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Eiffel IG launches UCITS version of TMT/energy equity strategy

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Paris-based Eiffel Investment Group has rolled out a UCITS version of its specialist long/short equity strategy, which focuses on the telecommunications, media and technology (TMT) and energy sectors.

Pierre-Antoine Machelon

The Eiffel Equity Alpha Fund debuted on 4 October with a €20 million seed investment made by the firm, its employees and a few day-one investors. It will mirror the strategy of the Eiffel Equity Opportunities Fund, which has been running since July 2010 and is managed by experienced equity investor Pierre-Antoine Machelon.

The strategy invests across a universe of 200 TMT and energy corporates in Europe, which together represent around €2 trillion of market capitalisation. Eiffel describes the strategy as research-intensive, combining work on long-term sector trends with detailed bottom-up analysis of individual companies.

The UCITS fund will have a typical gross exposure of 100-150%, with net exposure between -10% and +10%. As with the existing offshore hedge fund, the portfolio will take a relative-value approach that seeks to capture idiosyncratic company-specific mispricings. It will deploy 15 to 20 sub-strategies, relating to pair trades and long and short exposures versus index positions.

The long/short strategy manages €40 million between the offshore fund and the UCITS offering, and has performed well since launching internally in July 2009. Since launching in fund format, it has produced an annualised return of 7.2% with a Sharpe ratio of 1.9. It made an 8.49% return in 2012, and is up 5.17% this year to the end of September.

Eiffel is seeing plenty of relative-value investment opportunities in TMT – and particularly in telecoms, where there has been significant upheaval in recent years. "What I'm looking for are fundamental trends in the telecoms sector which help identify long/short opportunities," says Machelon.

The fund covers 15 national telecom markets within Europe, each with its own dynamics. Industry convergence is currently a major trend for the Eiffel strategy, with telecoms companies increasingly moving into new areas of activity and boundaries becoming blurred as a result.

Fixed-line-centric businesses are trying to enter the mobile phone space, while TV-centric companies are moving more into telecoms, says Machelon. "What's interesting about that is that their existing market – pay-TV – is more stable than the telecoms market they're trying to enter," he observes.

This convergence activity is likely to lead to increased M&A and general company consolidation, and Machelon points out that understanding the underlying trends behind this activity is key to implementing attractive risk-adjusted trades.

The consensus view seems to be that mobile phone contracts are as cheap as they are likely to get, but Machelon see more price deflation ahead in some mobile markets. The average monthly contract costs a mobile user €35 in Belgium, The Netherlands and France, compared with close to €20 in Denmark, Finland and Austria, he says. “Conversely, the market does not appreciate correctly that there may be an inflection next year in the fixed-line business, and that the situation may stop deteriorating,” Machelon adds.

Eiffel’s TMT/energy strategy was first opened up to investors in 2012, in tandem with the Eiffel Credit Opportunities Fund, which is managed by Emmanuel Weyd and is up 4.26% year-to-date after returning 20% last year.

“Our telecoms research is also leveraged by the credit fund; it’s a very important sector in credit with lots of stories playing out,” says Eiffel’s founder and CEO, Fabrice Dumonteil.

Eiffel manages around €350 million across all of its investment strategies. The firm was founded at the end of 2008 as a division of Louis Dreyfus and spun out as an independent firm in mid-2011.