
For professional investors only

# Graphene Investments doesn't believe it needs to be based locally to manage foreign markets

*<u>Warning:</u> Just because this article deals with controversial topics doesn't mean we are seeking controversy. We do not feel obliged to systematically align to the mainstream, one-track view when we consider that we have strong points in favor of a different stance, and our only objective here is to explain the reasoning behind certain choices we made when designing our project and our product line.*

"How could you perform as well as your local peers if you are not based locally?" Every portfolio manager who ever tried to manage overseas investments out of his home country must have heard this question hundreds of times. Why then did Graphene Investments choose to manage US (and, in the future, Japanese) equities out of France?

In our opinion, the belief that being based in the targeted country is a prerequisite to perform well stems from a misperception about a portfolio manager's daily needs and tasks. We don't think that being based in the USA would give us any more useful insight into the US market's drivers, nor any better understanding of the companies we are studying. Since transparency is one of our core values, we tell you why…

## We are in the 21st century, and information is available instantly everywhere…

The idea of being based locally might have looked relevant twenty or thirty years ago. By then, the main audio-visual media were not broadcasting much beyond the limits of their home country, and it was almost impossible to receive their original program from overseas. The rest of the news and research was circulated by post mail or fax, which inherently limited both its degree of detail and its timeliness.

However, things have changed nowadays. It may still be difficult to access (for example) the original version of the major US channels through the TV packages offered by European telecom operators, which usually distribute regionalized versions of these contents. However, internet makes it easy to find a workaround if need be.

Similarly, all the written documents that investment managers may want to read as part of their research process are usually readily available on websites or through data vendors specializing in specific types of resources. This makes it possible for anyone, anywhere in the world, to access the same information that would be available in the heart of Manhattan's or Boston's financial districts.

We thus believe it is fair to say that, when it comes to accessing the right information at the right moment, the distance only puts foreign-based investors at a marginal disadvantage, if any, to their local peers. Having the right source and, even more importantly, using it properly, will be a much more convincing factor of differentiation, … which leads us to our second point.


## When it comes to processing the news flow, taking a step back comes with significant advantages

Even assuming that the extra-distance might exceptionally impede the investment professional's timely access to some useful news, there is no reason to believe that this would harm performance.

As a matter of fact, the markets we cover are rather efficient, and any obvious consequence of a significant piece of information is reflected in market prices within seconds. It is therefore almost impossible for an investor controlling meaningful amounts to react and execute a trade before most of the immediate impact of the news is already discounted. That investor will thus be better off forgetting the short-term, to get the longer-term right. Obviously, though, this discipline may prove difficult to stick to in the most stressful circumstances, especially if one is directly impacted, or surrounded by people who are. This is where the distance may actually help overseas-based managers. It will facilitate looking at things with a more global understanding than could have been achieved otherwise. While being on site occasionally allows first-hand information to be collected, it also increases exposure to confusing particular cases with the more general rule.

This is particularly true in crisis situations. For example, many US investors missed the swift economic rebound that followed the 2008 financial crisis. They used to see so many friends and relatives lose their jobs, and so many homes with foreclosure signs, that they would not believe the economic indicators (which were pointing to the beginning of a recovery) until the improvement became obvious. It is reasonable to assume that, even at a microeconomic level, things are similar: professionals with a comprehensive view of the global picture are more likely to understand a company's situation than those who only watch it from too close.

Uninformed investors may still believe that a portfolio manager's day consists in watching screens or hanging on the phone to track the slightest piece of news through "Radio Broker" and immediately place orders. This caricature has fortunately become largely irrelevant, as premature decisions usually lead to disasters. A reasonably structured decision-making process both reduces the potential influence of emotions and limits the incidence of mistakes.

## and… No, a portfolio managers' typical day is not spent in on-site company visits either

Many investors seem to think that portfolio managers spend a lot of time visiting companies, talking to their management or checking manufacturing processes in factories. Of course, there are professionals who do so but in most cases, the truth could not be farther away from this perception. There are several reasons to this.

First of all, a one-to-one company meeting is not an informal conversation about general topics, and it requires a long preparation work to make the best out of this time with a busy executive of a very large company. This, in itself, limits the number of visits that an investment professional can consider organizing in any given timeframe.

Moreover, it is extremely difficult to obtain an appointment with the top management of a large company. Unless he/she controls assets that can make a big difference, a portfolio manager will have little chance to obtain a one-to-one meeting at the highest level within the company. He will most likely have to deal with an IR, whose comments will be more formatted, and will in most cases offer less depth and less nuance than first hand views.

Last but not least, in the largest markets, being based locally does not mean being based near the companies one would like to visit. In the USA, corporate headquarters may easily be located 50 miles outside large cities, and not necessarily


besides the head-office of another interesting company. When one puts together transportation delays and company managers' constrained availability, it will likely be difficult for an analyst to squeeze more than one or two company visits in a one-day trip from his office. The chance is, more time will be spent in airport lounges or traffic jams than CEOs' offices.

In an attempt to reduce the impact of the above impediments, a growing number of one-to-one contacts with top management teams are held through video-conferencing, which is also available to overseas-based investment professionals. Another convenient solution is to meet top executives at large conferences during which brokerage firms bring together a lot of companies and investors in a single location. In that case again, the advantage of being based locally is thin, because the perspective of grouping multiple useful meetings within a full three or four days makes it worth the trip from almost any location around the world.

Experience, investment processes and hard work have every reason to be way more important than the portfolio manager's location when it comes to performing in developed markets like US equities. This is why Graphene Investments made the deliberate choice to be based in Paris despite its focus on overseas markets. Our track-record over the first few years confirms that this is by no means detrimental to performance, and we will keep working towards our long-term goal: becoming the "neighborhood manager of choice" for European investors willing to invest in the deep, dynamic US equity market.

Graphene Investments

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