Sharing information across teams and locations is a truly collaborative approach which gives us a unique edge

**Equity research at Allianz Global Investors** 

collaboration

Part 1

For professional and institutional investors only

#### Key takeaways

- The boundaries between roles such as "portfolio manager" and "research analyst" have become increasingly blurred over time. Our collaboration overcomes these traditional definitions as we share information across teams and locations
- Research takes place in the portfolio management teams. Both, portfolio managers and analysts are fully involved into the research process
- Every investment professional maintains and is accountable for a conviction list, which signals their views on certain stocks
- Besides our global reach, we see our truly collaborative approach as a unique edge

The title "portfolio manager" (PM) sounds simple enough: someone whose goal is to build and manage a portfolio of stocks that outperforms a benchmark.

But while this definition seems straightforward, in practice there are many different factors that contribute towards the effective management of a portfolio.

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How does a PM decide whether to buy or sell securities?

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How does a PM react to daily news flow and judge which information is important and – just as often – which is not?

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How can a PM keep on top of everything happening to all the securities in their portfolio?

In reality, day-to-day decision-making in portfolio management is informed by collaborative and collective input from many different individuals, facilitated through technology which helps filter and distil information.

As part of this process, the boundaries between roles such as "portfolio manager" and "research analyst" have become increasingly blurred over time.

Historically, fundamental portfolio managers have typically run strategies which largely reflect personal convictions around each stock. But in practice a decision-making process based on a single person's view will inevitably lead to blind spots and sub-conscious bias inadvertently affecting a portfolio.

To help counter such natural biases, challenge is an integral part of our research process. Wherever possible, we incorporate more than one person's view on each stock.



# Allianz Global Investors' equity capabilities

# US Asia Europe 97 investment professionals 85 investment professionals 71 investment professionals Global Technology European Core China Equity **Health Sciences** European Equity Dividend & Value Asia ex Japan Equity Systematic Equity European Small & Mid Cap Japan Equity **US Large Cap Growth** Global Growth Taiwan Equity US Small & Mid Cap Thematic Equity **US Disciplined Equities Best Styles**

Source: Allianz Global Investors, October 2020.

Today, research takes place in the portfolio management teams. The formal difference between a portfolio manager and an analyst is that the portfolio manager has direct responsibility for a portfolio. However, both are fully integrated into the research process.

Every investment professional maintains and is accountable for a conviction list, which signals their views on stocks they cover. There are three ratings for each stock – high, medium and low – reflecting their stock preferences. Sorting stocks by levels of conviction, a low conviction rating still means there is some degree of conviction and a low-rated stock is still a potential candidate for inclusion in a portfolio. Stocks which attract a negative view can be vetoed to indicate they should not be included in portfolios.

Conviction lists are shared globally. One advantage of this approach is that we fully capture the stock preferences of the whole investment platform, making previously hidden research and investment ideas more widely available. Conviction lists also highlight any areas where opinions differ, which also helps to promote the debate and discussion of ideas.

With fewer artificial boundaries in the setup of our research process, a further benefit is that, in an investment world where new business models are evolving rapidly – for example, should electric vehicles be under the coverage of an auto or a technology analyst? – we have more flexibility in the way we allocate our research resources to capture the full range of opportunities.

Having moved away from pre-defined sector-specific coverage, research capacity can be freed up to identify potential alpha opportunities in a wider range of geographies and sectors.



To help show how this works in practice, the following page shows the timetable of a typical day for our China Equity portfolio manager, Anthony Wong, based in Hong Kong.

This schedule is just as relevant for a PM based in Frankfurt, London, Tokyo or San Francisco.





# A day in the life of a Portfolio Manager



# 8.15am - 9.30am



# 9.30am - 10.00am

I check the subscriptions and redemptions into the funds and place orders. This information is routed through Bloomberg to our trading team in Hong Kong who will execute the transactions. I also post my comments from the morning meeting on the Global Collaboration System (Investment Chatter), an internal platform that enables us to share ideas and intelligence.





# 11.00am – 12.30pm

Portfolio review – every month we have a portfolio oversight meeting, together with our CIO and product specialists, also with input from investment analytics. We explain positioning changes and current structure. The investment analytics team helps to monitor liquidity and long-term trends in risk factors and point out any unexpected deviations. The main discussion this month is the portfolio sizing and conviction in our largest active holding after a strong run. Our view is to hold. It's still a high conviction rating of Anthony and our latest Grassroots report indicates strengthening business momentum.



#### 10.00am - 11.00am

Reading research emails and reports – today it's focused on technology. The tech team in San Francisco have posted comments about Apple on Investment Chatter. I want to understand the impact on one of our largest China A-share holdings, which makes airpods and connectors for Apple. Our team analyst in Hong Kong focusing on the tech hardware segment has also got the views of our Taiwan colleagues. Collaboration and sharing of information across our teams is key – ultimately, I take the portfolio decision, but I rely on the input of others to help avoid blind spots and personal bias.



#### 12.30pm - 2.00pm

"Virtual lunch" with the management of an upcoming IPO.

The main reason for joining is to get more insight on the industry. This company is in the same value chain as another portfolio holding. We don't often participate in IPOs, but still it's good to meet the management directly. We will monitor the story over the next year or so and maybe revisit the stock when it has a longer public market track record.



### 2.00pm - 3.00pm

Conference call with a sell-side analyst together with our team analyst focusing on the China consumer space. While you won't see many Chinese tourists on the streets of European cities for a while, domestic tourism in China is booming. I want to get a sense of what market expectations are priced into these "Covid recovery" plays.



#### 5.00pm – 5.30pm

One of our stock's ESG scores was recently downgraded by MSCI.

Our fund is an integrated ESG portfolio and we receive a daily email to notify us of any low-scoring stocks. I discuss this particular stock with our analyst and we both agree that the company has a good level of disclosure in its annual sustainability report and the MSCI score is too low. The analyst will challenge the score on Chatter which alerts our ESG research team to conduct their own review. If the ESG team doesn't re-rate the stock, then we will need to justify our reason for continuing to hold the position despite the potential tail risk.



# 3.00pm – 5.00pm

Stock review meeting - speaking of IPOs, fintech unicorn Ant Group is the talk of the town. We spoke with the management a couple of weeks ago and today we carry out our in-depth analysis and discussion – two hours on a single stock. Ant Group is a great example of how traditional sector definitions are being blurred – is it a tech stock or a financial stock? We have our tech analyst leading the discussion with further input from our financials analyst. The Global Growth team in Frankfurt join the call too. The debate is active and wide-ranging – what impact could China's digital currency have? Does Ant Group's rapid growth bring with it a risk of greater regulation? Is the business model scalable outside China? I have a feeling we will see different conviction ratings across the platform on this one.



#### 5.30pm - 7.00pm

A period of information collection through reading research emails and reports. Like everyone, I get hundreds of emails in my inbox each day. There's no way to keep on top of everything going on without the support and collaboration of the wider team.

# Conclusion

In reality, the boundaries between the roles of research analyst and portfolio manager have become increasingly irrelevant. Our collaboration overcomes these traditional definitions as we share information across teams and locations, enabling us to review investment cases from multiple angles. Besides our global reach, we see this truly collaborative approach as a unique edge.

# For more information, please visit our website: www.allianzgi.com



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