

Beware the benchmark, says TOBAM fund manager

By [Richard Hubbard](#)

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Money has flooded into benchmark-tracking exchange traded funds as investors chase low-cost access to major asset markets.



Yves Chouiefaty, TOBAM chief investment officer

But for one fund manager the idea that these ETFs are neutral or offer a broadly diversified portfolio of assets, whether that is covering the S&P 500 or the MSCI Emerging Market indexes, is a flawed one.

“We deny absolutely the status of neutrality of the benchmark,” said Yves Chouiefaty, chief investment officer of the Paris-based asset management firm TOBAM.

“We believe the benchmark is a long way from being neutral in terms of risk allocation.”

Benchmark bias

Chouiefaty argues that market cap weighted benchmarks are actually extremely biased risk wise because when components of the index become more expensive, the tracker is going to allocate a lot of more risk to that asset and when it is cheap, it is going to allocate very little.

“Passive management is in fact the absence of management but as a result of that you are completely driven by the prices,” he said.

TOBAM in fact specialises in running what it calls “anti-benchmark” strategies.

“We have only one strategy which is completely focused on diversification. We build a long only, fully invested, non-leveraged, diversified portfolio of assets across a particular universe of investments,” Choueifaty said.

True diversity aim

Our portfolio aims at being really unbiased toward any risk driver. Whether you look at it from a sector point of view, from a style point of view, from a geographic point of view, our portfolio will not be biased towards any risk driver.”

Choueifaty said that last year, out of the 11 flagship strategies that TOBAM runs, only 3 underperformed the benchmark. In 2014, one of the funds underperformed, and in 2013 all of them outperformed relative to the market cap weighted benchmark.

He said the strategy relies on a proprietary measure for diversification which TOBAM has created.

“We consider the universe of an MSCI index, for example emerging markets, and then we will build a portfolio which maximises this measure of diversification across the universe of these stocks.

“We compute the correlations and build the portfolio of the stocks that are least correlated to each other.

“We’ve done it for almost 10 years and in 11 different investment universes,” he said.

Asset growth

As a result of its success TOBAM assets under management have risen exponentially.

“At the end of 2008 we were running \$700m, two years later in 2010 we are at \$1.4bn; at the end of 2012 we are at \$2.8; in 2013 we were at \$5.5bn and now, two years later, we are at \$8.0bn.

TOBAM was created in June 2005 after Choueifaty left Credit Lyonnais asset management where he had been chief executive for three years.

TOBAM’s employees are the company’s largest shareholders owning 79.5% of the firm. The second largest shareholder is Amundi, which owns 12% of the capital. The third shareholder is CalPERS and it owns 8.5 % of the capital.

- See more at: <http://www.international-adviser.com/analysis/1027322/beware-benchmark-tobam-fund-manager#sthash.EajHBsR8.dpuf>