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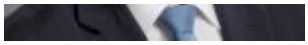
Fund Manager Briefing: Sergej Crasovschi–Absolute Return Multi Premium Fonds (DE000A2AGM18) | Lipper Alpha Insight | Thomson Reuters

by Detlef Glow

This fund manager briefing reviews a meeting with Sergej Crasovschi, founder and CEO of Portfolio Advice GmbH, which acts as advisor to **Absolute Return Multi Premium Fonds** (DE000A2AGM18).

The fund was launched on June 15, 2016, as a Germany-domiciled UCITS-compliant mutual fund by Universal Investment GmbH, a German white-label fund promoter. Since the name looks as though it would be tempting to investors, I wanted to find out whether the fund is just another multi-asset product with a good marketing approach, or if the fund's strategy really is different and enables investors to achieve their investment goals.



Sergej Crasovschi – Portfolio Advice GmbH

The fund proposition

I asked Sergej to explain the differences between his fund and other multi-asset products and how **Absolute Return Multi Premium Fonds** could help an investor improve the diversification of a portfolio. He answered:

"Many investors try to diversify their portfolios by investing in a number of different asset classes or with multiple fund managers. However, this often results in utilization of similar risks and/or models in the portfolio construction. Consequently, such portfolios may depend heavily on the performance of the underlying markets and often show the same risk-return patterns in rough market conditions; i.e., correlation increases when, in fact, diversification is needed. In contrast to this, we try to avoid systematic risks and generally don't invest in traditional asset classes such as equities, bonds, or commodities".

The limitations of optimization

"Furthermore, we don't use typical optimization approaches such as the Markowitz model, since these models have limitations with regard to input parameters such as expected risk and return. This is especially true in the current low-interest-rate environment, with increased correlations between traditional asset classes. In addition, we don't use any economic forecasts or expectation models, and we generally don't believe in market timing. We only buy into risk premia that fit our strategy by either improving the performance or increasing the stability of the fund."

"Since some asset classes and their respective risk premia may look very unattractive at a given point in time, we have no restrictions with regard to the minimum or maximum weighting of an asset class. This means the weighting of a single asset class varies between 0% and 100% of the portfolio (i.e., no leverage use), with the allocation determined by the attractiveness of investable premia.

"As a result of the above, **Absolute Return Multi Premium Fonds** has a lower risk related to equities (approx. one-third of the equity risk) and bonds (basically no duration) compared to typical mixed-asset funds. By investing in our fund investors can achieve risk diversification on a portfolio level, since we avoid traditional investments altogether".

The capture of risk premia

Sergej continues: "These days several banks and asset managers are exploiting several factors with systematic (rule-based) strategies. As a result these strategies act similarly, particularly in periods of stressed markets. Contrary to this, we try to actively capture alternative risk premia such as carry, curve, dividends, convexity, liquidity, mean reversion, or volatility by establishing asymmetric risk-return profiles

through derivatives".

"Common factors, such as value, momentum, or size are not within our focus, since many of the above require higher turnover and trading activity. The same is generally true for systematic trading strategies".

When asked for a specific example Sergej said that dividends are currently an important risk premia within his strategy. "Rather than investing through equity exposure, dividends can be bought directly, i.e., without holding the respective stocks and, hence, without the inherent market risk. Particularly in Europe we have observed that expected future dividends are regularly traded below the realized dividends because of an overhang of sellers (i.e., investment banks). This gap is generally increasing with longer maturities, since there is a liquidity component added to the dividend premium".

Dividends, liquidity & capacity

In more detail the fund invests in four-year dividends through a call spread that pays 10% annually as long as the aggregate dividends in Europe don't drop more than 30%. The performance of equities, bonds, commodities, etc. is irrelevant to the payoff of this option. Investors who fear that given risk would have to avoid equities in general, since a market crash would be inevitable in the case of such a dividend slump (because of the dividend-discount model).

Questioned whether there is any issue with the liquidity available in derivative positions of this kind, Sergej answered that the fund's strategy does not involve high-frequency trading. In contrast, he said, "We aim to hold such positions until they expire, while mark-to-market risks can be hedged using futures." He added that he is not worried about capacity issues in the foreseeable future, since the fund focuses mainly on liquid indices such as the S&P, Nikkei, and EuroStoxx. The assets under management have been growing and currently stand at over 11 million euros, but the strategy could easily manage up to 1 billion euros.

Risk profile and performance

Asked about the expected risk-return profile of the fund, Sergej answered that the investment objective of the fund is to deliver regular and sustainable returns with low risks. Investors could potentially use the fund as an alternative to bonds in any given portfolio. According to Sergej, the target return of the fund is 4%-5% p.a., net of fees, with a volatility below 10%. Since its launch in June, the fund is up 3.7%, with a volatility of only 5.7% (as of November 30, 2016).

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