

THE TREND- SPOTTER'S GUIDE TO SUCCESS

As a mixed-asset fund manager, MainFirst's Adrian Daniel can play investment themes from multiple angles. He talks to **Camilla Giannoni** about why identifying the right trends is a fundamental part of his approach and why it pays to stick with them for the long term

As someone who invests for the long haul, Adrian Daniel isn't scared by bouts of market volatility, even when it comes to the current global storm, driven by an escalating trade war and an emerging market sell-off. In fact, there's a touch of excitement in his tone when he describes the way he confronts choppy conditions: 'Our approach is especially interesting when the market is a bit shaky.'

Daniel's investment style, which has earned him an A rating from Citywire, allows him to ride out volatility even during the most unstable market phases.

'We look at long-term returns and do not spend too much time trying to forecast the next quarter as that is not what we are ultimately interested in. We base our strategy on a three- to five-year horizon so we are less dependent on the short-term market movements,' he says.

Daniel, who manages the MainFirst - Absolute Return Multi Asset fund together with Jan-Christoph Herbst and A-rated Patrick Vogel, has clear goals: 'We have a target of 5% absolute return. To achieve that we look at future growth trends and assess which of them represent good investment opportunities. This is how we choose the companies that are part of our core portfolio.'

Daniel's approach is clearly paying off as the fund ranks first in Citywire's Mixed Assets Absolute Return EUR sector over five years, with a return of 23.2% compared with 6.8% from the average manager (see graph page 28).

Much of this leading edge comes from diligent research: 'I spend more than 70% of my time analysing the companies,' Daniel says.

This focus helps him to identify the key drivers of companies he is interested in and to home in on those that can provide attractive organic revenue growth.

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THEMES OF THE FUTURE

To help fuel his long-term strategy, Daniel and his team look at trends they believe will generate opportunities in the future.

He says luxury goods are a case in point when it comes to equities and that this theme has strong links to the rise of the middle class in emerging markets.

'There is a great demand for luxury products coming from Europe. For example, the Gucci brand belonging to Kering – the fund's second-biggest holding – is performing well.'

Kering oversees the development of several fashion houses including Gucci, Bottega Veneta and Alexander McQueen.

Canada Goose, a Canadian holding company of winter clothing manufacturers, is also among Daniel's favourites. 'We think it will grow strongly. It is doing well already even though its market presence is not yet geographically balanced.

'Up to now most of its business activities have been in North America. It only opened its first shop in Europe last year so there is still a lot of potential for growth,' he says.

Canada Goose has been growing

exponentially in the past few years and its stock price has risen from €14.63 on 24 March 2017 to €53.92 on 28 September 2018.

Adidas is another retail brand which is set to do well says Daniel: 'It really appeals to young people.'

As well as luxury products, the growing middle class is also demanding better healthcare and this theme is right at the top of Daniel's agenda in terms of structural trends, accounting for 6.19% of the fund's equity allocation.

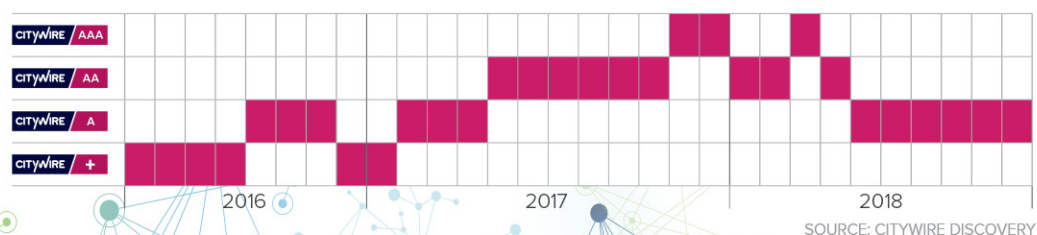
'We do not invest that much in the pharma sector, and instead focus on healthcare firms that are using advanced technology.'



DANIEL'S FORWARD-LOOKING APPROACH IS PAYING OFF



DANIEL HAS BEEN CONSISTENTLY RATED BY CITYWIRE FOR ALMOST THREE YEARS



'Illumina, for example, is a company which helps doctors use information from genomes to diagnose diseases, making medicine more preventive and precise. We believe these kinds of businesses represent the future of healthcare,' he says.

In the same vein he also favours Orpea, a dependency care company headquartered in France, which has recently expanded into Portugal and Brazil.

TECH TRENDS

Technology is the third big sector on Daniel's radar and tech heavyweights Nvidia and Alibaba are among the portfolio's top equity holdings at 1.49% and 1.45% respectively.

'I strongly believe technology is the future, just think about the internet of things or industry 4.0, they are changing the way people live. It is undeniable and we want to make use of the opportunity,' he says.

The fact that Daniel grew up at a time when little of today's popular technology existed has made it even more clear to him just how powerful these trends can be and how quickly they can develop. 'When I was young there were only fixed phone lines and no internet. When we wanted to play together, we met up. And when we needed new jeans we went to the local store.

'When I compare this to the millennials in my family I see young people who no longer type into their smartphone, but who record voice messages and send them wherever they are on the globe. They play egames and do most of their shopping online.

'The future has already started. And that is why I think the tech sector and the semiconductor industry hold such great potential.'

Daniel's thoughts chime with a recent World Economic Forum report which claims that by 2025 machines will do more tasks than humans.

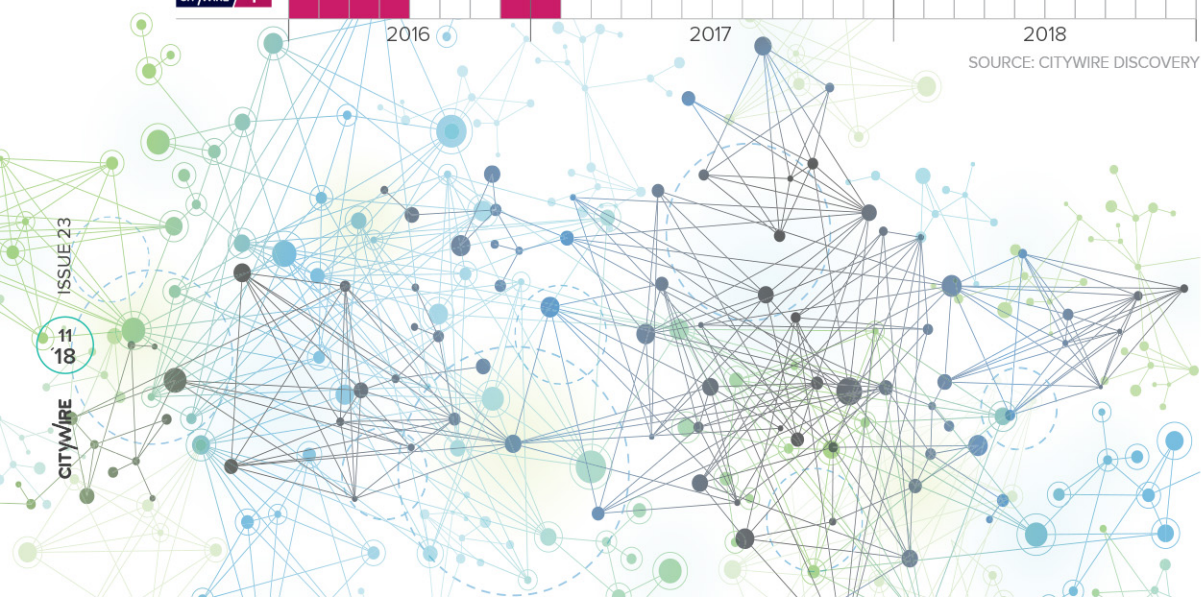
However, identifying trends from an investment perspective is not as straightforward as it may appear.

'You need to be able to spot the right trends,' Daniel says. 'For example, I don't just follow leading and macroeconomic indicators, as I believe they are backward-looking, but a lot of managers in the mixed-assets sector use them.'

Even a strong trend like technology needs to be watched carefully, and Daniel says some of the companies he holds within the sector have been under pressure recently – namely Samsung and semiconductor companies in general.

'Some people believe we are approaching the end of the semiconductor era and that demand will only go down from this point on,' he says.

Daniel, however, believes this is a short-term development, because



the need for semiconductors is broadening out into many new applications, such as autonomous vehicles.

'I am not overly-concerned about the semiconductor market as I think we will still need them and I don't think this recent blip will have a long-term impact on returns.' Daniel's conviction on this point is clear as Samsung remains among the fund's top equity holdings at 1.35%.

BEYOND BONDS

While Daniel taps into equities to harness long-term returns, he uses bonds for their more defensive qualities.

'We mostly use bonds for capital preservation purposes, this is how we balance the risk and still manage to generate attractive returns,' he says.

'I am positive on the US. Its short to mid-term-based yield is likely to increase but I am not worried as I don't believe this will have any effects in the long term.'

In line with his defensive views about fixed income he is 'reluctant' when it comes to investing in emerging markets.

'They have been quite volatile lately especially in Turkey and Argentina.'

For this reason, Daniel only holds small bond positions in this market.

'We reduced the duration in bonds as a result of the rise of the oil price, which has reached a four-year high and will have an impact on inflation expectations and thus on bonds.'

'Our aim is to find quality. That is why we hold German bonds, because they are among the safest. Our significant exposure to the country is not due to regional bias.'

This approach aligns with Daniel's relatively unconstrained approach: 'We have to be very active because we want to achieve an attractive risk-return profile. We do not have a benchmark and a benchmark-type tracking of indices would be contrary to our investment style,' he says.

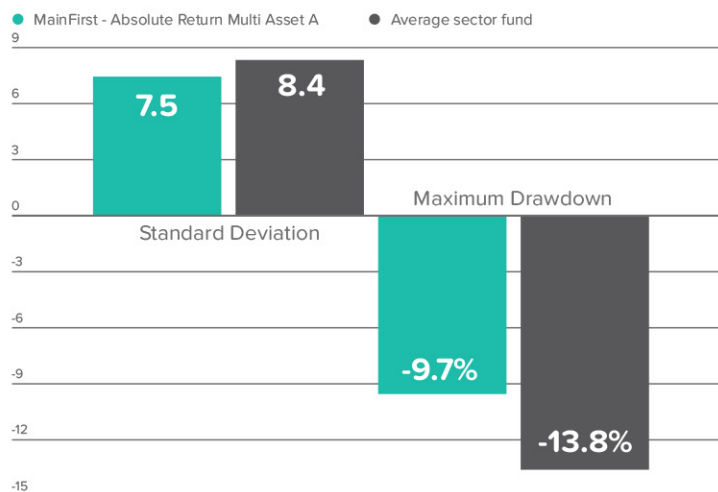
'Despite interest rates being lower than when

The recent blip in the semiconductor market won't hit long-term returns

we started the fund, we managed to continue generating attractive returns.'

The MainFirst - Absolute Return Multi Asset A fund has been outperforming the sector average since January 2014, proof indeed that Daniel's visionary approach has worked, backed up by the diligent research that has given him confidence in that vision.

DANIEL HAS TAKEN LESS-THAN-AVERAGE RISK OVER 5 YEARS



SOURCE: LIPPER



ADRIAN DANIEL joined MainFirst in 2012 and is a portfolio manager and member of the MainFirst Absolute Return team. His work focuses on strategic asset allocation, stock selection, commodities and risk management. From 1996 to 2012, he worked as a portfolio manager at DB Advisors, Deutsche Bank. He is a certified banking specialist and holds a CEFA / CIIA degree.

FUND RANKING IN THE CITYWIRE MIXED ASSETS ABSOLUTE RETURN EUR SECTOR

1 YEAR
5 / 20

3 YEARS
2 / 19

5 YEARS
1 / 16

DATA TO 30 SEPTEMBER 2018, RANKING FOR FUNDS AVAILABLE IN SWITZERLAND / SOURCE: CITYWIRE DISCOVERY