



# Fund Manager Interview

## Credit, equities, macroeconomy: Saint-Honoré Active Strategies displays its qualities



**Etienne Gorgeon**  
Head of Fixed Income & Credit Management / Lead manager of the Saint-Honoré Active Strategies fund



**Olivier Leherle**  
Co-manager of the Saint-Honoré Active Strategies fund

The fund has already proven its worth, but given its "ARIA EL" form (leveraged fund with simplified investment rules), it was reserved exclusively for a small number of institutional investors. To make it accessible to a broader array of investors, Edmond de Rothschild Investment Managers has decided to convert Saint-Honoré Active Strategies into a UCITS III-compliant fund. Although the regulations applicable to the fund have now changed, the essence of its strategy remains the same: the aim is to combine global macro, credit and event driven equity strategies to generate a positive performance in all market conditions. To do this, securities are selected on the basis of analysis, with an emphasis on liquidity to shelter investors from excess volatility.

**Saint-Honoré Active Strategies has recently become a UCITS III-compliant fund. Does this regulatory change require changes in management style?**

**Olivier Leherle.** Until recently, Saint-Honoré Active Strategies was distributed as a leveraged fund with simplified investment rules ("ARIA EL"). In reality, the fund was managed with a degree of leverage and diversification consistent with the standards set by the European UCITS III Directive. We

have changed a few aspects concerning the management format, but the philosophy behind the fund remains the same. For example, to implement certain strategies, we no longer use a prime broker but rather instruments such as swaps. Saint-Honoré Active Strategies' conversion into a UCITS III-compliant fund has the advantage of making it clear to investors that we respect the diversification, liquidity and transparency criteria imposed by the Directive. As such, the fund is now eligible for life insurance policies – a significant benefit for private investors.

**Saint-Honoré Active Strategies is becoming accessible to more customers. To whom is this fund particularly suited?**

**Etienne Gorgeon.** As a UCITS III-compliant fund, Saint-Honoré Active Strategies is suited to institutional and retail investors alike. This arbitrage fund applies hedge fund strategies and has little correlation with traditional asset classes in terms of performance. It has little volatility and is above all liquid. Its investment horizon is at least three years. The fund remains quite technical but the underlying assets that it uses offer a high degree of liquidity. Indeed, the managers use very traditional tools and our added value lies

in our analysis.

**In concrete terms, how do you select securities?**

**E. G.** Each strategy is implemented by a specialist responsible for his or her investment decisions. Olivier Leherle, an equity specialist for over 12 years, works on event driven strategies. Julien de Saussure, a credit analysis expert, carries out arbitrage on the debt market. Benjamin Melman, already known for the success of his QUADRIM funds management, calls on his experience as a strategist to implement macroeconomic strategies. I personally supervise the three units as lead fund manager. The three strategies are given a variable portion of the allocation depending on momentum. This involves distributing the risk budget. Each manager analyses what is happening in his/her sector and makes proposals. Initially, the fund was focused on the event driven strategy. We then added credit. We soon realised that in some market conditions and at certain levels of volatility, we could no longer develop an effective tactic. We now use macro strategies to benefit from performance drivers even in volatile environments.



## Can you give us a few examples of the strategies implemented?

**O. L.** For equities, the core portfolio is currently positioned on mergers & acquisitions. We are thus able to invest in potential targets well before the bid takes place as well as in companies that are already the subject of such transactions through M&A arbitrage. Such investments now account for two thirds of the equity component of the portfolio. More particularly, we are currently looking for possible outbidding on deals that have been announced. Statistically, outbidding is more common when M&A activity increases, it has been the case since August. To build our portfolio, we use quantitative tools that we have developed by analysing 3,500 transactions completed in the last 10 years. We have listed 250 criteria relating to the transactions themselves, market conditions and legislation. The tool works by analogy, comparing the characteristics of a new transaction with those of past transactions and, accordingly, calculates the probability of success. After this statistical task comes risk management, aiming at refining calculations of the probability of success and determining the level of risk if the transaction does not go ahead. To find potential targets, we use filters based on quantitative criteria such as shareholder structure, the existence of major partnerships and the company's position relative to the competition. We then use our quantitative tool to value the company. By implementing hedging we can eliminate market risk but we do need to take active positions in order to generate performance.

**E. G.** In terms of credit, we look for quality companies in the high yield segment or at the lower end of the investment grade segment. We also like subordinated financial debt. We try to find the most asymmetric strategies possible. Cognis, a German company that manufactures chemicals for the cosmetics industry, was recently put up

for sale by its shareholders. We opened positions on this quality issuer and sold Degussa, rated BB+, in the same sector. Cognis was ultimately taken over by BASF. Our bond gained nearly 6%: a high yield company was taken over by an investment grade company!

## How do global macro strategies fit in with the others?

**E. G.** Benjamin Melman identifies the characteristics of the environment. At present, quantitative easing and inflation in the emerging countries are important issues. Interest rates will probably rise in Asia. We are long on the Indonesian rupiah for example; the country is well managed with an effective central bank and a buoyant property market. Meanwhile, we are selling the dollar. If circumstances become tougher, Benjamin may decide to increase the weighting of technical strategies in the allocation. When the markets are volatile and liquidity becomes scarce, the fund may be long on the S&P 500 index, which represents US large caps, and short on the Russell index of US small caps, which suffer more from the lack of liquidity.

Generally speaking, the most interesting aspect of combinations of the three strategies is their remarkable decorrelation. The correlation between event driven and credit strategies is 40%. There is no correlation between equity arbitrage and global macro. For example, when credit and equities suffered in May, global macro strategies softened the blow. The fund has enjoyed positive performances in two thirds of the months since its inception, a period that includes the collapse of Lehman Brothers. Since the beginning of the year, Saint-Honoré Active Strategies (I units) has turned in a net performance of 5%\*, with volatility limited to 2.5%\*, and has only had one negative month (October 2010).

## What is the role of Saint-Honoré Active Strategies in a portfolio allocation?

**E. G.** Saint-Honoré Active Strategies is an opportunistic fund that combines the strategies and hedging tools of hedge funds with the liquidity and regulated environment of traditional asset management. Aiming to generate a positive performance in all market conditions, it offers a concrete solution to investors aiming to diversify their asset allocation and introduce decorrelation to their portfolio through an arbitrage fund with reduced volatility.

### SAINT-HONORÉ ACTIVE STRATEGIES IN BRIEF

- A UCITS III-compliant hedge fund
- Performance with little correlation to traditional asset classes
- Diversified sources of performance: global macro, credit, equity strategies
- A management process based on a risk budget allocation
- A fund that aims to limit its volatility to 7% per year
- The fund is exposed to a certain number of risks arising from the complexity of the strategies implemented

**Disclaimer and Risks.** Drafting completed on 26/11/2010. \*At 29 October 2010, net performance since fund creation (I units): 4.64% and annualised volatility since creation (I units): 4.43%.

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**Main risks of Saint-Honoré Active Strategies:** risk of capital loss, risk linked to management and strategies implemented, risk linked to arbitrage strategies, risk inherent in discretionary management, market risks (exposure to the equity markets, risks linked to investing in volatility markets, risks linked to investing in emerging markets, currency risk, credit risk, risk linked to investing in speculative high-yield securities, interest rate risk, liquidity risk, risks linked to commodity derivatives indices), risks linked to the use of derivatives. Details of the main risks attached to the fund may be found in the full prospectus of the UCITS.