



Monday Interview: Yves Choueifaty

FBNW has met with Yves Choueifaty, founder and CEO of Paris-based quant manager Tobam, to learn more about how it lives up to its acronym – Think Out of the Box Asset Management.

A mathematician at heart, Yves Choueifaty, CEO of Tobam, has spent his entire career within the asset management industry. He has been making waves with his sceptical stance towards the traditional passive management industry, which is dominated by market cap-weighted indices. In 2005 Yves Choueifaty started Tobam, an asset management company that uses a patented methodology designed to eliminate any biases within a given investment universe.

"I thought the idea was robust and original enough to set up a business around it," says Yves Choueifaty. "What we try to do in any kind of universe of investments is to build the most diversified portfolio possible. My way of beating the benchmark consists of saying that the future cannot be forecasted and hence one should consistently diversify."

Like most asset managers that provide alternative strategies to traditional passive management, sometimes referred to as smart beta, Tobam and its CEO believe that the market cap-weighted indices that passive investors rely on today as a proxy for the market portfolio are inefficient. "It can potentially be highly destructive," he says.

The reasoning according to Yves Choueifaty is that traditional passive indices are biased in multiple ways. "In fact, when you buy the benchmark you are implicitly buying into huge bets," he says.

A market cap-weighted index will be overweight past successes and be concentrated, in particular before a large correction or crisis, according to Yves Choueifaty. "The S&P index maximised General Motors the first day of the oil crisis, energy stocks the day of the oil counter shock, tech stocks the first day of the dot-com bubble bursting and financial stocks the first day of the financial crisis," he notes. "Basically the passive index is often biased at the worst moment by construction."

Biases towards sectors is not the only type of bias traditional passive indices have. "You will have geographical biases or style biases as well."

More importantly, however, according to Yves Choueifat is the confusion many investors have regarding investing passively and investing a neutral way. "People believe that when they cannot forecast, then they should buy the benchmark. That is completely wrong," he says.

Interestingly enough, Tobam, which is an acronym for think out of the box asset management, seems to be doing that with a lot of issues. For instance, instead of targeting the clients who might be the easiest in the short run, Tobam has always started off by targeting the largest pension companies. "The first step is building our legitimacy by taking on the most demanding clients in the world. If they can allocate to us then others will follow," he says

One of the pension companies to invest in Tobam is Calpers, which today also owns an 8 per cent stake in Tobam. In the Nordics, two Swedish AP-funds and two Finnish leading institutional investors of which one is the largest pension company are clients. "We then leverage this legitimacy for targeting new clients," Yves Choueifat says.

Tobam's assets under management have, since inception in 2005, been growing steadily. "So far we have tripled our assets every two years," says Yves Choueifat, whose assets are nearing EUR 10 billion.

Aside from targeting the biggest players, the patented methodology is also licensed out to FTSE, a leading provider of alternative indices. The partnership has culminated in a series called the FTSE Tobam Maximum Diversification® Index Series, which includes 11 equity indices. The FTSE/Tobam index series only deviates marginally from Tobam's proprietary smart beta funds such as the frequency of the rebalancing and the input of responsible investing.

Tobam sold a 12.5 per cent stake to Amundi back in 2011, which gave it access to resources to distribute its growing product range to Amundi's large client base and develop further the distribution side as well.

Tobam stands out in another matter as well. It recognizes that emerging market investment may indirectly prop up unsavoury regimes and hence have decided to donate 6.5 per cent of its fees from the EM management to Amnesty International and Human Rights Watch.

Ownership TOBAM

Employees 80 %

Amundi 12 %

Calpers 8 %

Client base geographically

North America 34 %

Asia 5 %

Europe 61 %

AUM institutional/distribution

Institutional 70 %

Distribution 30 %