Shifting Gears to a Market Neutral Approach

Fabio Di Giansante

Head of Long/Short European Equity

Pioneer Investments believes its Market Neutral European Equity Strategy is differentiated from the competition due to a team approach to finding alpha across 13 different alpha sources.

Increased uncertainties have led some investors to seek investments that are less reliant on the direction or potential of traditional assets. In recent years, focusing on absolute returns coupled with lower volatility has become a growing area of interest for investors.

A Market Neutral Equity Strategy focuses on "alpha", or the ability of a manager to generate returns, while eliminating "beta" or market returns. Long and short equity positions take advantage of both under and overpriced securities and a market neutral position (that is one without reliance on the direction of equity markets) may be achieved. The potential advantage for investors can be smoothed returns without the big swings that can characterise equity markets.

However, given the elimination of any beta, a key concern for absolute return investors is manager risk, that is the risk that a manager may potentially generate low or no returns. Pioneer Investments' solution, which aims to circumvent this risk, is to implement an approach where all team members are responsible for an independent source of return.

Fabio Di Giansante, Head of Long/Short European Equity, manages the market neutral European Equity strategy that focuses on 13 independent alpha sources. Last year, 11 of the 13 alpha sources of the strategy delivered a positive return. This, according to Di Giansante, highlights the key differentiating factor of Pioneer Investments approach.

"Our strategy is to build on the proven capabilities of our experienced team and not just rely on single individuals for returns. The strength of this approach is that even if some alpha sources do not produce a positive return in 1 year, other sources may compensate."

Di Giansante employs an initial stock-selection approach that looks to exploit the capabilities of an experienced investments team; and secondly, multiple layers of risk management that seek to dampen volatility and minimise drawdown.

Di Giansante is also quick to emphasise the importance of the team of career analysts, who work with the portfolio management team to build sector sleeves comprising of long and short ideas in search of uncorrelated sources of alpha. These form 10 of the 13 independent alpha sleeves.

"Fundamental stock selection is part of our DNA in Pioneer so we have continued to leverage on this proven skill to build this portfolio", explains Di Giansante

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"Fundamental stock selection is part of our DNA at Pioneer Investments, we continue to leverage on this proven skill to build our portfolio"

Other alpha sources include a small cap allocation again recognising the strength of the existing small and mid-cap equity team in Pioneer and providing further uncorrelated sources of return.

Recognising that each basis point of alpha generated is a "precious commodity", the team works closely with Pioneer Investments' in-house Portfolio Construction team. Headed by Ali Chabaane, this team partners with the investment teams with a focus on achieving "risk-adjusted" returns.

Di Giansante believes this is a critical element of the team's success. "Ali and his team ensure that we have allocated the correct risk budget to each member of the team and then focus efforts on managing drawdown. This process aims to ensure we address drawdown in any alpha sleeve quickly to stop it leaking into other areas of the portfolio. In short, it seeks to protect the returns we have already generated."

2015 was a strong year for the strategy, with returns ahead of target. We believe consistency is key, and the focus on fundamentals and the number of contributors to the process makes this approach repeatable and robust.

Since the beginning of this year, the strategy has demonstrated its resilience even when the wider market suffered a volatility shock. "Volatility like this is likely to become more commonplace. -10%/+10% moves in the market are becoming the 'new normal' Di Giansante notes. "Our aim is to continue to generate solid returns while insulating the strategy from broader market moves."

Important Information

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