

FTfm Bruno Crastes

Meet the boss of one of Europe's top hedge fund performers

Absolute return manager Bruno Crastes says you can have good quality beta with a bit of alpha



Siobhan Riding FEBRUARY 17, 2019

Three years ago Bruno Crastes delivered a presentation to bond investors in Miami called “Bye-bye beta, hello alpha” — but the title of the talk could have been: “Bye bye Bill Gross.”

Mr Crastes, a fixed-income investor, may not have the global reputation of “bond king” Mr Gross but, softly softly, he has become one of Europe's best-performing absolute return managers.

The 53-year-old chief of H2O Asset Management used Mr Gross, the Pimco co-founder, as a case study to show how low interest rates and central-bank asset buying had helped managers. He warned that the bond rally, which turned bond investors into stars and Mr Gross into “the star of stars”, was coming to an end.

He said interest rates were nearing a level where exposure no longer made a difference to performance, and this meant that bond managers had to search harder for returns.

Days before I meet Mr Crastes, the news vindicates his stance: Mr Gross [declares that he will retire](#) from the global investment stage, marking a symbolic end to the golden age of bond investing.

Meanwhile, Mr Crastes' prediction that highly active fixed-income funds would flourish in the new environment has been borne out. The H2O flagship MultiBonds, Allegro, MultiStrategies, Adagio and Moderato funds were among Europe's best-performing alternative funds last year. The MultiBonds fund, co-managed by Mr Crastes, returned a net 32.9 per cent.

What is behind H2O's success? "There's no secret," says Mr Crastes, as we sip H2O's own-brand water in his chic office in Mayfair, London.

The Frenchman is relaxed but reluctant to be seen as a sage. He credits H2O's performance to "hard work", experience and a "close-knit" team.

Mr Crastes has worked with Vincent Chailley, H2O's chief investment officer, since the 1990s. They were at Crédit Agricole Asset Management when they pioneered their brand of absolute return investing, a style that replicates hedge fund strategies to provide steady returns to risk-averse investors.

They left CAAM after it merged with Société Générale's fund arm to become Amundi in 2009 — but have stuck with their formula.

One factor in H2O's success is its strength in behavioural finance, says Mr Crastes. He believes many managers can analyse facts but few appreciate the value of analysing the perception of facts.

H2O realised this during the eurozone debt crisis in 2011 when Mr Crastes and his team believed in a recovery. They bought European bonds but took a knock when US and Asian investors sold European assets.

The company is not afraid to be out of step, though. Mr Crastes says he is criticised by investors and competitors for relying on the potential for correlations to reverse. Since the financial crisis, bonds and equities have rarely fallen at the same time, prompting droves of fund managers to combine the asset classes to reduce risk.

This was "a great source of performance [but] it started to get challenged in 2016, 2017 and 2018 [when] correlations changed", says Mr Crastes.

The fact that both bonds and equities fell last year is "one reason why there is so much pain in the market", he says, alluding to the woes of many absolute return funds.

The worst performers included Aviva Investors' Multi-Strategy Target Income fund, down 7.6 per cent last year, and Standard Life Aberdeen's Global Absolute Return Strategies product, which lost 6.4 per cent.

Mr Crastes will not be drawn on why his competitors have done badly. He says H2O's principles are tolerance, transparency and humility, which are also the characteristics of water, hence the company name.

Some of the blame, he says, is due to the promises made by some funds in marketing literature. Many asset managers piled into the absolute return market after the crisis, hoping to lure investors with high returns in a difficult market. A few got carried away.

The marketing was “sometimes not completely true”. “How can you sell products telling your clients they’ll never be poor?” says Mr Crastes. “Absolute return doesn’t mean you’re up every day. It’s not possible.”

Yves Choueifaty, another former CAAM colleague who is CIO of Tobam, says Mr Crastes is respected for his honesty and willingness to stomach short-term underperformance.

Mr Crastes points to the investors who handed money to H2O in 2011 when the debt crisis was hitting its flagship bond funds. “Tactically it was a good entry point. Since then they [have been] very happy because they made a lot of money.”

He knows, however, that H2O’s performance is not bombproof. In the past, the small size of its funds gave it agility. Now, with €30bn of assets, H2O is wary of its ability to put this money to work by identifying sources of absolute return.

“It’s a great thing if we can deliver alpha without limits, but unfortunately, like everything, it doesn’t come free,” says Mr Crastes.

H2O recently introduced entry fees to try to discourage investor inflows and protect its performance. “Size is the enemy of performance. It’s a lie to say [otherwise],” he says.

The company plans to hire staff and uncover additional sources of performance, but the potential is limited, says Mr Crastes.

He is set to take the company in a new direction, away from his “bye-bye beta, hello alpha” theme. H2O will launch more conventional equity and bond products, including a constrained European bond product, and offer quantitative strategies via Arctic Blue, its systematic trading house.

Mr Crastes denies that H2O is moving away from its origins. “I’m still saying that alpha is superior to beta but you can have good quality beta if it’s done with a bit of alpha.”

Asked what went wrong for Mr Gross, who was managing less than \$1bn before announcing his retirement, Mr Crastes says the 74-year-old “stayed too long”.

“At a certain point you have to leave the floor to people who are a bit younger,” he says. So when does Mr Crastes plan to step back? “I’m a Frenchman so I’ll retire at 65,” he says.

Bruno Crastes CV

Born *May 15 1965*, Lyon, France

Salary *Undisclosed*

Education

1986 BA in mathematics, University of Lyon

1988 Actuary qualification from Institut Supérieur de Formation des Actuaire

Career

1988 Proprietary bond trader, Banque Louis Dreyfus

1989-94 Bond portfolio manager; deputy head of fixed income, Indosuez Asset Management

1997 Global fixed-income management head; by this time Indosuez AM was part of Crédit Agricole Asset Management

2005 Chief executive, London, CAAM; continued to manage global bond portfolios; CAAM later became Amundi

2010 Founded H2O Asset Management with Vincent Chailley, a former CAAM colleague

H2O Asset Management

Assets €30bn

Employees 90

Headquarters *London*

Ownership *Subsidiary of Natixis Investment Managers*

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