



BINARY CAPITAL

Binary Capital Investment Management



Chief Investment Officer Note

Disruptive minds – optimistic growth

Long-termism shapes our relationships and our investments.

September 2021



binarycapital.co.uk

Disruptive minds – optimistic growth

In this note I write about the investment industry and the dysfunctional nature of many of the investment strategies contained in many investment firms. Things keep remaining the same. The industry can do better. We are Binary Capital are hoping that our stylised investment process and strategy which deliver real results makes us stand out from others. **We will always aim to deliver better and better.**

Authored by:



Saftar Sarwar

Chief Investment Officer

saftar.sarwar@binarycapital.co.uk

I recently wrote a brief summary around the closet indexation of the Discretionary Fund Management (DFM) industry. I now wish to expand my thoughts around this.

It appears that the majority of the investment industry and specifically the DFM industry continues to foster a philosophy of closet-index tracking i.e. receiving active management fees for passive like return performance. This is something that we see daily in our work as speciality asset and wealth managers. In regular competitor comparisons we highlight this, witnessing this across the board in all strategies: active and sustainable.

The investment industry is essentially led by marketing, there is a tendency towards 'group think' positioning to be 'super clever' with business targets over seeking real and genuine client outcomes. The marketing gloss supersedes the investment narrative. The focus on gathering asset under management overrides any other metrics. The focus is on more and more clients. It never ends.

In an investment business it is safer to remain *closer* to an index and peer group, the business demands such action and actively encourages such via the embedded fee, incentive and sales structures. The index itself can be problematic – investing in a general 'basket' of securities irrespective of the merits of such securities can often be a difficult concept to get a mindset around, especially if one is seeking the best ideas irrespective of the country, market or theme. Does an index deliver to clients the 'best' investments? An index is essentially a mathematical construct not really designed to deliver real world investment outcomes for clients. The passive industry actually helps some of the real active managers differentiate themselves with strong long-term conviction holdings, away from any index construction methodology. If you are really active and conviction investors, the gigantic passive investment industry is not to be feared.

It will be only a matter of time until the regulatory environment catches up with the closet-index trackers and a spotlight is shown around such issues – already the institutional fund management industry has been subject to such focus, other sectors will be similarly affected. The justification of closet-index trackers will evaporate, and realignment is bound to occur.

Let's look at the numbers: I am not sure a typical DFM moderate portfolio should have around 25 funds within it. Some of the basic maths: a 25 funds portfolio will have around 1,400 individual underlying holdings (assuming eliminating the overlap holdings) Are we seriously suggesting that over 1,000 individual holdings of varying percentages from 0.01% to 1% + is the correct solution for the majority of people seeking balanced DFM mandates? Surely there must be an alternative solution, a better way that aligns clients with actual return goals? A better way for better client outcomes and better performance - obtaining real results for clients. We do think we seek return outcomes that are grounded in the reality of investments in the current and importantly the future.

At Binary Capital Investment Management, we do things very differently. We are focused investment managers with a strong bias towards future investment trends and themes. We do not believe having 25 funds in a typical DFM portfolio is optimal. Indeed, we believe the figure should be around half of that. If you want index like returns, that is fine and understandable - there are plenty of index solutions out there that can accommodate such - at a fraction of the cost of a typical active DFM.

We believe that focused and dedicated investing works, works really well. Our typical DFM solution is decisive with conviction, and in addition the funds itself that we invest in are themselves highly focused, so our overall DFM equity exposure is around 500, not the 1,400 mentioned above. *Be focused, remain focused and deliver focused results.*

In addition to this investment approach, we also like decade like themes that will develop. Themes such as technology, healthcare and biotechnology are very prevalent within our investment thinking, they are embedded across all our investment strategies. By having a forward-looking approach to investments, we believe we can deliver the excess returns that clients' merit. We do this by only choosing the best high conviction managers out there in the investment universe.





I write this in my regular updates, but we genuinely are in essence 'disrupting' the rather closed off DFM and wealth management landscape by the very essence of our approach. A focused approach that also delivers performance across the various themes we invest in. A theme that we invest around is that the next 10 years will be more disruptive than the past 10 years – there is real exponential growth in the disruptive effects. Exponentiality is still badly understood by many, including investment professionals, we can take advantage of this misunderstanding. So we invest accordingly. Giving clients exposure that will merit such a focused approach to investing. Of the 10,000 investment firms out there, perhaps around 100 seek such genuine forward-looking investments and therefore are worth investigating and possibly investing in, we seek out these top 100 and then investing within that grouping, around 10-12 or so strategies. From a 10,000 fund list narrowing all the way down to 10 – this is real investing.

It is a view that using a pure index or closet-index strategy will not gain the relevant exposure to real themes that will work in this decade. Going forward the investment winners will be very narrow in cluster. A dedicated focused approach to investing with a mindset of patient capital and growth will bear results over time. Indexation in this area will not work, it is less relevant.

We are coming up to nearly two years of the pandemic, the acceleration of thinking in this 'period' is already so impressive. The goal-oriented nature of many areas that we invest in will, we believe continue to bear out-performance. I have not touched on our performance returns; suffice to say they are impressive. We remained committed to our strategy.

This philosophy we have proven with performance. A performance record that is non-index like, genuinely 'alpha' driven. If you want to categorise our investment thesis: it is *optimistic growth with a disruptive mindset*.

This is what we do.

Saftar Sarwar
Chief Investment Officer
September 2021



Disclaimer

The Information in this document is not intended to influence you in making any investment decisions and should not be considered as advice or a recommendation to invest. Any Information may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors and relevant offering material. Any investment decisions must be based upon an investor's specific financial situation and investment objectives and should be based solely on the information in the relevant offering memorandum. Income from an investment may fluctuate and the price or value of any financial instruments referenced in this document may rise or fall. Past performance is not necessarily indicative of future results.

We assume no responsibility or liability for the correctness, accuracy, timeliness or completeness of the Information. We do not accept any responsibility to update the Information. Any views, opinions or assumptions may be subject to change without notice.

Binary Capital Investment Management Ltd is incorporated in England under company number 06692644, registered office, 15 Half Moon Street, London, W1J 7DZ. Binary Capital is a trading name of Binary Capital Investment Management Ltd.

Binary Capital Investment Management Ltd is authorised and regulated by the UK Financial Conduct Authority (reference number 507900). Principal place of business: 15 Half Moon Street, London, W1J 7DZ.

Contact Us

+44 (0)203 943 5080

info@binarycapital.co.uk

15 Half Moon St, Mayfair, London, W1J 7DZ

