



# Skänderbeg

Investment Management

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T +423 373 11 30, info@skanderbeg.li, www.skanderbeg.li



## Put into perspective

*Ahead of the mainstream*

**November 2018**

Written by  
Bruno Schneller, CAIA & Miranda Ademaj

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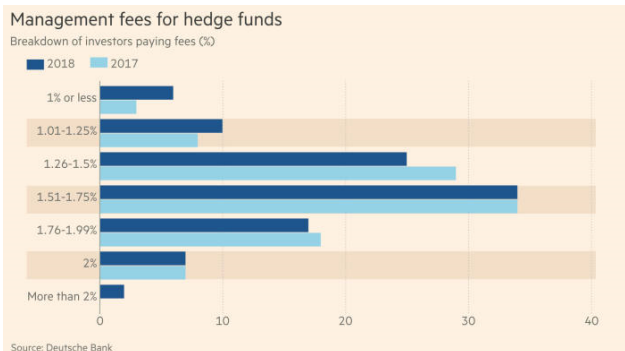
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***"Half the reason the consulting industry exists is because companies would rather pay hundreds of thousands of dollars for advice from someone in a nice suit than listen to a line worker who knows exactly what's wrong with the company but has dirty fingernails."***

*– Morgan Housel*

# HEDGE FUNDS

## Hedge funds forced to cut fees to lure investors

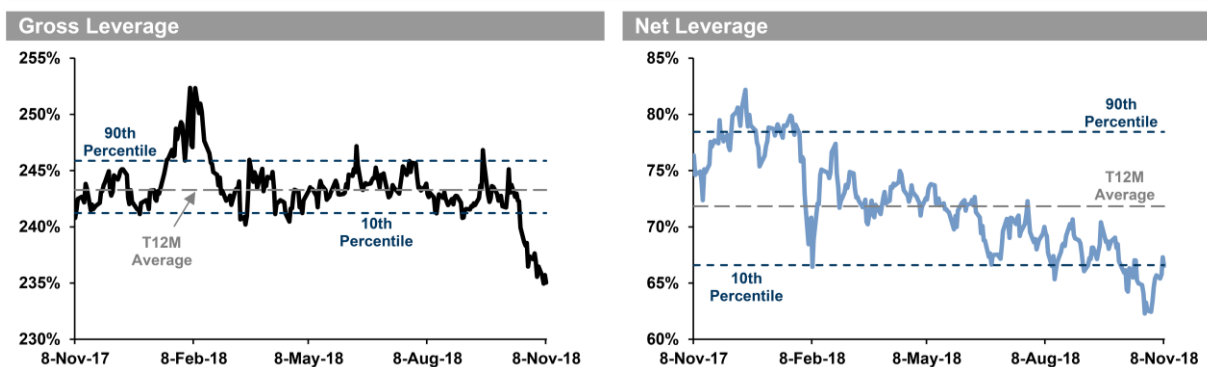


[The Financial Times](#)

## Gross and net leverage

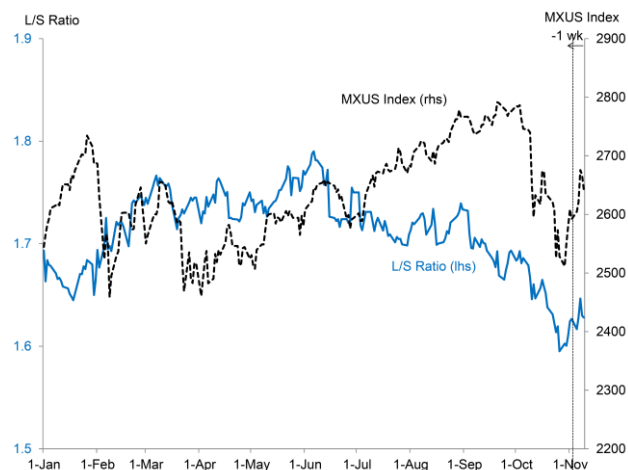
Gross and net leverage are -8.3% and -5.3% below their respective trailing twelve-month averages.

|              | Gross Leverage % | Date     | Net Leverage % | Date      |
|--------------|------------------|----------|----------------|-----------|
| Current      | 235.0%           | 8-Nov-18 | 66.5%          | 8-Nov-18  |
| T12M High    | 252.4%           | 5-Feb-18 | 82.2%          | 18-Dec-17 |
| T12M Low     | 234.9%           | 6-Nov-18 | 62.3%          | 24-Oct-18 |
| T12M Average | 243.3%           |          | 71.8%          |           |



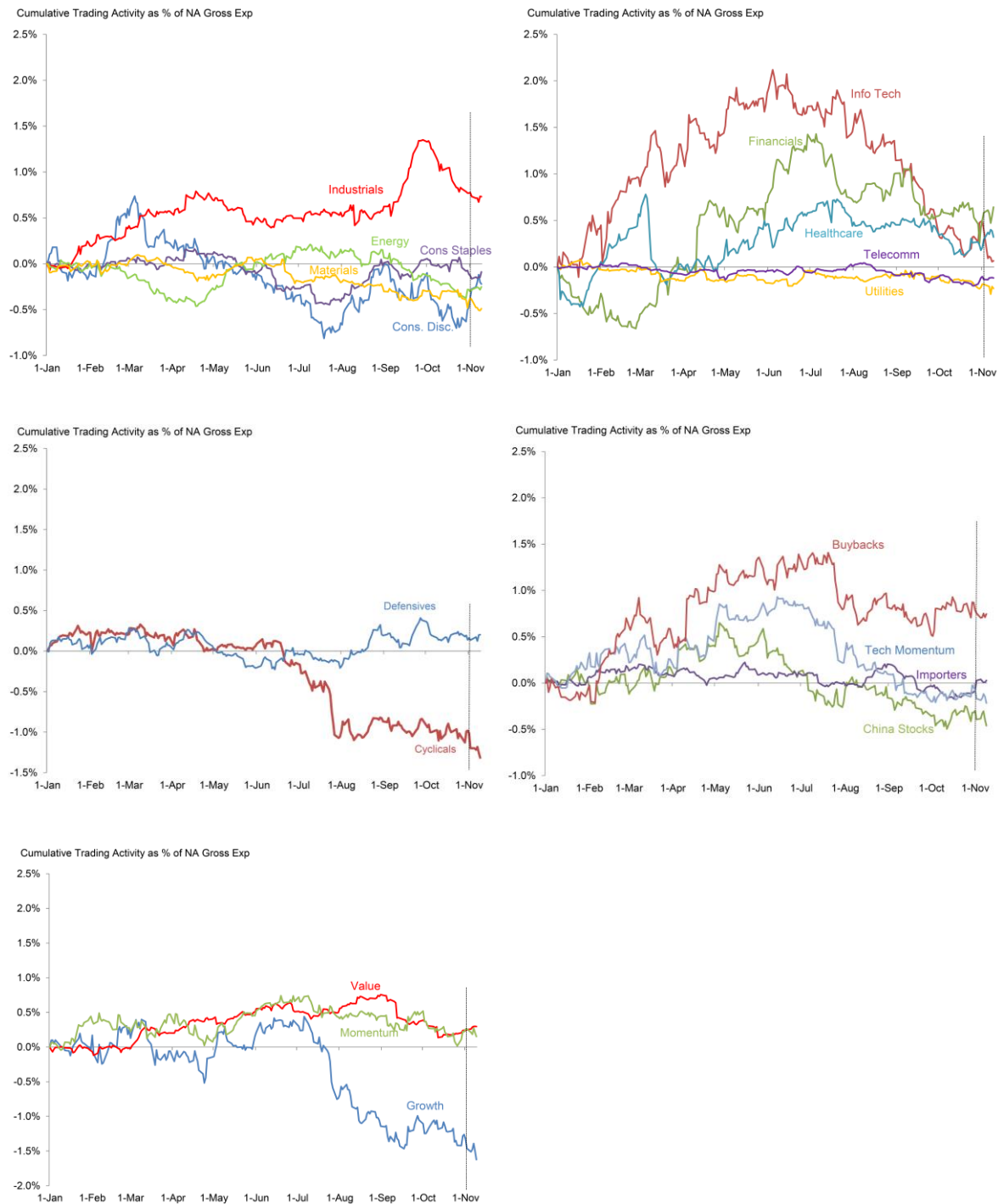
[Goldman Sachs](#)

## North America long/short ratio



[JP Morgan](#)

## North America trading activity by hedge funds



[JP Morgan](#)

## Female fund manager bonuses up to 70% below men's

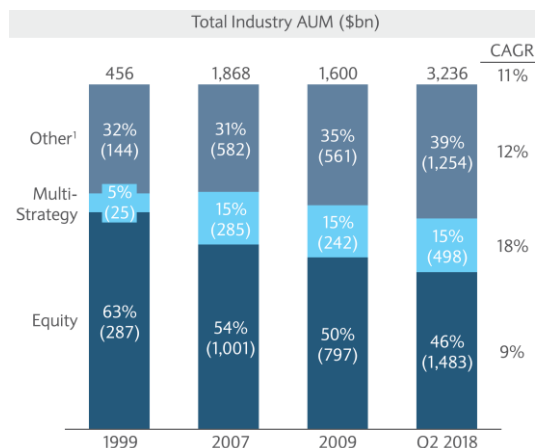
Women working at UK asset managers receive bonuses that are as much as 70 per cent below their male colleagues in revelations that will pile pressure on a sector that has been branded "[pale, male and stale](#)" to tackle its wide [gender pay gap](#). According to initial data that companies have filed to comply with new UK rules, salaries for women working in the fund industry are up to 40 per cent less than those paid to men, while the gap on bonuses is up to 72 per cent.

Fund managers linked the difference in pay to the lack of senior women in their organizations, as well as more women working part-time. Bev Shah, founder of CityHive, a network for women in finance, said it will be interesting to watch how these numbers change over the years. "It's not a surprise to anyone that the gender pay gap numbers for asset management are how they are. You just need to open your eyes and walk around the investment floors to see how the numbers will look," she said.

A poll of more than 500 FTfm readers last year found that 80 per cent believed transparency over the gender pay gap would improve equality for women in the fund industry. Fewer than 10 per cent of respondents said they felt women in the fund industry were paid the same as men for similar roles.

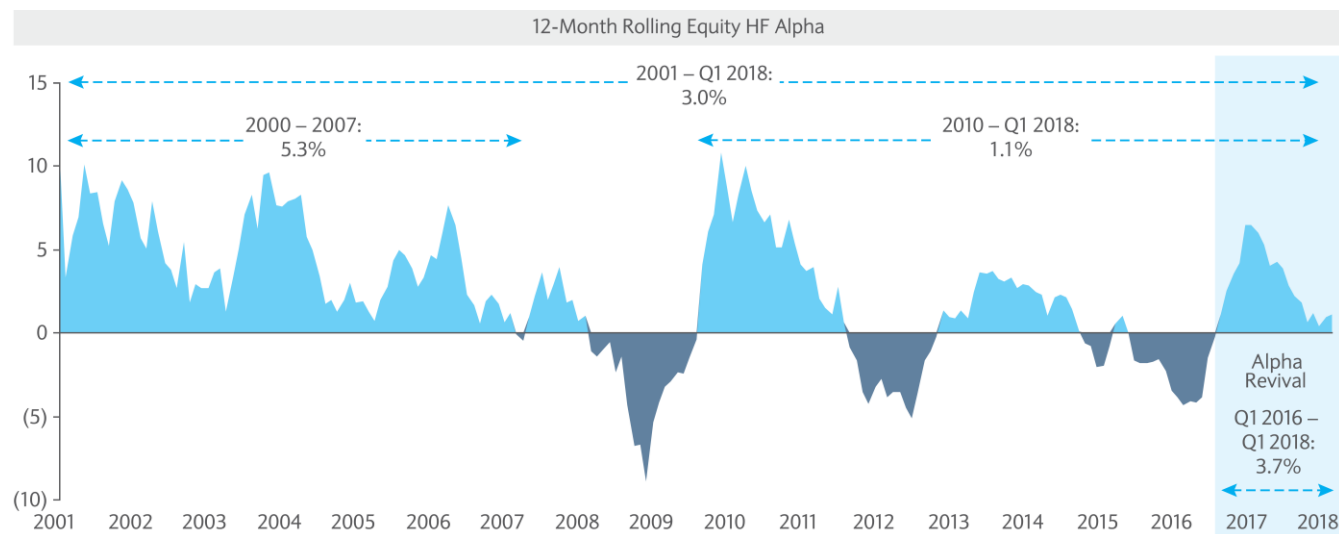
[The Financial Times](#)

### Hedge fund industry assets



[Barclays](#)

### Equity hedge fund alpha over time



[Barclays](#)

### Apple is a hedge fund that makes phones

When you buy a share of Apple stock, you do not simply buy into a \$1 trillion technology company. You also buy a share of one of the world's largest investment companies: Braeburn Capital, a wholly owned subsidiary of Apple. Braeburn manages a \$244 billion financial portfolio—70% of Apple's total book assets. Apple acts like a hedge fund by supporting this portfolio with \$115 billion of debt.

Like a hedge fund, Apple provides minimal disclosures on Braeburn Capital's holdings. But unlike a hedge fund, Apple does not restrict itself to accepting funds from sophisticated investors. Apple invests the money of everyday investors, like a mutual fund—but without telling investors what they own, the most basic protection mutual funds offer.

Equity and debt holders beware. Similar shadow hedge funds abound within S&P 500 industrial companies. Most disclose less information than Apple about their activities. Our research, published in the *Journal of Finance*, shows that in 2012 these corporations managed a combined portfolio of \$1.6 trillion of nonoperating financial assets. Of this amount, almost 40% is held in risky financial assets, such as corporate bonds, mortgage-backed securities, auction-rate securities and equities. Current accounting standards require companies only to report aggregate valuations on a quarterly basis.

Like Apple, these companies lever up. The debt may appear safe at first when it is backed by financial assets. But these assets are not the safe and liquid ones that typically facilitate day-to-day operations. By shifting into riskier and more illiquid financial assets, corporations hurt their debt holders, ostensibly to help equity holders. Equity holders don't seem to gain any benefit, though.

Our research shows that large holdings of risky financial assets are associated with the destruction of value. The market values a dollar of risky financial assets at substantially less than a dollar. Large risky asset holdings are also associated with poorer corporate governance, CEO overconfidence and risk-incentivizing executive compensation such as stock- and option-based pay.

Through these shadow hedge funds, industrial companies chase after alpha. But beating the market is hard, and the attempt destroys value through fees and the ensuing management distraction from the core business. Only the most select hedge-fund and mutual-fund managers outperform the market. It seems unlikely that the financial industry's best money managers would choose to work for industrial companies at lower pay. Moreover, if corporate treasurers truly create value, companies should be happy to trumpet their success. Instead they hide their results from investors by taking advantage of weak disclosure requirements.

Harmonizing the disclosure standards of these shadow hedge funds with those required of mutual funds and other financial intermediaries—including quarterly reporting of every asset held and daily marking-to-market of the portfolio value—is critical for an informed investor base. This could be accomplished. Any company holding more than 1% of book assets in non-cash-equivalent financial securities should be required to hold these assets in a subsidiary that reports its net asset value daily. Investors should be able to evaluate the performance of these shadow hedge funds for themselves and decide how they want to invest their money.

[The Wall Street Journal](#)

## Precautionary savings with risky assets: When cash is not cash

[Ran Duchin](#)

University of Washington - Michael G. Foster School of Business

[Thomas Gilbert](#)

University of Washington - Department of Finance and Business Economics

[Jarrad Harford](#)

University of Washington

[Christopher M. Hrdlicka](#)

University of Washington - Michael G. Foster School of Business

**Abstract:** We show that US industrial firms invest heavily in non-cash, risky financial assets such as corporate debt, equity, and mortgage-backed securities. Risky assets represent 40% of firms' financial portfolios, or 6% of total book assets. We present a formal model to assess the optimality of risky financial investments. Consistent with the model's predictions, risky assets are concentrated in financially unconstrained firms that hold large financial portfolios. Further, they are undertaken by poorly governed firms and discounted by 13-22% compared to safe assets. We conclude that this activity represents an unregulated asset management industry of more than \$1.5 trillion, questioning the traditional boundaries of nonfinancial firms.

[SSRN](#)

## Hedge funds and stock price formation

[Charles Cao](#)

Pennsylvania State University

[Yong Chen](#)

Texas A&M University - Department of Finance

[William N. Goetzmann](#)

Yale School of Management - International Center for Finance; National Bureau of Economic Research (NBER)

[Bing Liang](#)

University of Massachusetts Amherst - Department of Finance

**Abstract:** Using comprehensive quarterly data on hedge fund stock holdings, we study the role of hedge funds in the process of stock price formation. We find that hedge funds tend to hold undervalued stocks, and that both hedge fund ownership and their trades are positively related to the degree of stock mispricing. A portfolio consisting of undervalued stocks with high hedge fund ownership generates a risk-adjusted return of 0.40% per month (or, 4.8% annually), and the profit stands even after transaction costs. Hedge fund ownership and trades also precede the dissipation of stock mispricing. In contrast, these patterns are either nonexistent or much weaker for other types of institutional investors. Taken together, our results suggest that hedge funds exploit and help correct mispricing, but the process is not instantaneous.

[SSRN](#)

# MARKETS

## Is 3M a leading indicator of ISM?



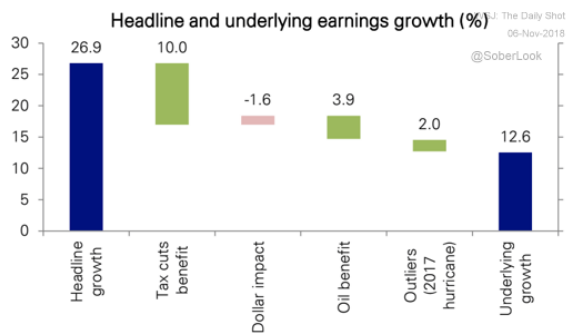
Deutsche Bank Research (via Carl Quintanilla)

## How have the stock markets around the world reacted to negative and positive trade war news?



Oxford Economics (via WSJ's Daily Shot)

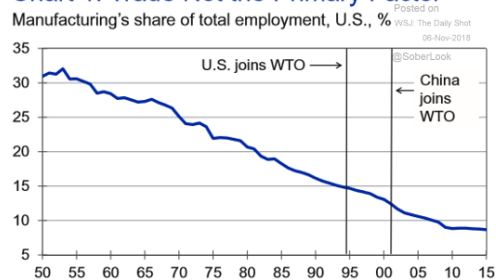
## Several temporary drivers in Q3 earnings, but even excl. these the underlying growth is at solid rates



Deutsche Bank Research (via WSJ's Daily Shot)

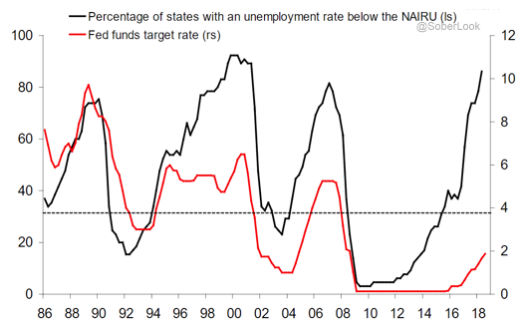
## The declines in the manufacturing-sector started long before China became a significant trading partner

### Chart 1: Trade Not the Primary Factor



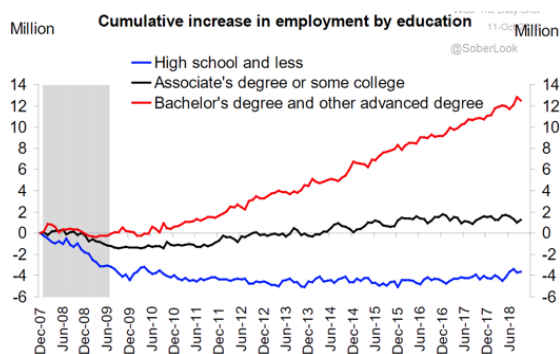
Moody's Analytics Research (via WSJ's Daily Shot)

### The Fed funds rate normally peaks when 80% of states have unemployment below the NAIURU



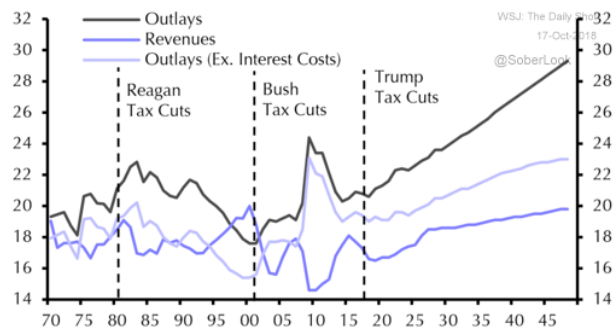
Deutsche Bank Research (via WSJ's Daily Shot)

### This has been a recovery for people with education



Deutsche Bank Research (via WSJ's Daily Shot)

### Federal spending & revenues (as a % of GDP)



Capital Economics (via WSJ's Daily Shot)

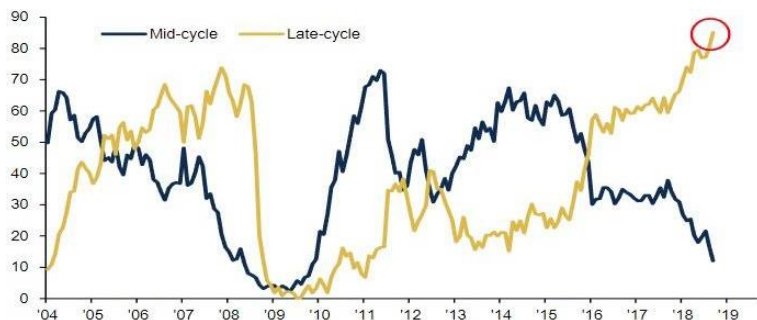
### Chain store sales have soared, but will slow soon



Pantheon Macroeconomics (via WSJ's Daily Shot)

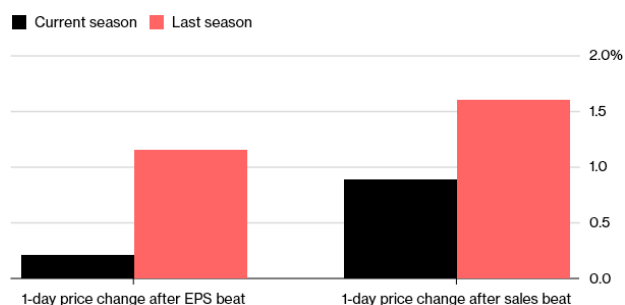


**At this time, in which phase of the economic cycle would you say the global economy is?**



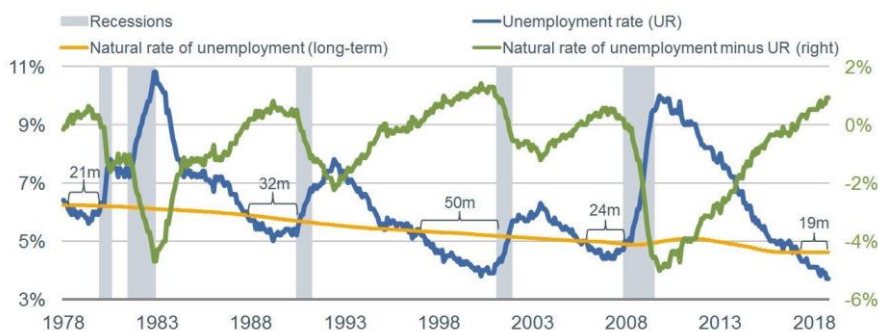
[BofA Merrill Lynch](#) (via [Zero Hedge](#))

**Not as impressed: Earnings and sales beats aren't being rewarded as much as they were last quarter**



[Bloomberg](#)

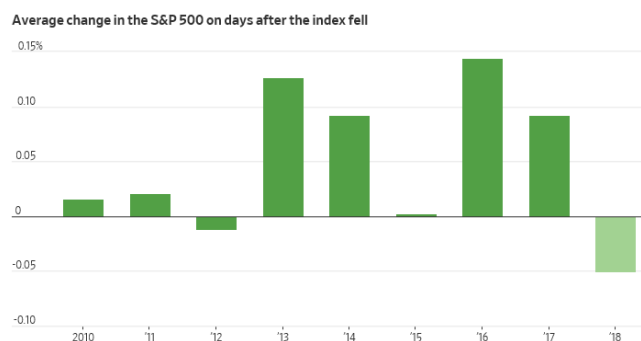
**19m ago the unemployment rate fell below its "natural rate," while the gap is historically wide**



As of 10/31/18. Source: Charles Schwab, Department of Labor, FactSet, U.S. Congressional Budget Office.

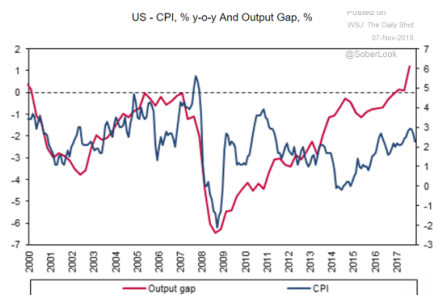
[Charles Schwab](#)

**Buying stocks the day after US equities sell off has not tended to provide a positive return this year**



[The Wall Street Journal](#)

### Inflation set to catch up?



Fitch Solutions (via [WSJ's Daily Shot](#))

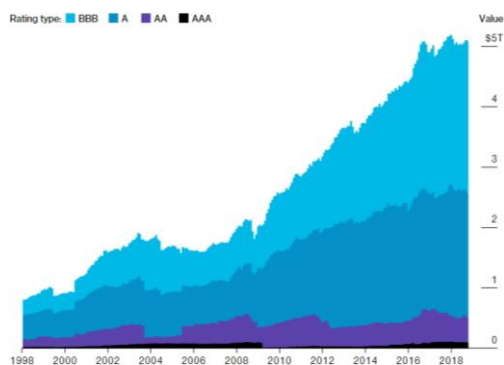
### China has been dominating the global private-sector debt expansion in recent years

Chart 9: World Non-Fin. Private Sector Debt (% of GDP)



Capital Economics (via [WSJ's Daily Shot](#))

### The big downgrade: More than half of the US investment-grade index now sits in the lowest ratings tier



Bloomberg

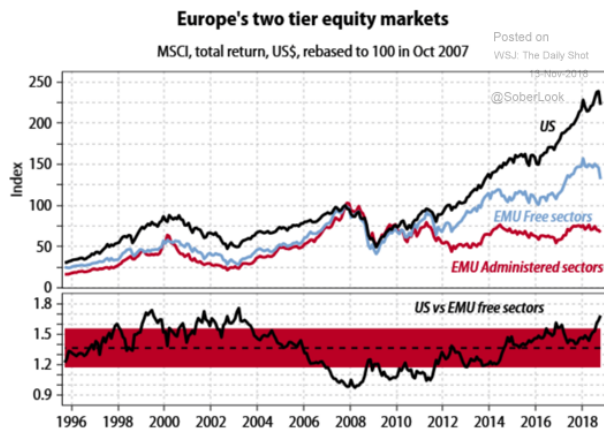
### The risk of a bear market has almost never been greater: GS Bull/Bear Market Risk Indicator

Average percentile (in US) for ISM, Slope of yield curve, core inflation, unemployment and Shiller P/E



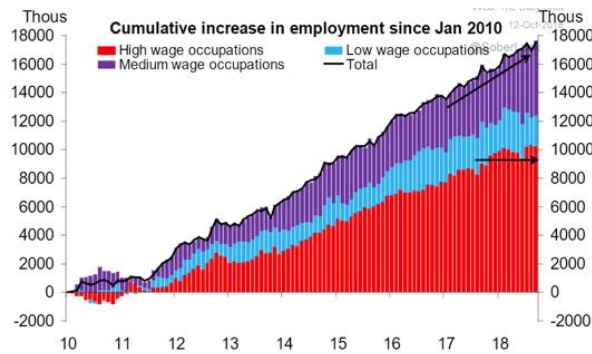
Goldman Sachs (via [Zero Hedge](#))

**Part of the reason for the euro area's underperformance is the weakness in the state-controlled sectors**



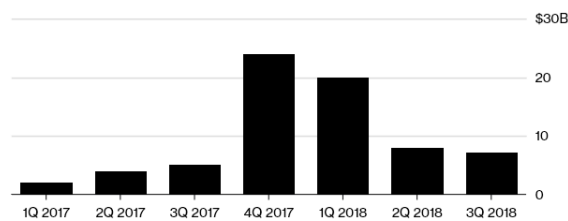
Gavekal (via WSJ's Daily Shot)

**The expansion is finally broadening out beyond high-wage jobs**



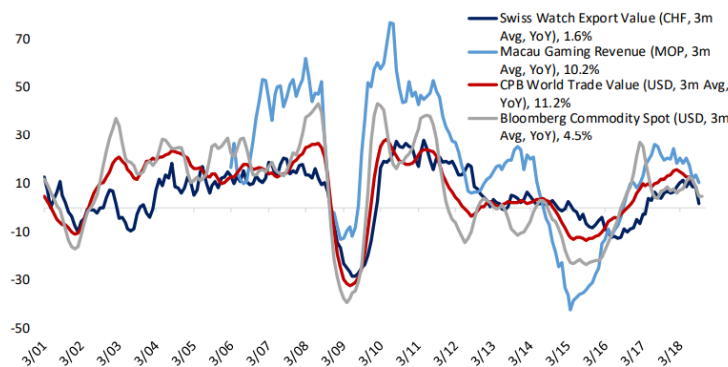
Deutsche Bank Research (via WSJ's Daily Shot)

**Coinbase transaction volumes tumble**



Bloomberg

**Global cyclical indicators have clearly peaked & are rolling over**



Bespoke

## Video of the month

### "A first-class catastrophe": Lessons learned from Black Monday

Author Diana B. Henriques discusses the lasting lessons from Black Monday – the biggest drop in Wall Street history – and the relevance in understanding today's markets, along with insights from her extensive reporting on the Bernie Madoff scandal.



[Click to watch](#)

[Goldman Sachs](#)

## Tweet of the month



[Ramp Capital](#)

## Joke of the month

TV show idea: it's like Fixer Upper but for people to repair their investment portfolios after following CNBC's advice.

## Cartoon of the month

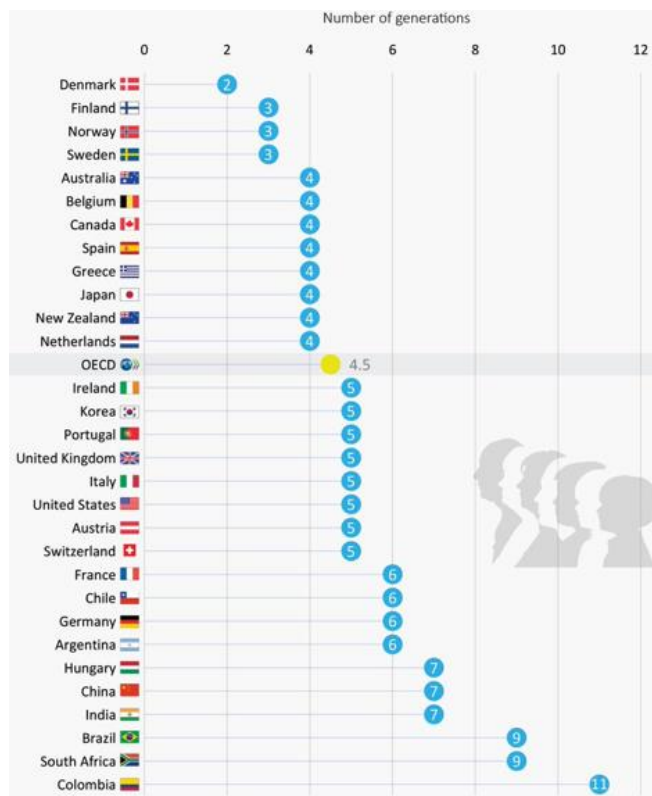


'IT'S ONE WORD GEORGE!'

# THINK TANK

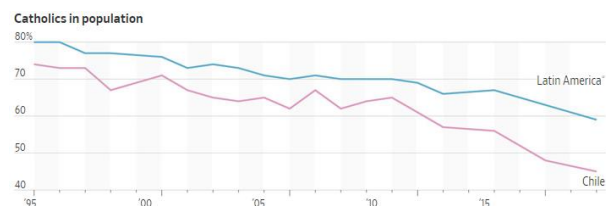
## Income mobility across generations

Number of generations it would take for those born in low-income families to approach the mean income in their society



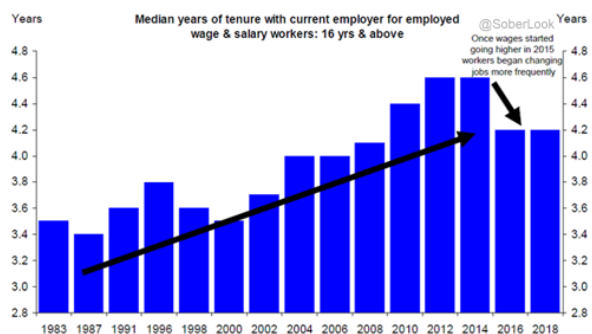
OECD (via [World Economic Forum](#))

## The proportion of Catholics in Chile and in Latin America overall has fallen dramatically since 1995



The Wall Street Journal

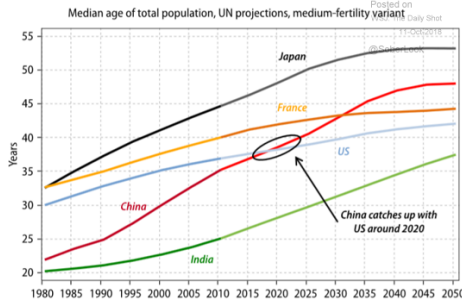
## Workers more loyal to their employer than 10, 20, or 30 years ago



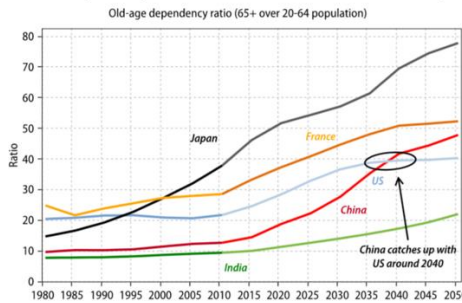
Deutsche Bank Research (via [WSJ's Daily Shot](#))

## The median age of China's population is converging with developed economies

The age of China's population is converging with developed economies



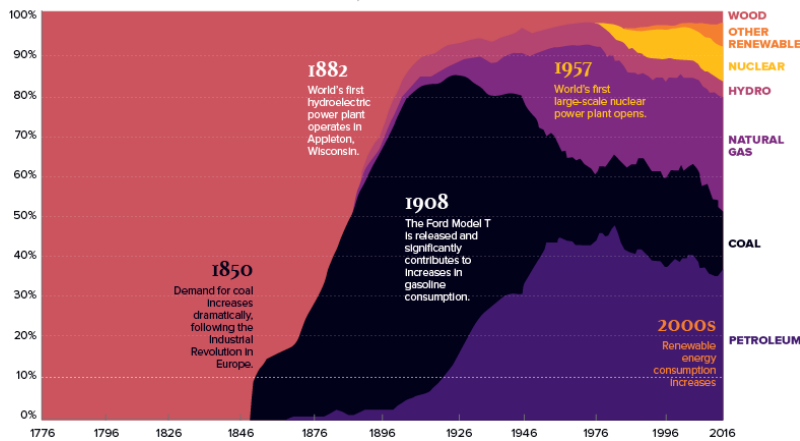
China's dependency ratio will take another two decades to converge



Gavekal (via WSJ's Daily Shot)

## The energy we use to power development is not permanent or static throughout history

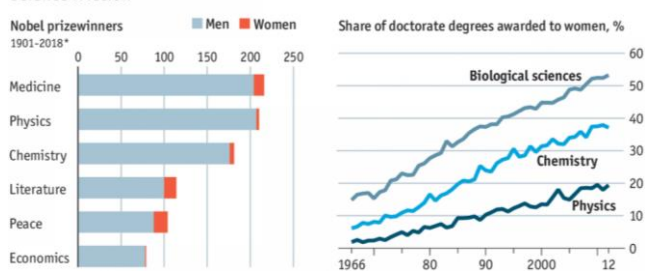
SHARE OF U.S. ENERGY CONSUMPTION BY MAJOR SOURCES, 1776 - 2016



Visual Capitalist

## Gender parity in science is an uphill struggle

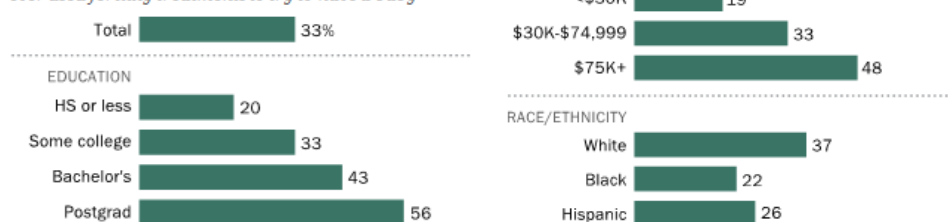
Science friction



The Economist

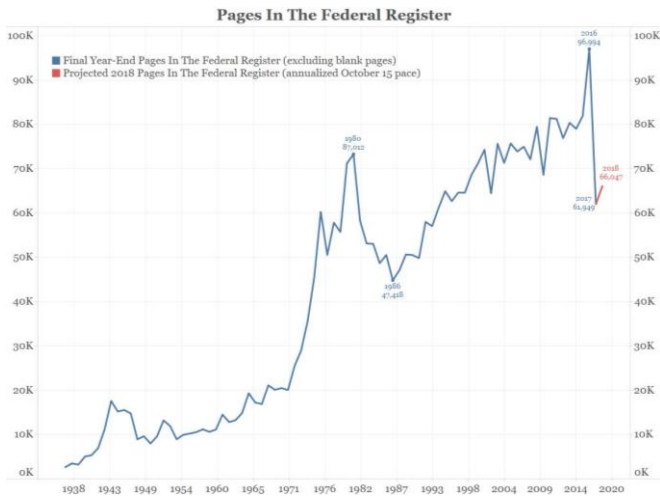
## A third of US adults say they have used fertility treatments or know someone who has

% who say they or someone they know personally has ever used fertility treatments to try to have a baby



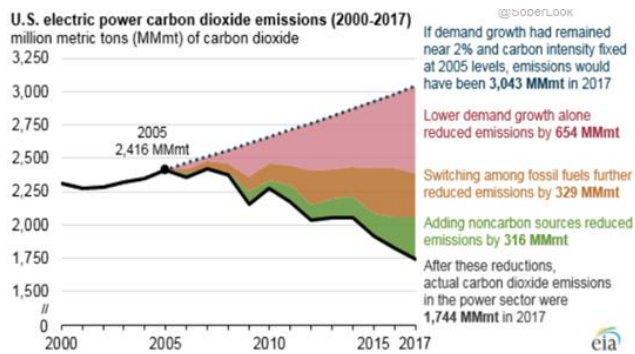
Pew Research Center

### Has deregulation come to an end?



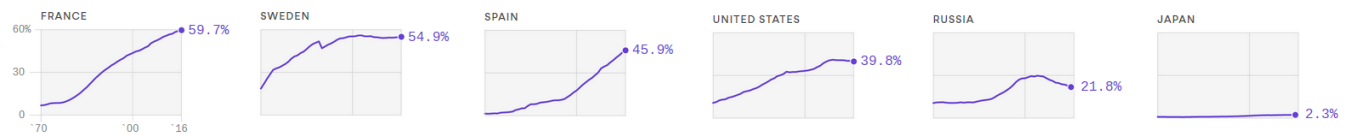
[Bianco Research](#)

### Carbon dioxide emissions from the US power sector have declined 28% since 2005



[US Energy Information Administration](#) (via [WSJ's Daily Shot](#))

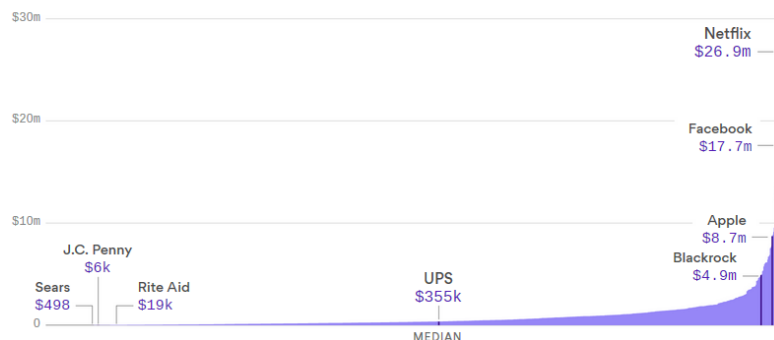
### Share of children born outside of marriage, 1970-2016



[Axios](#)

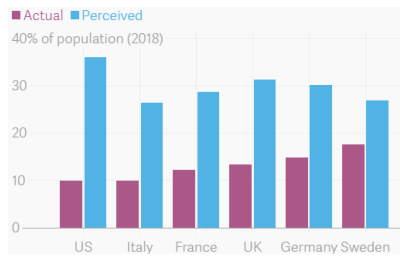
### Market value per employee

Among 1,057 companies on the NYSE or Nasdaq with 5,000+ employees in 2018



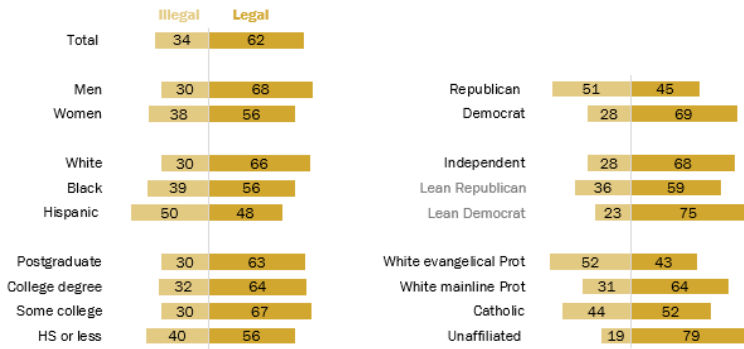
[Axios](#)

### There are fewer immigrants in the US than Americans think



[World Economic Forum](#)

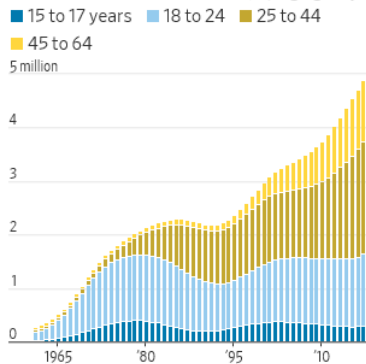
### About six-in-ten Americans support marijuana legalization



[Pew Research Center](#)

### Marijuana consumption has been rising with the largest increase among those older than 24 years

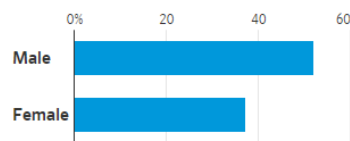
Canada's cannabis consumers, by age group



#### Gender Gap

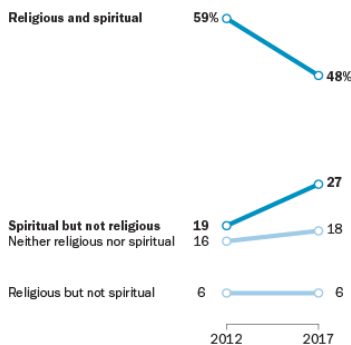
Men are more likely to consume cannabis than women.

Canadians who have used marijuana at least once in their lifetime, 2015



[The Wall Street Journal](#)

### A quarter of Americans now see themselves as spiritual but not religious

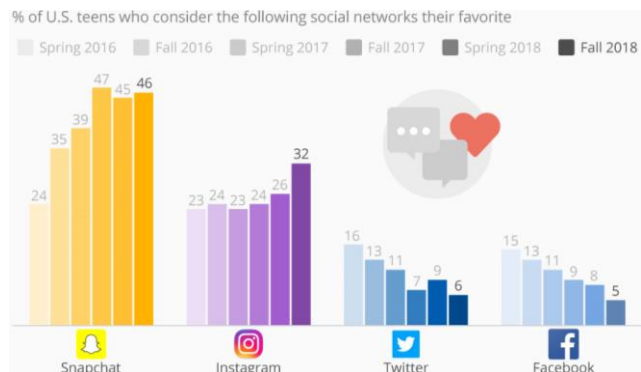


[Pew Research Center](#)



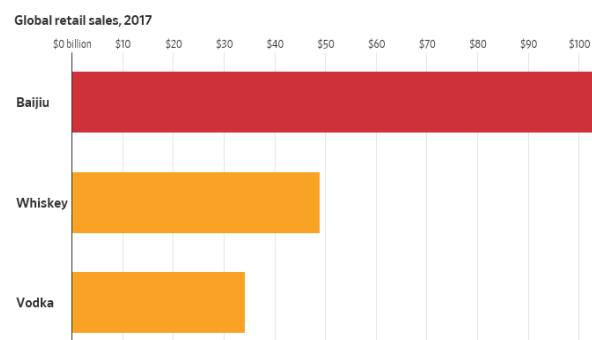
# TIME OUT

## Facebook and Twitter are old news to young people



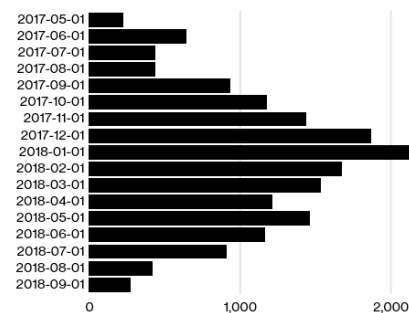
[Statista](#)

## Baiju, the world's most consumed liquor, is still virtually unknown outside of China



[The Wall Street Journal](#)

## ICO funding by month, in USD



[Bloomberg](#)

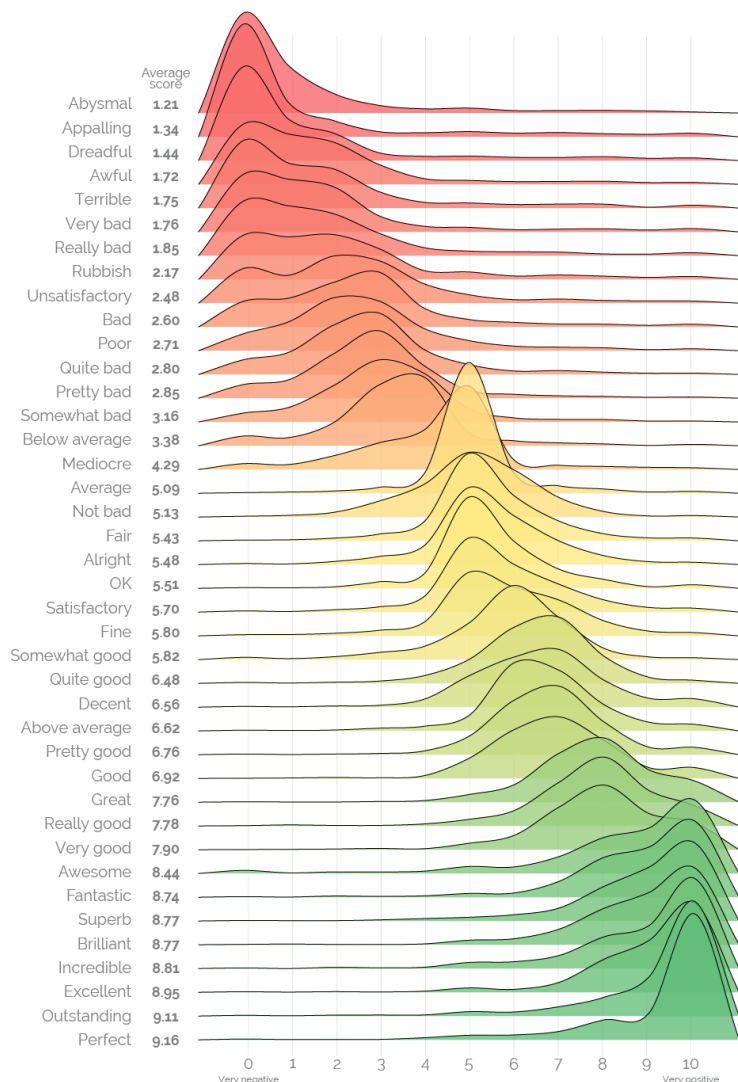
## GoFundMe, circa 1978



[The Burning Platform](#)

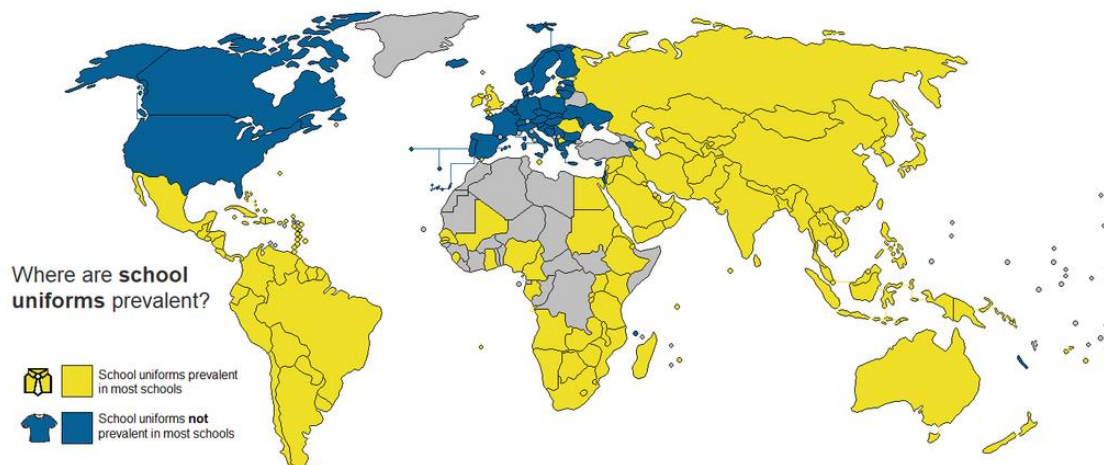
### How good is "good"?

On a scale of 0 to 10, where 0 is 'very negative' and 10 is 'very positive', in general, how positive or negative would the following word/phrase be to someone when you used it to describe something?



[YouGov](#)

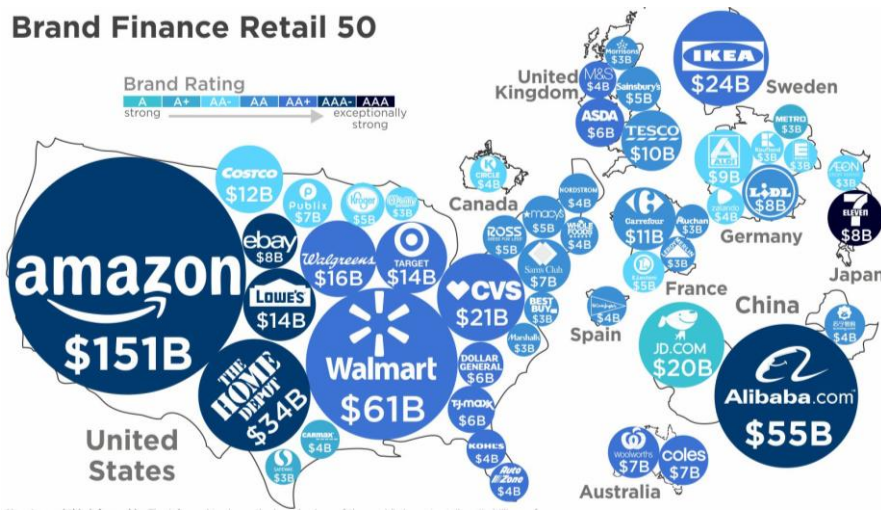
### Where are school uniforms prevalent?



[bezzleford](#)

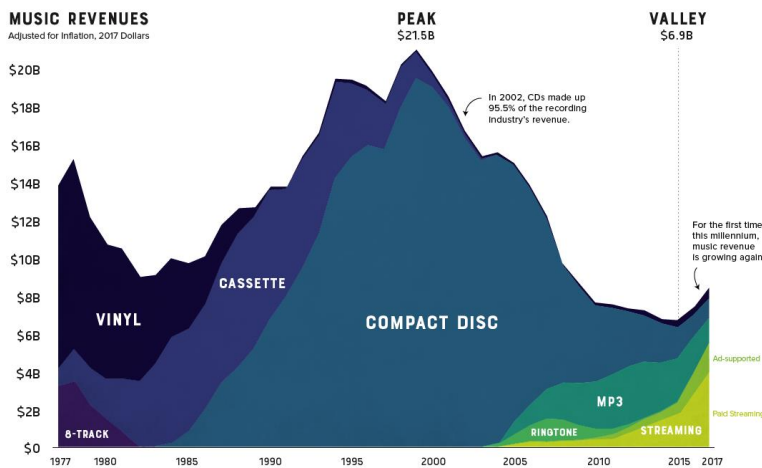
### The world's most valuable retail brands 2018

#### Brand Finance Retail 50



[howmuch.net](http://howmuch.net)

### Visualizing 40 years of music industry sales

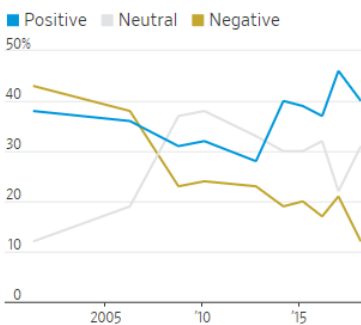


[VisualCapitalist](http://VisualCapitalist)

### How the Russians view Joseph Stalin

#### Past and Present

Historians say millions were killed under Stalin, but his leadership in World War II is one reason many Russians link him with positive words such as admiration and respect.



[The Wall Street Journal](http://TheWallStreetJournal)

## Bruno Schneller, CAIA



Bruno Schneller is the co-founder and CIO of Skänderbeg Investment Management AG. Prior to establishing the company, Bruno worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG.

Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Naissance Capital Ltd. in 2006.

 [LinkedIn profile](#)

## Miranda Ademaj



Miranda Ademaj is the co-founder and CEO of Skänderbeg Investment Management AG.

Prior to establishing the company, Miranda worked at BrunnerInvest AG and Sallfort Privatbank AG. Before that, she worked at Credit Suisse for several years.

 [LinkedIn profile](#)

## About us

Liechtenstein-based **Skänderbeg Investment Management AG**, wholly-owned subsidiary of Swiss-based Skänderbeg Alternative Investments AG, is an asset manager authorized and regulated by the Financial Market Authority Liechtenstein (FMA). The company is incorporated in Vaduz under number FL-0002.579.371-8. To subscribe to our monthly "Put into Perspective" newsletter, please visit [www.skenderbeg.li](http://www.skenderbeg.li).

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