Fidecum

"Being independent means one less risk..."
Klaus Kämmerer

- **Established: 2008**
- **HQ: Bad Homburg**
- **Assets under management: €65m**

Strategy
- **European contrarian value equities**

Fidecum's portfolio manager co-founders now qualify as serial entrepreneurs. Hans-Peter Schupp was involved in setting up MainFirst Bank (and was its head of asset management); while Andreas Czeschinski was a co-founder of Equinet Bank. Both shared some history at Schröder Münchmeyer Hengst Investment, but also the experience of seeing their babies grow into institutional adults.

The third co-founder, head of sales and marketing Klaus Kämmerer, is also no stranger to building businesses within large institutions, with his 20-year history at Comerzbank, ABN Amro, RTS and Deutsche Bank. "All three of us are thrilled by the entrepreneurial aspect of this new business," he says.

The firm's website proclaims that successful investment requires independence from "internal and external constraints". As Kämmerer argues, when decision-making within a large institution is driven by committee, the result is less often the wisdom of crowds and more often dominance by the most senior people or, perhaps worse, by those who have enjoyed the most recent success. In an environment of competition for risk budgets and bonuses, interests aren't even aligned internally, let alone with those of clients.

"All of that represents risk, and being independent means one less risk that we have to deal with," says Kämmerer.

And Fidecum walks that walk. Today it offers only one strategy – European Contrarian Value – which demands high conviction from both asset manager and client.

As Kämmerer suggests, such a strategy can only really be successful in an independent setting – but one might also assume it to be very resource-intensive. Running a mechanical value screen is simple enough, but deep-value contrarianism involves taking risk on some of the most unloved names from those screens: an entirely mechanical approach is likely to fill a portfolio with value traps – companies that are genuinely poor companies or undergoing some kind of negative event.

Kämmerer argues that this can actually be done more efficiently at a small boutique, which will not pour resources into "maintenance research". Concentrated resources force you to build concentrated portfolios – and concentrated portfolios represent a better allocation of risk.

But what happens when things go wrong? As we all know, the higher the conviction, the tougher the decision to cut losses – especially in the absence of a big list of replacement stocks on that "maintenance" list.

"To begin with, our stockpicking process resembles private equity investing in public-listed companies – we only buy shares if we feel we would be comfortable buying the entire enterprise," Kämmerer explains. "That keeps the big picture in mind – what can be achieved mid-cycle, rather than the next quarterly figures. We also have a very strict sell discipline. If the share price reaches what we consider to be the mid-cycle fair price, or if we have to recalculate that because of a corporate action, we will sell, regardless of whether we see any momentum in the stock or not. There are always new candidates coming onscreen that we can bring into the portfolio, even at the expense of existing holdings. That process is very transparent and can be proved in the track record."

Since inception to the end of 2011, the strategy is down 5.3%, against its EuroSTOXX benchmark's loss of 13.5%. If you'd bought in at the start of 2009, you'd be up 45% versus the index's 26%. But the strategy has delivered a meaty 11% tracking error and volatility almost five percentage points higher than the benchmark's 22.5%.

Again, Kämmerer makes a good case for doing this as a boutique. "Our distribution concept is based on addressing investors directly," he says. "All of our clients have a good opportunity to speak to the portfolio managers when they feel they need to – which is not always the case with larger institutions – and which we think is important for a strategy like ours."

To some extent that self-selects the type of client Fidecum works with. Kämmerer concedes that he cannot properly address the international retail market single-handed, so he focuses on institutions and intermediaries (today, pension funds account for about 20% of assets and other institutions about 40%). German retail clients have become much more risk-averse, he says, favouring passive products like ETFs. But the regulatory drive to tighter risk management among the German-speaking region's institutional investors sometimes also makes contrarian value a tough sell, Kämmerer adds. Today, German, Austrian and Swiss clients account for 85% and there is no non-European money.

"We would like to see more non-German speaking clients, especially France, Benelux and the UK, where we would expect to see some appetite for a product like ours," he says.

As well as expanding the marketing footprint, Fidecum also has ambitions to expand its product range – which should, itself, help the first objective. And the founders want to preserve the spirit of entrepreneurship and independence by doing so according to the multi-boutique model.

"We have set a standard for the quality of the products we want to offer, and we would look for strategies that have little or no correlation with the existing offering – both to enlarge the choice for investors and to diversify the risk exposures for Fidecum," says Kämmerer. "The financial crisis delayed some of our plans – as it has, no doubt, for others – but we are actively looking for potential candidates. It's difficult to put a timeline on this: the product has to be right, but as a boutique you also have to be sure that you find people that can all work together closely."