



BSD INVESTING

EXPERT VOICE

ENHANCE YOUR PORTFOLIO PERFORMANCE WITH BSD INVESTING



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"CHOOSING THE RIGHT ACTIVE OR PASSIVE FUNDS IN A PORTFOLIO IS AS IMPORTANT AS BEING IN THE RIGHT MARKETS AT THE RIGHT TIME", SAYS BSD INVESTING, A NEW FIRM DEDICATED TO HELPING INVESTORS ENHANCE PORTFOLIO PERFORMANCE.

For investors, the decision to use active or passive funds is a critical one. It's not an easy choice to make, but finance research has proven that, ultimately, it is crucial for portfolio performance.

The tools we use to compare active and passive funds are often inaccurate and confusing, says Marlène Hassine Konqui, Associate Director General at BSD Investing. And investors are losing out by failing to use the right measure to assess the pros and cons of these two management styles, she says.

In this Expert Voice, Marlène Hassine Konqui talks about the mission of BSD Investing, an independent firm devoted to research and portfolio construction. She explains why the active/passive decision is often so difficult to make. And she describes the innovative firm's areas of research and tools, which will enable investors to make a fair and efficient selection between active and passive.

MY NEED TO KNOW

- Whether to invest using active/passive funds is as important a decision as asset allocation
- There are too many dogmatic and incorrect views on the respective merits of active and passive
- Existing active/passive comparison tools fall short in several areas
- Getting the comparison right requires careful attention to fund universes, data and choice of indicator
- Investors should use a reliable fund database focused exclusively on active and passive fund selection.

MARLENE HASSINE KONQUI, WHY DID YOU DECIDE TO TAKE PART IN BSD INVESTING AND WHAT DOES THE FIRM DO?

My unique expertise is based on my 28 years of enriching experiences as a financial analyst, heading equity derivatives and ETF research team within many of the leading firms in the financial industry (Exane, ODDO BHF, Kepler Equities, Société Générale and Lyxor AM). I have the privilege to work with the most renowned people in the market: analysts, researchers, finance professors, investors, market makers and local and market authorities. I have also been at the origin of the creation of the ETF Research Academy. Based on several years of in-depth research, I am proud to be recognized as an expert in portfolio construction and active/passive analysis.

I am deeply convinced that the active passive selection is key for portfolio performance. But to make an informed decision, investors need the right tools and the right data. Here, I believe, there is currently a gap in the market. Through BSD Investing's interactive tool, I fill it by making my expertise accessible to investors.

WHAT NEW SOLUTIONS ARE YOU CREATING FOR INVESTORS?

When constructing portfolios, many investors focus only on asset allocation. In the late 1980s, Brinson, Hood and Beebower published a famous paper showing that asset allocation explained over 90 percent of a portfolio's return variability over time. There are many useful research and management tools developed on the basis of this finding and these are widely used by professional investors.

Asset allocation is undoubtedly a critical choice, but it's by no means the only important one. Taking into account developments over the last thirty years, investors now have a far greater range of investment vehicles from which to choose: for example, active/passive, smart beta and ESG funds. This evolution means investors need new tools to guide them. Getting the choice of investment vehicle right may be just as important for long-term returns as being in the right asset class at the right time.

WHAT'S WRONG WITH THE EXISTING SOLUTIONS IN THE MARKET?

Currently, there are two widely used approaches in the market for comparing active and passive performance: SPIVA ('S&P Indices Versus Active') and Morningstar.

SPIVA, which publishes its results semi-annually, measures the performance of actively managed funds against that of an underlying index. In itself, this method is inherently flawed as it ignores the management fees and costs incurred by passive funds. And the benchmark against which an active fund is compared may not be the official benchmark of each fund, potentially resulting in an apples-to-oranges comparison.

Morningstar, which publishes its active passive barometer semi-annually, compares active funds against their passive fund peers within those categories. Yet under Morningstar's approach, active funds may be compared with passive funds following different benchmarks, which makes it difficult for investors to arrive at a fair comparison.

These different approaches create confusion and fail to arrive at a fair performance comparison between active and passive funds. Therefore, investors are missing the right tools to select active and passive funds and make an efficient portfolio allocation based on quality data.

WHY USE BSD INVESTING TO ENHANCE YOUR PORTFOLIO PERFORMANCE?

BSD Investing's approach is the only way for investors to build an efficient active/passive portfolio. We use five steps to enhance portfolio performance.

FIVE STEPS TO ENHANCE PORTFOLIO PERFORMANCE WITH BSD INVESTING

- 1 You need to select the right funds according to the investment objective**
- 2 We select the comparable active & passive funds according to your universe**
- 3 You access our refined data for a reliable comparison**
- 4 You use our analytical tools to arrive at a fair view**
- 5 You make an efficient active/passive fund allocation decision**

WHAT SOLUTIONS DOES BSD INVESTING BRING MORE VS COMPETITORS ?

We have developed a state of the art interactive tool based on a unique database and analytical method, both essential to make the best investment decisions.

1. A proprietary algorithm gives us a **representative benchmark of both active and passive funds for all our 31 universes** of traditional and ESG funds (selected from 11000 funds with €4 trn of assets under management). Before doing this, we make sure we have the right universe of funds. For example, actively managed ETFs need to be reclassified into active funds and not stay into the passive funds. Our objective is to arrive at one cohort of active funds and a separate cohort of passive funds, both using the same representative benchmark.
2. We find **comparable active & passive funds**, not non-investable benchmarks. This means we factor in the costs and management fees for both active and passive funds.
3. Our **proprietary selection process** allows us to build a reliable and exhaustive fund database. That means refining data for optimal fairness when selecting funds based on the same benchmark, choosing the most representative share class for each fund, making all performance comparisons in the same currency, adjusting for historical category changes and using the same standardised calendar.
4. We have developed a whole range of analytical tools to perform a fair comparison between funds. We rely on more 100 indicators that **go beyond market performance indicator biases**. We calculate not just the percentage share of active funds outperforming between two fixed dates, but also based on a yearly or quarterly average of daily returns or even over a fund's lifetime. We also measure the regularity and consistency of active performance, the dispersion of performance and other risk/return measures.
5. We then allow investors to **make an efficient active / passive allocation decision** for each of the 31 universes. Through our interactive tool, investors can access for the first time, updated data and analysis dedicated to active and passive comparisons and make the most informed decision.

BSD Investing's analysis tools allow investors to build optimal portfolios, combining active and passive funds.

HOW DOES BSD INVESTING HELP SELECT THE OPTIMAL SHARE OF ACTIVE AND PASSIVE IN A PORTFOLIO?

BSD Investing tools help investors defining the share of active and passive funds in their portfolios.

The data show that both investment styles can bring value and it's time to move away from broad-brush statements about the merits of either. In fact, a broad view of performance across asset classes and categories shows that active/passive results are decidedly mixed.

Active managers are doing well in some categories and passive managers are doing well in others. Additionally, fund managers' performance depends on time frames and market cycles. For example*, looking over the 10

years to the end of 2020, 32% of European equity active funds outperformed comparable passive funds and the outperformance spread was 0,3% a year. Yet in 2020, 66% of European equity active funds outperformed comparable passive funds and the active funds did better by 2.8%. In 2018, the reverse was true: 63% of passive funds did better than active, this time active funds underperformed passive funds by 2,1%. In the volatile year of 2020, active funds showed their resilience while in 2018, uncertainties about interest rates and the growth outlook limited visibility and favoured passive funds.

For the first time in the market, investors can access updated data between active and passive funds for each investment universe. The data are complete, reflecting all the available information of mutual funds, corrected for biases and also adjusted for risk. Additionally, we provide **value-added analysis with a clear active passive fund allocation recommendation** for each universe to help investors build an optimal portfolio.

DO YOU ALSO ANALYSE ESG FUNDS?

Yes. At BSD investing we strongly believe that ESG is key to building efficient portfolios. Based on our research, incorporating ESG fund analysis into the active-passive allocation improves portfolio performance. Comparing an ESG fund performance with a passive benchmark requires further data refinement due to specific fund properties currently overlooked by the market.

Our research saves our clients hours of data preprocessing and provides them with accurate analysis, leading to better investment decisions.

HOW CAN I FIND OUT MORE ABOUT YOUR SERVICES?

Discover our interactive analysis and research platform.

By subscribing to BSD Investing you get access to our:

- **Unique exhaustive and reliable fund database**, with 31 universes of both active and passive traditional and ESG funds (using selected from 11000 funds with €4 trn of assets under management).
- **Unique research library**, with all BSD Investing's research, including regular publications on fund performance, flows and assets.
- **Unique interactive analysis platform**, helping investors building optimal portfolios by means of research that is updated daily and available to view or to download over different periods of time (yearly, quarterly).

You can also subscribe to our newsletter via www.bsdingesting.com to get all the latest information about active/passive funds. We are developing other tools that will be released soon, helping investors to continue building more efficient portfolios.

*Sources : BSD Investing Database and Morningstar from 31/12/2010 to 31/12/2020



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