Thorsten Winkelmann
Head of RCM's Europe Equity Growth Strategy

Europe Equity Growth Strategy

Foundation Q&A with Thorsten Winkelmann

Thorsten Winkelmann is Head of RCM's Europe Equity Growth Strategy

What is the aim of the strategy?

The Europe Equity Growth Strategies are pure stock-picking portfolios, and the aim is to outperform the relevant European stock markets.

What sort of investor is the strategy aimed at?

Our strategy is aimed at investors who understand stock market risk.

Which funds do you run within that?

Within the strategy, we have three different types, what are country-defined funds. So we have the Europe Equity Growth, which is pan-European, then we have the Continental European Fund, which is the pan-European one, ex-UK, and we have the Euroland Equity Growth which is just aiming at the Euroland countries.

Can you summarise the investment principles?

It's a pure stock-picking portfolio. We are always fully invested, meaning we don't do any cash allocation. So we see our job as being invested in the stock market and this is what we deliver. We are not doing any active sector allocation and we are not doing any active country allocation. You will always see, of course, a sector allocation and a country allocation but this is always the result of our stock-picking. We don't do any derivatives, and this is mainly it, focusing on the long-term time horizon for our investments with a pretty low turnover rate for the funds.

Can you describe your investment process?

Well, the investment approach for the complete strategy is quite a simple one, because we are always looking to this aspect of this growth being described by two components. The one component is the typical cyclical growth, meaning that with the economic cycle some companies tend to show nice earnings growth in times of uplifts of the economy and then fading earnings momentum as soon as the economic cycle's turning down. Then there are other companies who are profiting from a structural growth perspective, meaning that the company is able to deliver earnings and cashflow growth over a cycle, mostly independent of the underlying state of the economy, mostly driven by one of the three factors.

It can either be that a company is profiting from an underlying secular growth driver, it can also be the uniqueness of the business model that a company is running, or it can be the technological leadership of the products or services that the company is offering. These are the three elements that are serving to structural growth, which is in the end leading also to, hopefully, higher valuations for the underlying stocks, and this is what we're looking at in the investment process.

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Do you have a benchmark and, if so, how important is that to the way you run money?

Well, we have three different strategies comprising this Europe Equity Growth team. So we run a Europe and a Europe ex-UK as well as a Euroland Growth portfolio. They are all measured against S&P growth benchmarks or the ex-UK one is measured against the FTSE benchmark, and for us it's important to know about the risks that we run compared to the relevant benchmarks or equity markets, but the investment process, itself, it's more a benchmark agnostic approach.

And do you employ third party research? Or is it proprietary?

Well, of course, for us, at RCM, it's important that we have our own research. So we have proprietary research with some 32 analysts providing research for European stocks. So this is the basis for our idea generation that we always have the short way to our analysts to talk about stocks, talk about companies and to address our issues that we have with the companies and to find out the aspects that we are looking for within the investment process.

For example, we are always looking to invest, as I said, over the cycle, meaning on a three to four-year time horizon, and it's quite important for us to have like a sparring partner within the research to have the idea about, okay, what are short-term issues, what are the long-term issues and what is fitting to our investment process, especially when investing for the long run.

Of course, we are also making use of third party research. Because, first, it's always crucial when we invest, especially for the long term, like I said, three to four years, you need to make 100% sure that you have all the different aspects, all the different angles, or to put it simple to have a 360° view on a stock with all the negatives and the positives before you invest. So, of course, besides proprietary research, we also make use of third party research.

So, with regard to valuations, do you have certain buying parameters that you operate within?

We do care a lot about valuation, especially, as I said before, when you invest for the long-term, for three to four years, where does the potential upside for your stocks is coming from?

First of all, it's the underlying earnings and cashflow growth that is driving stock prices hopefully higher. What we are also keen to explore is the valuation discount. In other words, we want to invest into companies where the market hasn't got the growth potential yet. So you have a second aspect of price appreciation for the share prices and this is the rerating potential of a stock so that you have a multiple expansion.

Now it's getting harder to explain what does valuation mean because it's not the absolute level of valuation that is so important to us - it is, but it's more important to see the valuation of a company at the current stage compared to its valuation history.

Can you tell us more about the support team and other resources you can draw upon?

Well, the basic is the team. Then we have the research department with the 32 career analysts covering European stocks. Then we have this nice additional, I always call it street research, the Grassroots Research, which gives you the reality check to your investment cases. And, of course, the whole broker community with the good analysts from the sell side.

This is the support team in general. Of course then we have a separate trading department, separate support functions, But for the pure decision-making process it's the team, research, third party and Grassroots.

Can you tell us a bit more about the Grassroots Research?

We have around 350 reporters around the globe that are doing channel checks, interviews, for us, regarding specific stock ideas or specific stock themes. So besides the number work, the balance sheet work that our analysts are providing, we have the Grassroots Research as a type of street or reality check research.

What is the competition looking like, where is pricing power sitting, do we have to fear anything about our assumptions for the investment case, this is where Grassroots is giving you enormous help.

Do you have any risk controls within the Fund?

Well, risk is, of course, of highest importance. We have a separate entity within, well, it's within Allianz, not within RCM, that is providing us with the risk control. We have monthly and quarterly risk review meetings and, of course, ad hoc meetings as soon as you come closer to your risk limits. So this is from a top-down perspective what we receive in terms of risk control, risk figures. For me, honestly, it's more important to be in full control of the risks of the single company that we have invested in.

I will give you a simple example. When it comes to the country risk that you run within the fund, what does it tell you that you have, say, 5% in Spanish equities in the current situation? All it tells you is that 5% of the companies that you invested in have decided to put their headquarters in Spain. Does it say anything about their business from our perspective? Not really. It does, of course, for financing, interest rates and all this stuff, but for me it's more important where are the companies doing their business that we are invested in?

So what's the key thing that differentiates you from other European managers?

We always try to identify the winners of the industry, the long-term winners of the industry. As I said, the structure and growth companies, where the growth profile and cashflows is not so much volatile, it's more sustainable and especially when looking at the long-term time horizon for investments should lead to higher and better results compared to any momentum-playing stategy.

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