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Montpensier Finance's Casal highlights growth bets and Bloomberg effect

Marion Casal and Olivier de Royère, Portfolio managers of Quadrator

French boutique Montpensier Finance numbers three European equity funds run by six portfolio managers, among which the Quadrator fund, a small-mid cap strategy that was launched in 2007.

Since a couple of years, Marion Casal (pictured above) co-manages the fund – invested in eurozone equities and up to 10% in non-eurozone stocks (UK, Switzerland, Nordics) – alongside Olivier de Royère.

Four pillars support Quadrator's investment process including growth, valuation, visibility, strategy. All stocks get a mark between 0 and 1 for each of the three quantitative criteria (growth, valuation, visibility) and the model highlights best-in-class stocks for each category. Quants help to the final stock-picking of Casal and de Royère.

Additionally, the duo works with other equity managers of the firm to have a better view of all segments and uses the Montpensier Market Scan, a proprietary macroeconomic and market analysis system, to get a broader view of macroeconomic dynamics through four criteria : economic momentum, central banks' monetary policies dynamics, market valuation and market dynamics.

The Bloomberg effect

To feed their quantitative screening, Casal and de Royère select traditional databases and indicators but look ever more into new information such as transactions carried out by companies' management or short levels.

"This type of data was less relevant a few years ago but nowadays can impact certain stocks' valuations. Unfortunately, some things cannot be taken into account in our quantitative screening model. An example remains Bloomberg's short commentaries that caption stock publications. Bloomberg's interpretation of whether the stock has met market expectations or not could make valuations fluctuate very quickly at the opening of the trading session.

"Sometimes, the interpretation of a missed target by a stock given by Bloomberg could be wrong as a one-off event may have occurred explaining why the stock missed but the overall publication looks good. Some stocks could face a 10% fall because of a Bloomberg's commentary but soar again if the company's publication proves to be good. We need to be flexible and adapt ourselves to this new type of data," explains Casal, co-portfolio manager of Quadrator, to InvestmentEurope.

She adds that the fund has reacted quite well to the recent market correction. The pair adopted a cautious approach in January as upside got tight in the portfolio, valuations looked stretched, earnings publications for Q4 2017 were coming. The cash pocket was therefore raised to 7% at the end of January.

"That has helped us to come through the correction. Some of our growth positions like Orpea were down 8% and we took the opportunity to buy more of the stock. Consolidation is always sane after a long growing valuation period but there was no concrete explanation on what triggered this market correction. The macro-economic picture has not changed and is still supportive of markets," Casal pinpoints.

If the Quadrator fund tends to invest in growth stocks, Casal underlines the frontier between value and growth styles is less marked on small-mid cap equities than on large caps because the segment generates more growth by essence.

"It is right to say we are much invested in stocks that rank high according to our growth and visibility criteria as well as in GARP stocks ticking all boxes in regards to valuation and growth. Though we can also pick a few value or cyclical stocks in the fund as we did throughout 2017. That worked pretty well," she says.

The fund manager highlights that there is a few turnover in the top ten stocks of the fund, tallying around 60 positions in total, and that the pair can keep these stocks for years if they do not stress no incident on valuations or if they have not reached their profit target.

“We hold Teleperformance, our number one stock, since more than two years at least and we consider there is still upside to catch. One third of our portfolio is subject to a turnover each year,” specifies Casal.

Nordics in, Spain out

At the end of January 2018, 47.4% of the stocks were French companies and this geographical bias comes primarily from the small cap bucket. The obvious geographical proximity with French smid cap firms’ management leads the team to invest more locally.

The fund also holds Italian and German stocks, and Casal underlines that it comprises ever more Nordics names, especially Finnish equities. On the contrary, the pair struggles to find interesting stocks in Spain with enough upside, assessing that the Spanish smid cap market lacks of depth.

Commenting the pair’s latest stock discoveries, Casal says: “Our latest entries in the fund remain Italian shipbuilding group Fincantieri together with Finnish food packaging company Huhtamäki. Fincantieri has a potential of acquisition that is not priced by the market. Huhtamäki has had a complicated year 2017 but we believe it will pick up again this year. It usually enjoys some 5/6% organic growth per annum with upside potential on margins. We need a catalyst to pick a new stock in our portfolio. We go beyond the consensus to make the difference.”

Lastly, Casal sees digitalisation-related stocks abounding on the small-mid cap segment as the universe “teems with companies that are performing well in niche markets like Devoteam or Cancom.”

“We are exposed to various segments such as cyber-security, semi-conductors, the industry 4.0 via German industrial trucks producer Kion and mechanical and plant engineering firm Dürr. We recently had a conference call with French firm Plastic Omnium, that is set to launch factories 4.0 with connected devices that will enable productivity gains as well as trimming stocks and waste. The digitalisation is everywhere on the segment,” Montpensier Finance’s fund manager concludes.

Interviewed by Adrien Paredes-Vanheule, Investment Europe