

Boutique Profile

Long-term prospects for Synergy's formidable team

Armed with the investment expertise of some of Europe's leading boutiques, the Synergy Smaller Companies fund is looking to the long-term as it continues its expansion across Europe. Angus Foote reports

Imagine a single fund that gave you access to top independent boutique managers all around Europe. Could it work? The founders of the Synergy Smaller Companies fund believe it could, because that is exactly what they have created.

Paris-based Sycomore Asset Management had already built an enviable reputation as an independent investment house when the firm launched the Synergy project in 2003.

Like many of the high flying boutiques in France, Sycomore's greatest strength lies in its performance in the French small cap sector. Most successful small cap boutiques find themselves facing decisions about how to extend the scope of their business.

Do they move into new asset classes? Do they simply gather more assets and move up the capitalisation spectrum? Facing these questions, Sycomore came up with an innovative way of meeting the specific demands of their clients.

Those clients obviously wanted to maintain a diversified portfolio. At the same time, Sycomore as a firm wanted to have the ability to capitalise on opportunities beyond its home market. The managers could see a potential universe of around 1500 companies, with only 300 or so regularly covered by analysts.

This presented both an obstacle and an opportunity. Among all those uncovered companies lay the potential for excellent investment opportunities. But small and mid cap markets are still local markets, Sycomore reasoned, so with no coverage how do you identify the opportunities?

The answer the firm came up with was to partner with outstanding boutique managers in each of the markets they wanted to focus on. The result was a dizzying array of boutique tal-

ent working on a single fund.

Assets in the Synergy Smaller Companies fund are split equally between the managers who run it. Citywire AAA-rated duo Francisco Garcia Paramés and Alvaro Guzmán de Lázaro of Bestinver, two of Spain's most renowned equity fund managers, run the Spanish portion of the fund.

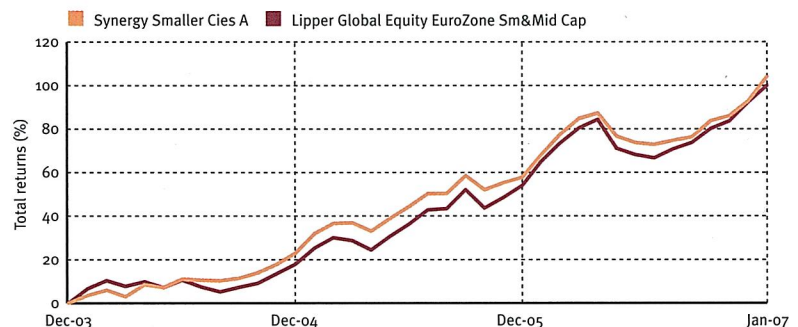
For the German portion, Sycomore brought in Frankfurt Performance Management's Citywire A-rated duo Manfred Piontke and Martin Wirth.

Dutch small cap specialist Kempen and Italian boutique Nextam each ran a fifth of the fund until recently, when a sixth manager, Trigon, was added to the mix.

Trigon has a specialist knowledge of the Baltic republics and the developing markets of

Building for the long term: Synergy Smaller Companies since launch

Source: Lipper



Eastern Europe, adding a new high octane dimension to the fund.

Interestingly, the fund is still relatively small so it cannot yet be a major source of revenue for the participating boutiques. So when I was invited to attend the fund's quarterly meeting in Paris in January, I expected to find perhaps one manager each from the top performing Spanish and German duos, and junior representatives from some of the firms.

But I was wrong. I was confronted by the full intellectual firepower of the combined Synergy team. Clearly, the portfolio managers enjoy being involved with the project, or they would not take so much time out of their schedules to attend these meetings.

Jérôme Tordo, Sycomore chief executive and one of the driving forces behind the project, points out that the correlation between small cap markets is 30% lower than between large cap markets. 'Each manager is picking 15-20 high conviction stocks so we really get the best ideas,' he says.

'The managers naturally diversify so we don't need to find diversification of philosophies. We are all value-oriented, bottom-up, focused on absolute return and there are few constraints on the managers.'

The fund has always had a defensive stance – partly because the managers all have to explain their decisions to colleagues.

'There is an onus on the fund managers to find new ideas,' says Tordo. 'We give the largest autonomy possible to each manager, as constraints tend to reduce performance.'

Performance so far has been good but not spectacular. However, all the managers are keen to stress that this is a fund where they are determined to take a long-term view. In a world where portfolio managers increasingly come under pressure to deliver short-term results, a genuine long-term focus is probably one of the big attractions of being involved with the Synergy project.

The investment skills of Paramés and his team, and the remarkable story of Bestinvest's success, have been covered fully in previous issues of *Citywire Fund Manager International* (see *Citywire Fund Manager International* June 2006). Piontke and Wirth, the investment brains of FPM, will also be no strangers to regular readers of this magazine.

So who are the other fund managers involved? Kempen is a highly regarded investment firm in the Netherlands, specialising in domestic small caps and property. It currently runs a total of €6 billion in assets, with €700 million in Dutch small caps, making it one of the largest players in that sector.

Joost van Beek, the portfolio manager involved with the Synergy fund, focuses on an investment universe of 75 to 80 stocks.

'Dutch small caps are typically very strong on exports,' he says. 'There have been very few initial public offerings (IPOs) recently, but I expect this is about to change. We very much focus on the quality of the management and we always look to meet management two or three times before we make a decision.'

He is very comfortable with having to present his best ideas to the Synergy team for examination, as Kempen's managers all have to go through a similar process internally. By the time he comes to the Synergy meeting, he is fully confident he can explain and justify any



'Each manager is picking 15-20 high conviction stocks so we really get the best ideas'

Jérôme Tordo, Sycomore Asset Management

stockpick he might make.

Running the Italian segment, Milan-based Nextam is somewhat of a rarity – an independent Italian asset manager.

Founded five years ago, Nextam is 80% owned by its founders and now has €750 million under management – mostly run on behalf of private individuals.

'Italy is a declining country in many respects but it still offers some good opportunities for investors,' says portfolio manager Nicola Ricolfi.

'There are very few large multinationals but a lot of very strong leaders in niche sectors. We run very concentrated portfolios, which tend to be uncorrelated with the market.'

Ricolfi also points to the very low turnover in the group's portfolios as evidence to sup-

port the managers' collective claim that they have a long-term approach.

Trigon, the newest addition to the line-up, was founded in 2003 and now has €530 million under management. In contrast to the existing managers, who each bring one country to the portfolio, Trigon brings 12.

'We are value investors, basically looking for growth companies and buying them at low multiples,' says Trigon's chief investment officer, Toomas Reisenbuk. The firm operates a network of local offices across central and Eastern Europe.


'Most important nowadays is Poland. There are 280 companies listed in Poland but there is a strong IPO pipeline, so by 2008 there will be 400 companies.'

Bulgaria and Romania are also seeing rapid growth but it is Poland that stands out. 'Poland is growing much faster than the rest of Europe and this has been the case for several years. Convergence will continue to happen and this will be the driver of continuing growth.'

'There are undoubtedly many pockets of overvaluation, but there is a very large universe of small and mid caps that have been overlooked by the international investment community. So the convergence story for us has not ended at all.'

The Synergy story is also only just beginning. The fund was initially registered just in France, in line with Sycomore's original goal of offering diversification to French investors. But there is an ongoing process to register the fund in every country where the various managers invest – it recently became available in Spain and more registrations are in the pipeline.

There is also a strong possibility that new managers, investing in additional markets, will be added. Scandinavia is likely to be next, the UK would be another natural choice and Tordo has been speaking to UK-based boutique asset managers. After that, who knows?

The investment world has plenty more strong boutique stories in specialist areas. But with so many high achievers already on board, and clearly enjoying the ride, the Synergy story is unlikely to be dull. 

Rebalancing: how the inflows are managed

Nominally, the total assets of the Synergy fund are split evenly between all the managers. However, the regular rebalancing meetings, involving all the managers and chaired by Sycomore, allow for adjustments where necessary.

Where a manager sees a shortage of investment ideas in their specific region, they can propose to give back part of the money they are managing to one or several of the other fund managers. If one of the others accepts the excess cash they will invest it in their own country. If nobody is interested then it is kept as a cash position in the fund. Each manager is paid the same regardless of the amount he or she ends up managing, so there is no danger of anybody just gathering assets.

Synergy's stars

French equities

Portfolio Manager: Cyrille Charlot
Company: Sycomore Asset Management, Paris
Part of the Synergy portfolio management team since launch in 2003



Spanish equities

Portfolio Managers:
Francisco Garcia Paramés; Alvaro Guzmán de Lázaro
Company: Bestinver, Madrid
Paramés and Guzmán de Lázaro are both AAA rated by Citywire in Spain
Part of the Synergy portfolio management team since launch in 2003



Italian equities

Portfolio Manager: Nicola Ricolfi
Company: Nextam Partners, Milan
Part of the Synergy portfolio management team since launch in 2003



Dutch equities

Portfolio Manager: Joost van Beek
Company: Kempen Capital Management, Amsterdam
Joined the Synergy portfolio management team in 2004



German and Austrian equities

Portfolio Managers: Manfred Piontke and Martin Wirth
Company: Frankfurt Performance Management
Piontke and Wirth are both A rated by Citywire in Germany
Joined the Synergy portfolio management team in 2006



Central and Eastern European equities

Portfolio Manager: Toomas Reisenbuk
Company: Trigon Capital, Tallinn
Joined the Synergy portfolio management team in 2007