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Amundi buys into 'smart beta'

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France's largest asset manager Amundi, has acquired a stake in one of the country's smaller boutiques, in a move that should promote the development of "smart beta", a relatively inexpensive investment approach that combines elements of passive and active asset management.

Amundi, which is a combination of the asset management arms of Societe Generale and Crédit Agricole, and which has €689bn under management, has taken a 17.5% stake in Tobam, which has €2bn under management.

The acquisition of the stake is intended to align the interests of the companies in the strategic partnership that they have simultaneously formed, where Amundi will distribute Tobam's investment products.

Tobam is one of a handful of firms that have developed a fund designed to follow a "non-cap weighted equity index".

These "non-cap weighted" indices contrast the most widely-used indices such as the FTSE100, S&P500 or MSCI World index, which weight each stock in the index by its market capitalisation.

The managers of "non-cap weighted" indices, and of the funds that follow that approach, say their indices or funds are put together more intelligently, although they still follow rules rather than an individual's discretion. This idea of "intelligent rule following" is behind the term investment consultants use for this approach - "smart beta".

An example of a non-cap weighted equity index is the equally-weighted index offered by MSCI, where each stock in the index has the same weighting. MSCI also offers equity indices that are weighted by risk and by accounting measures such as sales.

Similarly, Lyxor Asset Management, which is owned by Societe Generale, offers a range of non-cap weighted equity indices under the name "SmartIX Equally-weighted Risk Contribution Equity Indices".

And FTSE Group, in partnership with French business school subsidiary the Edhec-Risk Institute, offers the FTSE-Edhec Risk Efficient Index Series, which, according to FTSE's literature, "are intended to give equity market returns with an improved risk/reward efficiency – compared to cap-weighted indices".

Asset managers Research Affiliates Fundamental Index, BlackRock, PanAgora Asset Management and Acadian Asset Management also offer products in this area that, they claim, can give better returns or less volatility than the widely-used market-cap indices.

Tobam's version of this is a fund designed to maximise diversification in the portfolio. It calls its approach "anti-benchmark" investing.

Investment consultant Towers Watson, one of the largest advisers to institutional investors, has spoken favourably of the "smart beta" approach, which, it believes, may be able to give investors some of the benefit of active asset management at the much less expensive price of passive asset management.

Although Research Affiliates Fundamental Index, probably the largest provider of these products, saw its assets under management triple to \$47bn last year, Towers Watson has said demand for these products have a long way to go before it reaches its full potential. The investment consultant has said it expects the growth of "smart beta" to be one of the dominant investment trends of the next five years.

Yves Perrier, managing director of Amundi, said: "By proposing Tobam's Anti-Benchmark strategy, Amundi, which currently manages €92bn in equities, is strengthening its range of 'Next Generation' investment solutions."

Following the transaction, a minority of Tobam's capital will be held by Amundi and Calpers - the California Public Employees' Retirement System, which bought a 17.5% stake in Tobam a year ago, and which has now sold a part of this stake to Amundi. The majority of Tobam's shares will remain in the hands of Tobam's president, Yves Choueifaty, and Tobam employees.

Choueifaty said: "Our agreement with Amundi will improve the accessibility of our products to a broad clientele on a global level, in particular in Europe, Asia and the Middle East, where Amundi's network and technical expertise are well established."

Choueifaty created Tobam in 2005 with seed funding from JP Morgan and Lehman Brothers executives. In 2006, he sold a significant stake in Tobam to Lehman Brothers; he intended to spin it off three years later, but brought this plan forward when Lehman collapsed in 2008.

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