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F Magazine

INSIDE THE HEAD OF THE MANAGER

INVESTING FROM A 10-YEAR PERSPECTIVE

MEGATRENDS

ON THE HORIZON

Fund managers give us their personal take on their long-term investment ideas. This month F met Banor SIM's Luca Riboldi

BY BIAGIO CAMPO

Values normalised at 100 in early February 2010
Source: Bloomberg

F magazine's quest to find the best investments for the next decade continues, from a standpoint of not having to change course along the way. In these conversations we ask fund managers, strategists and the heads of asset management firms and banks to give us their three best long-term investment tips, and the reasons for their choice.

We leave it to our guests to decide just how specific they want to be in their answers. They can talk about an asset class, a sector or, less likely perhaps, an individual security.

For this edition we met Luca Riboldi, Chief Investment Officer at Banor SIM and advisor for Banor SICAV Italy Long Short Equity.

MANAGER'S FACTSHEET

Manager: Luca Riboldi

Age: 52

Born in: Milan

Works in: Milan

Education: Degree in Business Administration, 1988, from Università Commerciale "Luigi Bocconi

2 favourite hobbies outside of finance: tennis and ski-ing

Fund managed/security: Banor SICAV Italy Long Short Equity

Fund's Morningstar category: Alt – Long/Short Azionario Europe

Fund's assets under management and date of acquisition: 87.43 million euro managed from 23 June 2010

Firm: Banor – Chief Investment Officer Banor SIM, Advisor Banor SICAV Italy Long Short Equity

Assets under influence of Banor Group (Banor SIM, Banor Capital, Banor SICAV): over 4.5 billion euro, of which 2.1 billion euro under discretionary management

MEGATRENDS/1 Commodities
An overview of stocks in the sector

The first asset class we're focusing on is, without a doubt, commodities. The current scenario sees them falling to even lower levels than the pre-rise of 2002, even though the Chinese economy sees GDP 2.5 times greater than in that year, India's has doubled and the emerging markets' has more than doubled, if not tripled, leading to a proportionate growth in per capita consumption. Between 2003 and 2014 we saw a boom in investment dictated by Chinese growth. A boom that ran out of steam in 2015 following the slowdown in China and many emerging countries and the resulting steep fall in demand, which will continue at least in the first part of 2016. Securities linked to commodities, such as Anglo American and BHP Billiton, have lost from 70% to 90-95%, while the main oil stocks have lost around 35-40%. And securities linked directly or indirectly to commodities, steel for example, have suffered very badly.

The commodities sector has historically been strongly cyclical. Following the cuts in production capacity that have become more intensive in recent months, we feel this is the right time to take another long-term look at this asset class. The world is still growing (I'm referring mainly to Asia, the emerging countries and Latin America). So we believe that when the markets regain their equilibrium, over the coming 12/18 months, after years of under-investment we'll probably find ourselves once again with commodities shortages. A deep and persistent global recession would without a doubt be a tough obstacle to the growth of this asset class, as it would lead to excess supply.

MEGATRENDS/2 – Emerging countries
Focus on Argentina and Iran

The emerging countries are the second asset class we're considering. After an initial boom these markets have been suffering in recent months. The slowdown in China and the drag on commodities are penalising stocks in Brazil and Russia, to a notable degree. Even emerging markets less exposed to commodities, like India, are indirectly feeling the effects of the exposure to oil and have experienced a fall in public investment, as they're having to deal with budget problems at the state level. After a period of grace we've seen GDP growth in some emerging countries come to a halt, and even decline. The missing element in these years has been structural economic reforms. Governments have stopped making progress on this front, while China has had to tackle huge problems linked to corruption, public health and the real estate bubble. It'll take at least a year or two for the reforms to be implemented.

All of that said, in the medium-long term the multinationals continue to find these markets very attractive. And it's from this analysis that we can find "value" potential in these markets, which at present are even more interesting because they're undervalued. If we look at the American market, price to book and profit margins are at historic highs, while in the emerging markets price to book is near its historic lows because of the continuing fall in profit margins. In a scenario like this, the likelihood is that improvement initiatives can be implemented more easily in emerging markets than in the American market.

Another new focus for us is Argentina. After Mauricio Macri's victory, the new government is putting through a reform programme to liberalise exports and has abolished the currency controls that in the past had allowed a black market peso/dollar currency exchange to flourish. We think Argentina is doing the groundwork to normalise the economy so that it can resume significant long-term growth and in the near future play a decisive role among the emerging economies. And Iran too, after the economic sanctions were lifted, has great development potential, as it's a young, well educated country. Problems arising from the failure to implement structural reforms could block, or even delay, the growth of this asset class.

Megatrend/3 – Digital
From new investors to IPOs

Our third focus is digital. We're paying close attention to companies that didn't start off in digital, but are investing heavily in the sector. Take, for example, the revolution effected by Tesco. The British supermarket giant pioneered online sales by placing its bets on mobile e-commerce and continues to see innovation as one of its key growth drivers.

Or take companies like YNAP (which emerged from the merger of Yoox and Net à Porter), Amazon, Facebook and Google, which have achieved extremely high multiples in recent years and which in 10 years' time will have reached even higher heights. Maybe not generating the same exceptional profits as in recent years but ensuring a stable return. The true difference in the world of digital, however, will come from IPOs by new start-ups. The digital transformation will create an ever-growing number of workflows and business models focusing on e-commerce, services, data and integrated communication services.

Supply is set to increase enormously. In Europe there's also talk of creating a single European digital market that would lead to an increase in digital consumption of about 18 billion euro in our continent, with a resulting increase in consumption *per se*. A situation of hyper-inflation could be a serious obstacle to the growth of this asset class. Start-ups in particular would suffer from a lack of capital to invest in innovation.