



Fire chat with European Equities Fund Eleva Capital CEO Eric Bendahan



Eric Bendahan (left) with Sylvain Roditi at RJ Management on the 20th of September 2018

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Hi Eric, could you give us a bit of background about your firm, your relationship with RJ Management and why your main fund is closed to new investors?

Eleva Capital is an independent investment manager that I founded in 2014. We are now based in Paris and London. The Firm has managed Luxembourg based UCITS Funds since January 2015, aiming to achieve superior long term risk adjusted returns in investing in European equities. We have a bottom-up stock picking approach, which is active in nature and conviction-based in its stock selection. As of 31st August 2018, the Firm manages a total of €3.61 billion (across three strategies) comprising 21 people.

We have an old and strong relation with RJ. RJ is directly involved in ELEVA Capital's creation, due to an “early bird” investment a few days after the fund was launched.

So even we are now bigger than what we were in 2015, we are really grateful to RJ for your initial and loyal trust in us.

Concerning the soft close, given the rise in our assets, a decision was taken to close the ELEVA European Selection Fund to subscriptions from new clients (Soft-Close) as of 30th June 2018. This decision has been taken to protect the best interests of our investors; upholding our ability to manage with a flexible “All-cap” approach whilst extending the same flexibility in the management of our additional equity strategies (ELEVA Absolute Return Europe and ELEVA Euroland Selection). The trading activity of all existing investors (like you) in the Fund remains unaffected.

What is your view on the trade war between America and Europe and how are you adapting your strategy accordingly?

In our view, the main sectors in Europe concerned by the trade war driven by the US are Materials (Metals & Mining specifically), Tech Hardware, Auto and Global Industrials. At this stage, although the ELEVA European Selection Fund is overweight Metals & Mining, it remains underweight on the remaining of those sectors mentioned with no positions on Automobile Constructors. The Fund could be affected by a trade war in absolute terms, however its current defensive positioning should be of benefit to the Fund in relative terms of performance. At present, the stock which could be most affected is ArcelorMittal (2.1% of the Fund).



Eleva European Selection has exposure in Austria (5.5% vs. 0.4% Stoxx Europe 600) and Norway (5.1% vs. 1.2% Stoxx Europe 600). How do you explain this gap? Do you have a sectorial approach to these markets?

Final allocation at either a sector or country level is a result of the stock selection process. The two Austrian names in the portfolio, as of 31st August, are quality growth domestic financials; Erste Group Bank and Raiffeisen. This is in fact an over exposure to Central and Eastern Europe and South East Europe, countries with higher GDP growth. Indeed, Erste only generates approximately one third of its earnings in Austria, whilst Raiffeisen 0%. Furthermore, although Raiffeisen has a 30% exposure to Russia, the exposure of both these names to Turkey and other more problematic Latin America countries is almost nil. Both names have seen positive earning revisions this year. Over the course of 2018, financial exposure has become increasingly defensive, retaining positions in financials which fit the profile of those aforementioned. Even if the portfolio is overweight Austria, we remain underweight Financials.

On the contrary, the two Norwegian names we hold (Aker BP and Subsea 7) are in a less cyclically sensitive sector which we have increased exposure to over the year; Energy (Utilities, Consumer Staples, the others) whilst benefitting from the appreciation of the dollar.

You have an overweight in Energy with some positions in the oil sector (Subsea 7, Aker BP and Saipem). Do you believe this industry is undervalued after many years of underinvestment? Don't you think there is more value in smallest companies (eg: Subsea 7) rather than fully integrated firms?

The Energy sector has been under massive pressure in the last few years following the drop in the oil price and decision by oil majors to cut capex. Oil services names have been impacted by those changes and have used this opportunity to rebase their cost base and adapt their business models. We believe some companies have done a better job than others and are better positioned to benefit from a recovery in offshore projects. Saipem and Subsea7 are among those. On top of this, they are also very attractive from a valuation standpoint, trading at a discount to peers.

How do you manage a loss making position like Maison du Monde, what would be the trigger to cut this position?

The Firm has a very pragmatic approach to sell discipline in order to have a constant monitoring of the stocks invested in. Should the portfolio have a persistent loss making position (by more than 10% from its purchase price or over a single quarter), the investment case will be reviewed systematically to see if the investment thesis is flawed or whether the share is still worth keeping in the portfolio. In such scenarios, the team will focus their discussions with bear analysts and other market participants to be sure not to miss any negative aspect/risk in the investment case. In the case of Maisons du Monde, the position size was reduced over the summer of '18 (fully exiting on 31st August) of the back of increased internet sales growth competition, the prospect of a weak Q3 message coming from management with delays in their store roll out and highlighted weakness in consumption in France. Over its life time in the portfolio, the position was a positive cumulative contributor however.

A close-up photograph of a lion's face, showing its eyes, nose, and whiskers. The image is slightly blurred and has a dark overlay on the left side where the text is placed.

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