Rieter Fischer Partners

KEEPING IT SIMPLE: RFP'S WINNING APPROACH TO EUROPEAN SMALL AND MID-CAP EQUITIES

Compared to their peers across the Atlantic, there's no denying European firms face a number of headwinds. From populism to Brexit and a potential trade war, the current stretch of European underperformance has been unprecedented in terms of both length and magnitude. Suggesting a turnaround could be on the cards. Regardless, there are still great opportunities to be had for discerning small and mid-cap investors right now.

Since 2000, for instance, the Euromoney Smaller European Companies Index has strongly outperformed its large cap rivals indices. This underlines an enduring truth: while many larger legacy European names have the lacked innovation and transformation of those in the United States, the same can't be said for their smaller peers. This is a structural trend too: oftentimes the success of smaller companies is in harnessing new technologies or business models in order to disrupt those big incumbent names. Their loss can be our gain.

Being able to identify these trends, and not just invest in the wider market, is crucial. As an experienced boutique manager, we have a very agile approach to investing. We don't hesitate to stray away from the benchmark. And with a concentrated portfolio that boasts an active share of over 90%, you can be sure that every position of ours is likely to count.

It's important to stick to what you're good at, of course. What's our core competency? By far the most significant key to our long-term success has been identifying companies with high long-term earnings growth potential. We have an experienced team, with the average team member having spent more than 25 years in the investment industry already. And we are all stock pickers at heart, although this doesn't need to be complex. The companies we look at are generally those that we fully understand. We know their business models, the potential risks and rewards, and their ongoing ability to generate strong cash flow and earnings without excess leverage.

Then we wait and monitor closely their ability to deliver the earnings growth of the business model. Markets can be fickle, so patience is an important virtue. If we think a particular company has the potential to disrupt a particular sector, we're happy to see it develop. Similarly, if a company is trading at a significant discount and if the earnings potential is still valued, having the tolerance to wait for a re-pricing can prove essential to realising returns. And once we find winners, we want to ride them out and let them compound over time.

In today's fast-paced world, as hedge funds and systematic investors dominate financial flows, a simple approach may seem ineffective. Fortunately, we've been able to prove that this isn't the case, and that our tried and tested approach works over time.

Over the past 1, 3 and 5-years, for instance, we've finished top quartile in the Citywire European Small and Medium Companies sector (until 31/07/2018). And our investment

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approach has shown no signs of slowing either; in the past year, we finished 2/241 in terms of performance, returning 22.4%.

Moreover, as the European small and mid-cap universe offers a diverse universe in which we can burnish our stock picking skills, we're confident this rich run of form can continue.

For those that can look past the flurry of negative headlines and climb the wall of worry, an experienced and nimble European small and mid-cap manager could offer attractive, diversified returns to their portfolio. Sometimes going small – and keeping it simple – is the best approach.

PERFORMANCE SINCE INCEPTION