfinance Alternative Risk Premia Composite	2.46%	5.42%	6.22%	-1.64%
bfinance Multi-Asset Composite	3.77%	4.87%	13.01%	6.35%
bfinance Multi-Strategy Composite	2.52%	5.85%	10.41%	3.80%

The Hedge Fund Manager composites show the performance of a sensible and representative sample of each of the main hedge fund strategies. This is restricted to managers that genuinely pursue the relevant strategy rather than generating the majority of their returns from exposure to market direction alone. We use these composites as a proxy for how managers in the space are performing. They do not represent manager recommendations.

Source: bfinance

Diversifying strategies continued

Manager watch *continued*

Across the underlying sub-styles in the Event Driven space, gains were predominantly made in April, as markets moved higher. The **Hard Catalyst/ Merger Arbitrage** composite, for example, which saw gains of +2.2% during the quarter, achieved +1.6% of that figure in April. The broad **Event Driven** composite added +4.0% through Q2; within the broad landscape of Event Driven funds, we saw the strongest quarterly returns amongst managers focused on Restructuring strategies.

Macro & Trading reversed its losses in Q1 with a gain of +1.6% during the second quarter, nudging the composite up +1.6% year to date. The gains came predominantly in April and May; June saw negative returns for all sub-styles of the composite. Within Macro, the biggest gains came from the performance of the **Diversified CTA** composite, which generated a return of +3.0% in Q2. The **Systematic Macro** composite also saw strong performance during the quarter, adding +2.5% to bring year-to-date gains back into positive territory (+1.1%) thanks to currencies and commodities as well as equities. **Core Trend** strategies rose by +2.1% during the quarter and were up +3.0% year to date. Breaking rank within the composite, however, **Discretionary Macro** strategies fell -1.0% during the quarter.

Alternative Risk Premia (ARP) strategies continued on their upward trajectory of recovery from 2020 losses, posting returns of +2.5% for the quarter with year-to-date gains of 5.4% in aggregate. We observed very little difference between the performance of the more complex **Practitioner ARP** composite and its counterpart, the **Academic ARP** composite; they posted returns of +2.4% and +2.5% respectively. However, on a year-to-date basis, Academic ARP continue to outpace Practitioner ARP with gains of +6.1% versus +4.5% as a consequence of the strong recovery in Equity Value factors earlier in the year.

A positive return of +2.5% in Q2 for the **Multi-Strategy Hedge Fund** composite pushed its year-to-date performance to +5.9%, making this hedge fund composite the strongest performer of the group. Arguably, this strength is a direct result of the inherent flexibility within multi-strategy investment approaches, which allow for risk allocations to be shifted in a broader fashion than single-strategy styles. Within the composite, both **Quantitative Multi-Strategy** and **Multi-PM Multi-Strategy** saw gains of more than +3.0% for the quarter. The **Discretionary Multi-Strategy** composite fared less well, adding +0.9% through Q2.

Finally, bfinance's **Multi-Asset** composite delivered a materially positive Q2 return of +3.8%, bringing YTD returns to +4.9%. **Risk Parity** strategies also performed well, adding +6.8% in Q2 while other directional—but more diversified—sub-styles, such as **Diversified Growth** and **Unconstrained Balanced**, saw gains of +3.8% and +3.7% respectively. **Absolute Return Multi-Strategy** (the most market independent sub-style within the composite) also realized gains for the quarter but to a lesser extent given typically lower volatility levels and little or no equity sensitivity. Here, returns for Q2 were +1.0%.

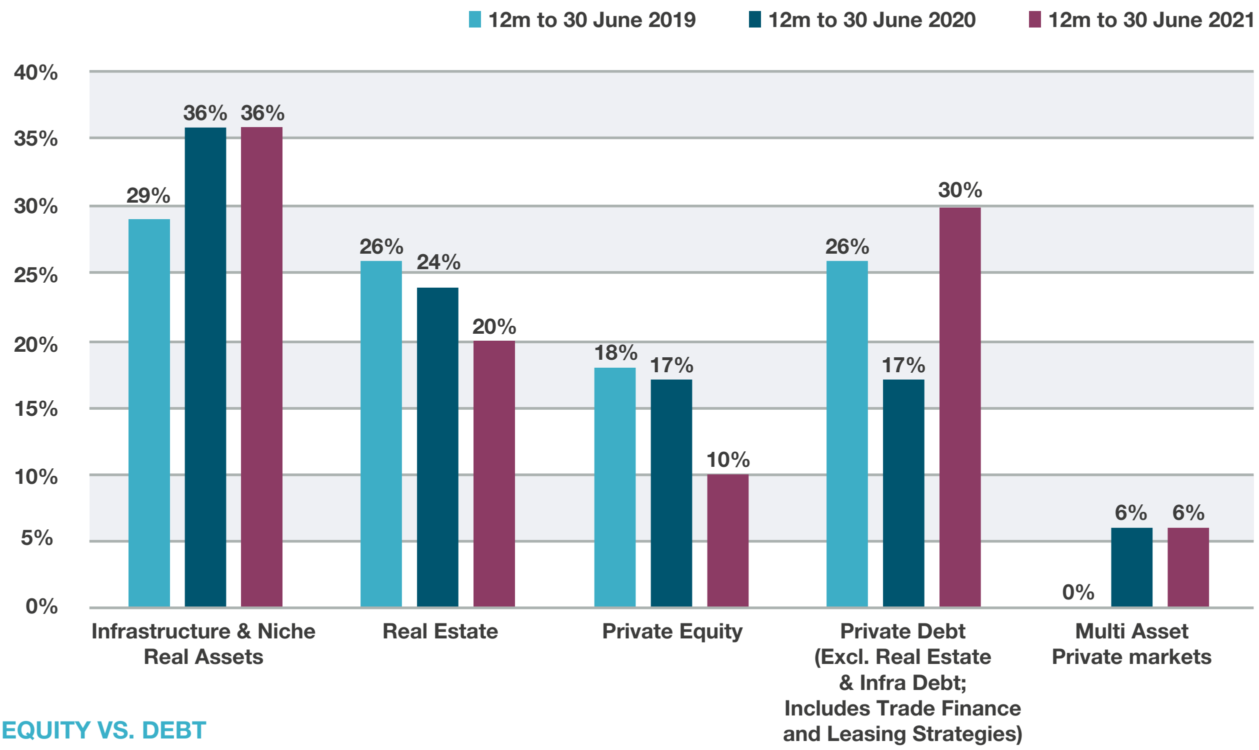
Diversifying strategies continued

News from the alternative manager world

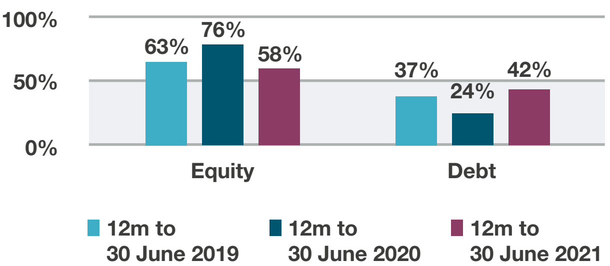
- Hedge fund firm **Aslan House**, which focuses on European event-driven strategies, hires ex-**Arrowgrass** M&A portfolio manager Thomas Nienaber.
- Richard Hass, CEO of London-based hedge fund firm **CapeView Capital**, retires after 10 years. His responsibilities will be assumed by the existing senior team.
- Stockholm-based systematic macro manager **IPM** closes down following investor redemptions.
- Stefano Prosperi, CEO of **Kairos Investment Management**, a fund of hedge funds, leaves the firm after 18 years to establish new investment firm, **Eques Partners**.
- Igor Puljic, a senior portfolio manager at **Kempen Capital Management**, a Dutch alternative investment firm, has left the business after eight years.
- **KLS Diversified Asset Management**, which focuses on relative value strategies in fixed income, is closing down its flagship KLS Diversified Master Fund following redemptions.
- **LGT Capital Partners** liquidates its flagship Castle Alternative Invest fund of hedge funds after 25 years to focus on single-strategy investments and private market opportunities.
- **Stenham Asset Management** hires Marine d'Hartoy as an Investment Director within the firm's fund of hedge funds business.
- **Winton Group** launches Winton China Quantitative Fund, an offshore version of its existing China-focused onshore fund.

Investors plunge back into private market commitments, with Infrastructure and Private Debt in focus

NEW PRIVATE MARKETS MANAGER SEARCHES, YEAR ON YEAR



EQUITY VS. DEBT



Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Private markets continued

Investor trends

Buoyed by the strength and speed of the global economic recovery, investor activity within private markets has been robust. Continuing the trend we observed at the start of the year, investors are focusing on opportunities in Infrastructure and Private Debt, while searches in Private Equity and Real Estate have declined slightly and Multi Asset remains unchanged.

Mirroring a sharp increase in fundraising activity during Q2, Private Debt searches have proliferated as investors have sought out direct lending opportunities and niche investments in Trade Finance, Shipping and Equipment Leasing. As a proportion of all Private Market searches, Private Debt now constitutes 30% of all searches over the past 12 months to 30 June—the highest it's been in three years. These search figures actually understate the importance of Private Debt activity since we've also seen a pick-up in Real Estate and Infrastructure debt searches that are captured in these specific categories.

Infrastructure has also remained attractive to investors, who continue to increase their exposure to sector-specific investment strategies, primarily in Energy and Renewables, as well as regionally focused opportunities in Europe and the US. The ESG theme is increasingly prominent across all private market manager search activity, both in terms of broad integration and use of thematic strategies, such as Impact Real Estate.

Although the number of Private Equity searches declined again in Q2, to a surprising low proportion of the total in Private Markets, broad capital raising activity tells a different story, as nearly three-quarters of the capital raised in Q2 was earmarked for Private Equity funds. We've noticed a number of investors are focused on diversifying their regional exposure in Private Equity by looking beyond the developed West to opportunities arising in the developing East—in particular, the Asia-Pacific region.

CAPITAL RAISING MOMENTUM ACROSS PRIVATE ASSET CLASSES, 2021 Q2

Asset Class	Q2 2021 No. & Vol., and % change in share		Strategic Focus	Largest Funds Raised During Q2 2021
	No. Funds	Volume		
Real Estate	67 -14%	$23bn -46%	Real estate recorded the second lowest quarter of capital raising over the past decade. Real Estate Debt continued to be an important component but Value Added accounted for 45% of all capital.	• KKR Real Estate Partners Europe II, Opportunistic, Europe, $2.3bn. • Ares US Opportunity Fund III, US, $1.7bn. • Berkshire Multifamily Debt Fund III, US, $1.5bn. • Dermody Properties Industrial Fund III, Opportunistic, US S1.1bn.
Infrastructure	28 7%	$33bn 18%	Over 60% of Infrastructure funds and capital raised were 'sector specific' (Renewable Energy or Energy), and European focused funds represented 60% of capital raised.	• Copenhagen Infrastructure Partners IV, Core, Europe, $8.4. • DWS PEIF III, Core+, Europe, $3.7bn. • Antin Mid Cap II, Value Add, Europe, $2.6bn. • Grain Communications Opportunity Fund III, Value Add, US, $2.3bn
Private Equity	605 6%	$280bn 3%	74% of capital raised was in Private Equity and this was dominated by large buyout funds that represented close to 60% of all Private Equity capital raised.	• Hellman & Friedman Capital Partners XI, Buyout, US, $24bn. • EQT IX, Buyout, Europe, $19bn. • KKR North America XIII, Buyout, US, $19bn. • Hillhouse Fund V, Hybrid, Asia, $18bn
Private Debt	38 -17%	$43bn -2%	In absolute terms Private Debt capital raising increased by 20% in the quarter with activity focused on Direct Lending (40% of capital raised) and on the US market (64% of capital raised).	• Ares Capital Europe V, Direct Lending, $13.2bn. • PIMCO Corporate Opportunities Fund III, Distressed Lending, US, $4bn. • CVI Credit Value Fund V, Distressed, US, $3.6bn. • Park Square Capital Partners IV, Mezzanine, Europe, $2.7bn.

Note: Based on capital raised for closed ended commingled funds. Given the tendency for most recent quarter to be revised, the % change shows the change in the share of each asset class out of total private markets. For instance, in Q1 2021, Real Estate accounted for 11.4% of capital raised and in Q2 2021 it accounted for 6.1%, a decrease of 46%
Source: bfinance; Preqin

Private markets continued

Market snapshot

Although reports on private market performance inevitably lag the quarter's close, we expect to see all asset classes—especially real assets—post strong returns for Q2 2021. According to market data provider EDHECinfra, Q2 2021 was the first quarter since the start of the pandemic last year in which all infrastructure sectors showed a positive return; to that point, the firm's infra300 Index posted a return of nearly 6% for Q2 (on a local currency basis). Favoured infrastructure sectors delivered the highest returns: long-duration assets generated an average return of nearly 8% for the quarter, according to EDHECinfra. Real estate also performed strongly, with preliminary results for the Core Open-End Diversified Equity (ODCE) funds in US, Europe and Asia rising by approximately 3% during the quarter; funds with heavy exposure to logistics properties and multi-family assets delivered even stronger results.

The overall improvement in private market performance is mirrored by public market indices. In real estate, the FTSE EPRA Nareit Developed Index increased by more than 9% in Q2; its year-to-date figure now stands at 16%. Although the FTSE and GLIO Listed Infrastructure indices turned slightly negative in June, they were positive for Q2 as a whole and are up 7% year to date.

These signs of improvement in real assets have been paralleled by results in Private Equity and Private Debt. For Private Equity, the positive exit environment has continued to support performance. As we anticipated at the end of 2020, the limited number of Private Debt defaults means that performance has also held up for this asset class.

Spotlight on fundraising

Capital raising in Q2 2021 bounced back strongly; the quarter is looking as though it will be one of the strongest on record. Preqin reported a total of USD 379 billion raised in the quarter, which nearly matches the highest quarterly total recorded of USD 393 billion in Q4 2019. But Preqin's numbers tend to be revised upwards in subsequent quarters, so it is likely that Q2's final total will exceed USD 400 billion.

Private Equity

Nearly three-quarters of all Private Markets capital raising was attributable to activity in Private Equity—a total far higher than its usual share of 60%. Private Equity fundraising activity was dominated by large buyout funds, with nearly 60% of the capital raised attributable to just 16% of all funds closed during the quarter.

Private Debt

Private Debt represented approximately 11% of all capital raised in the quarter in Private Markets. Although this is a decline in terms of the share of total capital raised, we noted an increase in the absolute level, which represented the highest Q2 capital raise in the past decade.

Infrastructure

Infrastructure fundraising represented 9% of the overall total. More than 60% of Infrastructure funds—and the monies raised for them—were sector specific, with most of these funds focusing on Renewable Energy (33% of total capital raised for the asset class) or broader Energy (at 28%). Investors placed particular emphasis on European-focused Infrastructure funds, which represented approximately 60% of capital raised—and the three largest funds were all European-focused.

Real Estate

Significantly, Real Estate recorded its second-lowest quarter of capital raising for the past decade, at less than USD 24 billion. This represents 6% of all capital raising in Private Markets. To put this in context, the largest Private Equity fund raised more capital—USD 24 billion—than the entire Real Estate sector in Q2.

Private markets continued

News from the private market manager world

- **Altamar Capital** merges with CAM Alternatives to create a pan-European private asset manager; the merged firm will be known as Altamar CAM Partners.
- **Apollo Global Management** launches a credit secondaries strategy, hiring Earl Hunt, a former partner at Goldman Sachs Group, to lead the effort.
- **Ares Management Corp**. grows its real estate business to USD 29 billion with acquisition of Black Creek Group.
- **British Airways Pensions** announces the transfer of its real estate team and GBP 1.7 billion property portfolio to BlackRock.
- **Columbia Threadneedle** buys BMO Financial Group's EMEA investment arm for USD 845 million.
- Shane Feeney, head of private equity at **Canadian Pension Plan Investment Board** (CPPIB) joins Northleaf Capital Partners.
- **GIC** appoints Brian Kapetanis from Newbury Partners as head of its secondaries investments.
- Jim Strang, chair of EMEA at **Hamilton Lane** moves into a Senior Advisory role, Managing Director Ralph Aernis replaces him.
- **InfraRed Capital Partners** plans to sell its European real estate platform and merge its Asia platform with that of BentallGreenOak.
- **Manulife Investment Management** hires Christoph Schumacher as global head of real assets, private markets.
- **PGIM** acquires secondaries firm Montana Capital Partners.
- London-based private markets firm **StepStone Group** acquires fund of fund manager Greenspring Associates.
- **Triago** announces several departures and arrivals, as James Fish and David Markson leave, and Michael Pilson (Eaton Partners) and Marc Fitorre (Cebile Capital) join.
- **Raymond James** acquires boutique secondaries advisor and placement agent Cebile Capital.
- Four managing directors at **Rhône Capital**—Gianpiero Lenza, Sebastien Mazalla di Bosco, Petter Johnsson and investor relations principal Vincenzo Narcisco—depart to set up their own Europe-focused firm.
- **Vista Equity Partners** hires Texas Teachers' private equity co-head Shelby Wanstrath for new role.

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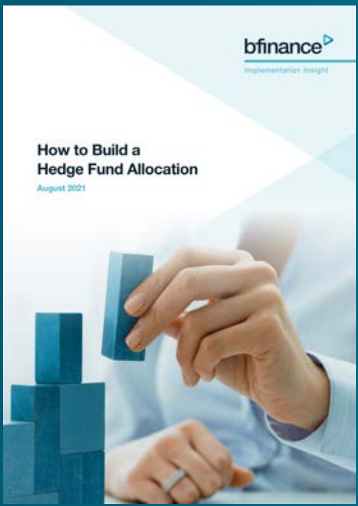
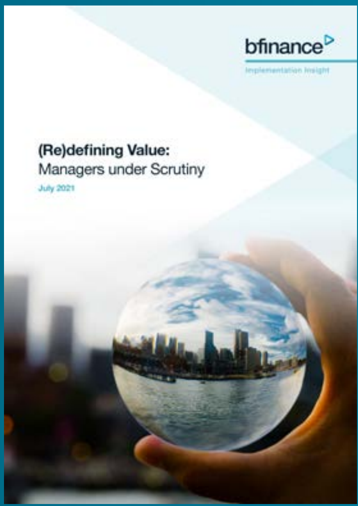


How to Build a Hedge Fund Allocation
(August 2021)



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