



ifund fundmanager interview

with Davide Basile, RWC Global Convertibles Fund



“Our Convertible Bonds mandate is benefitting from higher levels of volatility!”

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ifund: What is your fund all about and what differentiates it from your competitors?

Davide Basile: Our fund aims to achieve high risk-adjusted returns from a diversified portfolio of global convertible securities and combines four main sources of return: bottom-up equity security selection; top-down macro and thematic positioning; careful credit analysis; and the blending of the derivative features of convertibles.

Our team aims to capture 60-70% of the upside in equity markets but only 20-30% of the downside.

We offer our investors a balanced exposure to the best traits of the convertible bond asset class. The fund is long-only, invests globally and is not managed against an index although over the long term it aims to outperform the broad convertible bond indices. We aim for a ‘delta’ (sensitivity to the equity markets) of approximately 30-50% and place a strong emphasis on maximising the convexity of returns, enabling the strategy to outperform over a market cycle and offer superior risk-adjusted returns to its investors.

Our main differentiators can be summarized as follows:

- The discipline of offering clients pure exposure to the Convertible asset class through a global unconstrained fund. We don’t invest in any synthetic structures, equities or straight debt and only employ derivatives to hedge out currency exposure which allows us to provide our investors with the purest exposure to the asset class.
- The team’s approach to the asset class and discipline regarding implementation and risk management. We have developed a bespoke and unique approach

to risk management. Proprietary tools allow us to disaggregate risk from an equity, credit, interest rate and optionality perspective and allows us to provide our clients with a very high level of transparency of information on the fund’s exposures on a monthly basis.

ifund: How do you add value for your investors?

Basile: We follow an active approach to managing convertible bonds and have centered our approach to the asset class around our discipline in regard to implementation and risk management. My team and I are solely dedicated to managing convertible bond portfolios ensuring that we do not have a bias to the bond or equity component and always aim to be objective in the assessment of both individual bonds and the structure of the portfolio.

We place a strong emphasis on maximising the convexity of returns, enabling the strategy to outperform over a market cycle and offer superior risk-adjusted returns, placing particular emphasis on analysing convertibles from a fundamental aspect both in relation to the bond component and the equity component.

We incorporate the option/volatility aspects of the bond’s payoff enabling them to achieve a broader perspective on convertible valuations. An understanding of this approach is important in identifying how we have generated significant value in the past.

ifund: How do you generate investment ideas?

Basile: We have developed a strong value-based approach which focuses on both the bottom-up fundamentals and the structural dynamics of convertible bonds. We continuously assess the macroeconomic landscape, in terms of return opportunities and the

risks to those views. We consider bonds, equities and currencies to build a top-down framework which represents the global environment, in both equity and credit markets. We then incorporate our thematic and sector views, scaling each depending on deviation from fair value, conviction levels and the perceived risk/reward.

With this structure established, we look at the equity value component of convertible issuers; we believe that consistent application of value disciplines is key to outperforming over the long-term. Our individual security selection process starts with a rigorous screening of the whole convertible bond universe. We have created models which allow us to analyse companies, without reliance on broker recommendations and earnings projections, across markets and sectors. In this way we can maximise the global opportunity set. These models are a distillation of the whole team's thinking and long investment experience; they are intuitive and transparent. Our stock selection is therefore based on solid rationale as to why relative value should persist, and not on back-testing.

ifund: How is your team structured and who is responsible for the investment decisions?

Basile: Our team is made up of myself as the lead portfolio manager, Esther Watt who supports me with portfolio construction and Michelle Shi who is in charge of research. We are supported by Makeem Asif and Uday Sikand, both of whom provide dedicated analyst resource.

As the lead portfolio manager, I have ultimate responsibility for the positioning, sizing and risk management although we tend to reach a common view amongst the team through continuous discussion most of the time. Given the size of our team, it is easy to reflect changes of view rapidly within the portfolio as we are not limited by an investment committee.

Before RWC I was responsible for a similar strategy during my tenure at Morgan Stanley where I was the Head of Global Convertibles and the lead manager for the \$1bn Global Convertibles fund and responsible for assets of approximately \$1.5bn in total (at peak). I have extensive long-only convertible bond portfolio management expertise and a proven track record.

ifund: In which market environment does your investment style work best?

Basile: The fund targets strong risk-adjusted returns through the full market cycle. The objective is to create a portfolio which captures the upside potential of equities with the downside protection of bonds.

We tend to outperform over the full market cycle, however in periods of rapidly rising equity markets we tend to underperform given our bias towards a lower delta range, while we tend to outperform in stable and

modestly rising equity markets in addition to declining equity markets given our lower equity sensitivity and higher exposure to volatility.

ifund: Where do you currently see the best potential and largest risks in the market?

Basile: As a team we still favour equities over any of the other major asset classes and feel that in the medium-term, markets will go higher, although we expect volatility to remain at heightened levels and therefore it is extremely important to build the right kind of exposure to the asset class. Convertible Bonds, and especially a balanced mandate like ours, can benefit from higher levels of volatility and allows investors to keep some exposure to the equity markets whilst offering protection to the downside.

In terms of risks, we consider the current political environment as one of the largest risks in the market today. The upcoming US election and ongoing campaign as well as the strengthening of the fringe parties, both right-wing and left-wing in Europe and the upcoming UK referendum (Brexit) have added to uncertainty and increased volatility in the market.

That said, issuance has been stable and valuations have come down this year adding to the attractiveness of the asset class. Our process is bottom-up driven and we do a lot of in-depth work and analysis on individual companies. This allows us to find attractive names and investment ideas even in times when the macro environment adds to uncertainty.

ifund: Which aspects of responsible investing do you consider in your investment process?

Basile: RWC is not currently a UN PRI signatory however we maintain a cluster munition policy implemented to prohibit investments in securities directly or indirectly related to cluster munitions.

The prescribed list of banned investments is coded into the firm's trading system Longview, thereby preventing trading activity in the securities.

ifund: How do you invest your own personal assets?

Basile: Due to my US citizenship I cannot invest in SICAV funds and hence have no personal assets in my own fund.

I am however a large and growing shareholder of RWC and have been increasing my holdings in the company consistently since my arrival in 2010. The remainder of my personal assets are in real estate.

ifund: What do you do in your leisure time? What is your preferred hobby and why?

Basile: I have two young daughters with whom I try to spend as much time with as possible. We enjoy going to the local parks and exploring London together. My wife and I also like going to the theatre, trying out new

restaurants and travelling.

I enjoy sports and try to work out at least three times a week to keep fit.

About RWC

RWC is a multi-disciplined, independent investment manager dedicated to the belief that well-defined investment philosophies, experience and a creative environment are essential ingredients for exceptional long-term returns. Our core principle is that fund managers should be unconstrained in their investment approach, focused on real risks and aiming for strong total returns over the long term. This underpins our goal to maintain a sustainable organisation where our clients have the conviction that our interests are served best by meeting their long-term objectives.

RWC's culture has become its strength. Our people both define the culture and drive its evolution. Based on simple principles of ethics, quality and enjoyment, our culture underpins the overall organisation's health.

Our structure provides an environment in which talented managers can focus on delivering performance and clients can expect the highest fiduciary standards.

Our firm AUM was €10bn, as at 31st May 2016. * AUM includes assets managed under discretionary, segregated, and advisory-only mandates.

About ifund

ifund provides fund research, manager selection and asset management based on liquid investment funds. Clients include banks, asset managers, family offices, pension funds and insurance companies in Europe. ifund has signed the UN Principles for Responsible Investment and integrates sustainability criteria in fund analysis. www.ifundservices.com, info@ifundservices.com, +41 44 286 8000

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