

# LIGHT and SHADE



For **Stéphane Pouchoulin** nothing is simply black and white, be it nuanced investment styles, asset classes, products or even overarching regulation. FundQuest Advisor's CEO talks to Dalvinder Kular about how his client-centric approach is driven by the demand and subtleties of individual needs

The Paris headquarters of FundQuest Advisor are a work of art. Built at the turn of the century, the grand atrium is topped with a flower-edged glass roof to let in the sun and laid with transparent floor tiles which allow the natural light to trickle down to the lower floors of the building.

Transparency is one of the many preoccupations of Stéphane Pouchoulin, CEO at FundQuest Advisor, the third-party fund selection specialist of BNP Paribas Investment Partners. But while Pouchoulin welcomes the clarity that planned regulatory reforms on transparency will bring, he believes some companies could struggle more than others to get up to speed, and this could ultimately narrow his investment choice.

'MiFID II will change the full chain of value and the whole landscape that distributors, asset managers and advisers operate in. Notably, it will lead to more transparency in relation to the target product, and all the reporting that will have to go back and forth from the distributors to the asset managers in order to ensure everything is suitable for the client,' he says.

While this transparency is a generally positive development, Pouchoulin says it could increase business costs and he worries that a number of boutique asset managers may get left behind in the race to comply with the new rules.

'Such a high bar of regulation can also raise the entry barrier for asset managers. This could be detrimental to innovation as a lot of smaller players bring new ideas to the market and niche products,' he says.

Pouchoulin says, while innovation is not just the preserve of smaller firms, these dynamic start-ups often lead the way.

'For example, a small company started a trend for flexible funds 10 years ago and its AUM in that area soared. Now most asset managers have this type of profile and funds,' he says.

### GREEN SHOOTS

Some of these innovative strategies have made it into Pouchoulin's core watch list of 200 funds, but he has an additional list of 200 which covers specialist themes such as SRI funds or ETFs. This selection also includes hand-picked funds for clients with specific briefs around location, size of

assets under management and volatility. Pouchoulin's picks are far-reaching, spanning 30 asset classes and the majority are long-only funds.

He acknowledges that his choice is narrow considering the amount of products on the market. However, he says his aim is not to cover the whole universe, but to find the most effective way to meet his clients' needs.

These clients include private banks, institutional investors and pension funds, with Pouchoulin currently overseeing €60 billion in assets under advice for investors around the world. Just 20% of these assets are based in France and he says international clients' investment profiles can differ quite widely.

Asian clients, for example, generally like more risk, while private banks often have an appetite for more offbeat opportunities. However, one area which all his clients are increasingly interested in is ESG.

'ESG is not a marketing approach, as SRI could have been five years ago,' Pouchoulin says. 'ESG is part of the investment decision. If you want to tick this box you have to be sure that the fund is following ESG criteria, otherwise you are just investing for show.'

'Demand is rising in this space. Initially it was coming mainly from institutional clients but now it is becoming important for private banks to navigate through this ESG approach.'

'In some countries the demand is stronger than in others. For example France, Belgium, the Nordics and the Netherlands are quite advanced. In Asia, Japanese investors are quite sophisticated in the way they want to approach their investment in terms of ESG. That is why we have put a proprietary tool in place to provide a rating,' he says.

FundQuest Advisor's ESG strategy, which it developed about four years ago, operates at both a fund and company level and many so-called SRI funds do not make the list, Pouchoulin says.

### UNPICKING PASSIVES

Passive products also struggle to make the grade. Despite their increasingly popularity, underpinned by relatively low fees and apparent safety, Pouchoulin is sceptical. He says his clients can see through the hype and they understand that there are active



managers who outperform benchmarks.

'When you are a salesperson it is easier to sell passive funds. Most of the time they are correlated to the market, to the benchmark, so it is easier to explain to clients why they go down or up. It simplifies the way you talk to your client,' he says.

'However, it's wrong to give investors the impression that ETFs are risk-free. ETFs embed some risk, but there are also liquidity risks that can lead to tracking error in very liquid markets. In some indices, such as emerging markets, the tracking error can be much higher than a classic ETF.'

Pouchoulin says that ETFs are also easy to explain to regulators. As they command lower fees, a salesman can claim he is trying to save his client money but Pouchoulin says these products can't replace the full range of services that active managers provide.

### A CLOSER LOOK AT ALTERNATIVES

Pouchoulin's scepticism extends to another popular investment choice: Alternative Ucits. The selection of these funds is handled by a different department, but Pouchoulin doubts whether they meet the needs of all his clients.

'They promise a lot but they don't always deliver and we try to ensure our clients understand what they are investing in. Just because liquid alternative products are in the Ucits format, it doesn't mean they have no risk embedded in them.'

'We always need to be sure our clients are buying what they are paying for. The most important thing for us is that the investment is suitable for them,' Pouchoulin says.

Sometimes a good choice will be endorsed by other investors too. As certain funds become more popular, they run the risk of being closed to new clients. If these strategies are on his list, Pouchoulin says he has done a good job.

'If we have to tell clients that the product we are recommending has soft-closed, it shows we have made the right choice. So it is good and bad news. In terms of selection we've hit the mark, but it's a shame we can't invest more.'

'However, most of the time we have more than one strong fund in an asset class to recommend to our clients,' he says.

### PEOPLE POWER

People are at the heart of Pouchoulin's work and he enjoys the wide mix he encounters through both his team and his clients. The 30 employees at FundQuest Advisors include people from seven different nations speaking 11 languages and there is an even split between women and men. He says their varied experiences offer different angles of approach to a problem.

Pouchoulin is proud of what he calls the 'two for 30' principle. Clients pay for the help of two professionals, but benefit from the knowledge of 30.

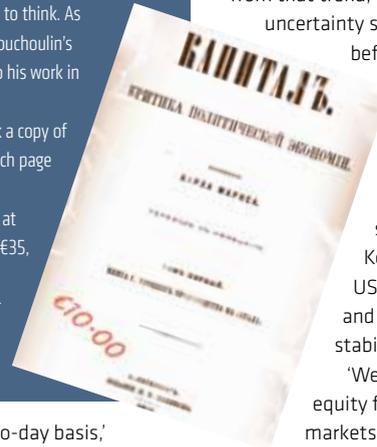
'FundQuest Advisor is a client-oriented company and we view them more as partners. Once you sign up

## THE ART OF ADDING VALUE

Paris is full of art and Pouchoulin is a fan of lesser known conceptual artists who encourage people to think. As well as the prints hanging in his office, Pouchoulin's enthusiasm for these ideas spills out into his work in other ways.

He mentions a French artist who took a copy of *Das Kapital* by Karl Marx and stamped each page with a price tag of €10.

'He sold the 2,000 pages of the book at €10 per page. A book that he bought for €35, fetches €20,000. That is how we explain added value as a concept. I look more for the idea rather than a picture that does not explain anything,' he says.



to us you are connected on a day-to-day basis,' he says.

'This regular communication helps us understand what our clients want or don't want, and it also helps us to improve ourselves. The more we advise, the more we are enriching our own research. It's a win-win way to interact.'

### WINNERS AND LOSERS

Pouchoulin sees a clear divide between how different investors fared in the recent market uncertainty, which underscores the importance he attaches to a long-term track record.

'The funds that had a more cyclical bias performed better, notably due to the value rally of 2016. Sectors like energy, utilities and finance benefited the most from that trend, while areas more vulnerable to uncertainty suffered. There was lots of speculation

before the US election, then the market moved and performed,' he says.

'Growth lagged expectations. Trump's victory and Brexit were two significant macro events and we remain in a complex geopolitical situation. How will we deal with North Korea, what will the foreign policy of the US be? The US' relationships with Russia and China will be important for world stability but are difficult to predict.'

'We have seen a lot of dispersion across equity fund performance and the way these markets are being managed. Most of the winners at the beginning of the 2016 were losers at the end of the year,' he says.

Whatever the future holds, Pouchoulin is clear about his role. 'We have to focus on people. Some politicians have forgotten they have people behind them. They are here to represent the vision and direction of the population. That is what people are looking for. Sometimes it is easier to support populism or simple ideas rather than concepts that are driven by long-terms views,' he says. 'Our role is to explain to clients what they are exposed to in terms of investment, currency risk and potential political events.'



## CAREER • SNAPSHOT

### Stéphane Pouchoulin

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**2012**  
Appointed as FundQuest Advisor CEO

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**2010**  
Nominated as delegated director of FundQuest France

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**2009**  
Participated in the 2009 Fortis Investment Management and BNP Paribas Investment Partners merger. Joined FundQuest Advisor at the end of the year as head of strategic development

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**2005**  
Moved to BNP Paribas Inspection Générale, responsible for international missions in corporate & investment banking and asset management.

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**2001**  
Started as a broker at BNP Paribas Equities covering institutional clients