

“What strikes me most of all is the degree of dispersion within the sectors themselves.”

Cyrille Urfer discusses the main challenges facing CIOs today and the growing role of alternative strategies in portfolios.



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Interview with: Cyrille Urfer, Chief Investment Officer, Forum Finance

Faced with increasingly concentrated markets and an environment saturated with conflicting signals, Cyrille Urfer favours a disciplined approach, based on diversification and the need to remain invested.

■ ■ ■ As CIO, what are your main constraints at present?

I see several. The first is determining whether we have truly entered a new market regime that requires us to be much more agile, or whether the environment has simply become noisier, with a proliferation of conflicting signals. We have geopolitical events, political announcements and price movements amplified by leveraged products. All of this creates a great deal of volatility.

The danger lies in trying to react to everything. Historically, many events that seemed major have ultimately had only a limited impact on the markets. The real challenge, therefore, is to put things into perspective and not be constantly drawn in by the latest news headlines or statements from world leaders.

The other constraint is operational. It is quite clear that we cannot adjust portfolios on a whim in response to announcements. Being more responsive also means being able to implement these decisions across a wide range of mandates.

Finally, there is a psychological dimension. One can be blinded by success or, conversely, paralysed by a mistake. I often draw a parallel with golf or tennis: the shot that counts is never the one you've just missed; it's always the next one.

■ ■ ■ What have the markets forced you to review in your asset allocations over the last twelve months?

We have adjusted our asset allocations, as have many others. We probably didn't have enough technology, nor enough gold either. But what strikes me most of all is the degree of dispersion within the sectors themselves. Today, it is no longer enough to think in terms of geographical regions or sectors. You need to be able to understand the composition of portfolios in great detail.

The major change at Forum Finance has been the expansion of liquid alternative strategies. This component had gradually shrunk, but we have significantly increased it since the start of the year. It now accounts for around 25 per cent of our portfolios.

I find this particularly interesting because these strategies have evolved considerably. Ten years ago, they involved high entry thresholds, little transparency and quarterly liquidity. Today, some are available in the form of ETFs, with daily or weekly liquidity.

We have also strengthened certain long/short credit, long/short equity and multi-strategy approaches. In a world where indices are extremely concentrated and where bonds no longer always fulfil their role in diversification, these uncorrelated performance drivers seem increasingly useful to us.

How do you construct your hedges in the current environment of interest rates, credit and volatility?

We actually use relatively few explicit hedges. The question is always the same: will they actually be effective when we need them, and what will be the cost of holding them?

On interest rates, we take a cautious approach. We maintain a relatively low exposure to government bonds. If we were to increase this exposure, we would probably do so via instruments with high convexity. On volatility, we use a few strategies designed to protect portfolios during periods of stress, but this remains relatively limited.

On the other hand, we have expressed a more cautious view on the dollar. I like to keep these two decisions separate. Wanting US equities does not necessarily mean wanting the dollar. They are two different choices. The hardest part is often explaining these strategies to clients. Hedging is a form of insurance. However, in an investment portfolio, investors sometimes find it hard to accept the idea of paying a premium to protect themselves against a risk that may never materialise.

Where do you currently see the most sustainable sources of returns for the coming years?

I may sound a bit old-fashioned, but the primary source of performance is simply staying invested. Recent years have reminded us just how costly it can be to miss a few exceptional trading sessions. It only takes a few days spent on the sidelines. If you haven't taken part in certain market movements, you're leaving a lot of potential returns on the table.

There's no doubt that fund managers capable of capitalising on these movements create a great deal of value. This is precisely what we expect from certain alternative strategies. But the corollary, for us, is to

remaining invested and well diversified.

We are currently experiencing a period of high market concentration. Initially, these trends tend to intensify before correcting themselves. We must therefore accept that we will not be exposed to every single market movement.

I also believe that alternative strategies will play an increasingly important role. They offer greater liquidity and more attractive cost structures. They provide genuine diversification in increasingly concentrated equity markets. This is something we sorely need.

■ ■ ■ **Which investment decisions are now driven more by risk management than by the pursuit of returns?**

This is typically the case with certain trend-following strategies. If I were to look solely at their historical average returns, they would probably never make it into a portfolio. However, if you look closely at how they behave during difficult periods, you realise that they offer something very valuable. That is why we do not look solely at volatility, which only ever captures part of the risk.

I believe it is more valuable to understand how a strategy behaves when traditional asset classes are under pressure. The aim is to have building blocks that react differently when we really need them to.

In fact, we often favour strategies with higher volatility limits. This may seem counter-intuitive, but it gives us greater flexibility in portfolio construction. It is then up to us to correctly size these exposures and combine them with other drivers of performance.

■ ■ ■ **What are the key figures to bear in mind to fully understand the issues surrounding whether or not the Strait of Hormuz reopens?**

I look primarily at the price of oil and inflation. The former provides an immediate indication of supply pressures, whilst the latter helps measure how quickly this shock is transmitted to the real economy. The forthcoming inflation figures will, in fact, be particularly important for assessing the speed at which these pressures spread and then subside.

The most extreme scenarios seem to have been ruled out, which is obviously good news. But the effects of an oil shock always take time to fade, because they have so many ramifications. Oil is not just a source of energy; it is used in a multitude of components and production chains.

This reality once again highlights the dependence of many economies on certain supply chains. Europe is particularly exposed in terms of energy, but these vulnerabilities also exist in other strategic areas, whether it be batteries or artificial intelligence.

Oil remains a powerful geopolitical lever. It does not merely affect markets or central banks; it rapidly impacts purchasing power, exacerbates economic disparities and can become a source of social instability. This is what makes it such a sensitive issue today.