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SYZ Asset Management, the investment funds arm of Swiss banking group SYZ, offers investors two unique long/short strategies in its OYSTER UCITS-compliant fund range. The main differentiators between the two funds are summarised in the table.

Both funds are Luxembourg-domiciled, with each product providing its own diversification benefits as investors take steps to guard against expected equity market volatility on the one hand, and additional sources of returns to complement their fixed income portfolios on the other.

OYSTER market neutral

Market neutral strategies, as their name suggests, are non-directional in nature. As Joseph G. Nicholas, founder and chairman of HFR Group, states in his book "Market Neutral Investing: Long/Short Hedge Fund Strategies", market neutral strategies seek to neutralise "certain market risks by offsetting long and short positions in instruments with actual or theoretical relationships".

Co-managed by Giacomo Picchetto and Stefano Girola (pictured), SYZ Asset Management (Suisse) SA, the objective of OYSTER Market Neutral is to deliver a performance of Libor+ 500 basis points over a cycle, with a volatility below 6 per cent. This is achieved by generating alpha on both the long and short side such that the overall net bias (longs versus shorts) – or market exposure – is as close to zero as possible.

Market neutral strategies have proven popular with investors in recent times. At the end of 2014, Alix Capital, which runs the UCITS Alternative Index suite, reported that the combined inflows into equity long/short and equity market neutral strategies totaled EUR23 billion.

Since inception, OYSTER Market Neutral has returned 18.1 per cent. Over a three-year period, the fund ranks 7th out of 48 peers according to Morningstar.

Central to Picchetto and Girola's investment thesis is that alpha can be generated by anticipating revisions of earnings estimates, as opposed to merely building pair trades in the portfolio; i.e. going long one security and taking an equivalent short position in a similar security within the same sector or industry.

The team believes that consensus estimates suffer some structural biases that can be exploited by rigorously evaluating the assumption provided by market analysts on the Street.

According to Picchetto, the main structural biases include the following:

∑ Estimates tend to be too cautious for companies with strong business models

∑ Sell-side can "fall in love" with their companies

∑ Analysts don't want to appear too hawkish and lose management contact

∑ Preference to use actual company results to change numbers rather than anticipating

∑ Denial: when economic cycle turns, companies stick to their guidance until a new budgeting process is in place.

Moreover, it is the belief of Picchetto and Girola that cost cuttings in brokerage houses could potentially lead to under-coverage, particularly in the mid-cap space, thereby providing a further source of price inefficiency.

The investment process is a multi-stage one. It begins with ideas' generation; the team, for example, engages in over 600 corporate meetings and conference calls each year. A quantitative filter is then applied to screen 1,500 European stocks on a weekly basis using a multi-factor approach. This includes 3-month earnings changes, price to earnings multiples and price momentum signals.

Stocks are then ranked and modeled using 3-year history and 3-year forecasts before entering into discussions with prospective companies. The team also engage in consensus analysis and talk to both bearish and bullish sell-side analysts to compare their assumptions.

Valuation and technical analysis helps to assess the valuations and get the timing right so as to avoid buying "overbought" or "oversold" stocks. If a stock has outperformed the market by +/- 10 per cent in one month, the investment is often delayed.

The OYSTER Market Neutral Fund comprises between 110 and 170 positions with a gross exposure that ranges from 50 to 200 per cent depending on market volatility. The higher the volatility the lower the gross exposure. Pre-trade simulations are used to back-test the portfolio over the previous six months to measure the potential impact of volatility on the portfolio. In addition, the team monitors the beta and correlation of the portfolio against single countries, sectors, style, market caps, currencies and commodities, to try and avoid unwanted bets.

OYSTER Flexible Credit

OYSTER Flexible Credit is an unconstrained European corporate credit long/short strategy. The fund is managed externally by Paris-based Eiffel Investment Group SAS; a specialist in running long/short and long-biased credit strategies. The firm was established in 2008 by Founder and CEO, Fabrice Dumonteil. Running the credit team is CIO, Emmanuel Weyd, who is also lead portfolio manager of OYSTER Flexible Credit.

Credit long/short is another key diversification strategy for institutional investors as they look to protect their fixed income allocations from rising interest rates. According to an eVestment report, over the last two years alternative credit strategies have attracted USD95 billion.

The aim of OYSTER Flexible Credit is to generate a net annualized return of 8 per cent by holding a relatively concentrated portfolio of 30 to 40 bonds. Since the team started trading the strategy in 2011, it has generated cumulative net returns of 42.5 per cent (annualized 11.6% p.a.). In 2014, the Fund returned 6.60 per cent and is currently up +3.55 per cent on a year-to-date basis.

Eiffel Investment Group uses a bottom-up approach using proprietary fundamental research to identify mispriced or misunderstood credit instruments. Only bonds, CDS and convertibles are held in the portfolio.

Like the OYSTER Market Neutral Fund, the investment process begins with idea generation. Typical themes in the Fund include corporate refinancing, M&A activity, and financials (i.e. growth of iTraxx Financial CDS indices from 25 to 30 names).

The team relies on involvement with the primary market and often has one-on-one meetings with management teams of corporate issuers, in addition to monitoring secondary markets. This process helps the team reduce the universe of 1,000 European corporates and financials to a portfolio of 30 to 40 positions.

Alpha generation is derived from a variety of drivers:

∑ Event Driven / Special Situations: represents the core of the portfolio and is generally constituted of long positions (cash instruments or CDS) which are catalyst-driven investments with a 3 to 9 months timeframe

∑ Carry: capturing higher coupon

∑ Value: buying at a discount to intrinsic value

∑ Trading: benefiting from flows and momentum on situations that the team has generally analysed in depth

∑ Market overlay: flexible market exposure, mainly through short on CDS indices to protect capital in stress periods but also to possibly amplify gains in constructive markets.

Typically, the size of each position represents 4 to 5 per cent of total AuM. From a risk management perspective, short-dated out-of-the-money puts are used to protect the portfolio during periods of market stress. Indeed, risk management is taken very seriously in the Fund, and is applied at both the position level and portfolio level.

At the position level, each position has both a target price and a stop-loss. It is also given a liquidity rating. A liquidity score is also given to the portfolio, which is stress tested to see how the VaR changes in extreme market environments.

The Fund itself is unconstrained, meaning that the team is able to allocate freely across different sectors, European countries, ratings and capital structures. Net credit exposure ranges from -25 per cent up to +150 per cent.

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