

IVKAKALUS

Promethos Capital's founder and CIO has swapped a leading fund for a boutique aimed at improving diversity in its investments and the wider asset management industry

ALEX STEGER

If investors really put their money where their mouths are, then starting an ESG boutique would be the best business in town. But, unfortunately, it doesn't quite work like that.

A recent study by Schroders Investment Management, which canvassed 25,000 investors worldwide, found that 32% of respondents stated an intention to increase investments in ESG. However, only 16% of those surveyed had currently allocated money to such strategies.

Data published by Morningstar in September showed that the largest 150 fund firms, out of a possible 777, accounted for 99% of the \$19.3 trillion invested in US funds and ETFs.

These two reports demonstrate the size of the task facing all boutique businesses and particularly those specializing in ESG.

It is a point not lost on Ivka Kalus. In March, she stepped down from Boston Advisors and a table-topping international equity fund to found a majority employee- and women-owned ESG-focused boutique called Promethos Capital.

'I do feel like [the asset management] business has become in favor of large companies that can adopt any strategy,' she says. 'They all have their ESG analysts walking around telling all the PMs how to integrate ESG or whatever the flavor of the month is. And they're really good at marketing. And they're really good at making sure that the regulations favor high compliance costs. So I

think that for small boutiques, it's really tough – especially for boutiques like us. We sound different, we look different, we act different.'

DRIVING DIVERSITY

Kalus founded Promethos alongside president John Linnehan, director of research Joe Sylvester and chief administrative officer Jacki Linnehan.

The even split in gender is very deliberate – as is the firm's wider hiring policy. It has so far recruited two analysts to work with Kalus: Ashraya Dixit and Jonathan Kabeya, who are Nepali and French-Congolese, respectively.

'We're bringing in people with diverse backgrounds because our industry suffers from groupthink,' Kalus says.

Her aim is to build a firm that reflects the values she wants to see in her holdings. Through her portfolios, Kalus hopes to prove that factors like diversity and sustainability are not simply nice add-ons or marketing gimmicks, but genuine drivers of outperformance.

'We wanted to found a company based on our values, to be able to really demonstrate good stewardship in our portfolios, and to challenge the assumption that stewardship and returns are not mutually exclusive. We want to show that intentionality is actually a source of alpha and want to build a firm around that. And so our foundational values are humility, respect, intellectual curiosity, objectivity and diversity.'

TABLE TOPPER

Launching a boutique is new to Kalus, but running international equity portfolios with an ESG focus is not.

Prior to joining Boston Advisors, she was a senior portfolio manager for the Pax World International fund and Pax World Global Women's Equality fund. Before that, she managed international and global portfolios at State Street Global Advisors and Baring Asset Management.

At Boston Advisors, she ran the Catholic Investor International Equity fund, which the firm subadvised. Launched in 2015, the fund was ranked number one out of the 72 funds in the Citywire International Multi-Cap Core category for three-year total returns at the end of March, the month Kalus departed.

Over that period, it returned a cumulative 37.5% compared to the average fund in the category, which was up 20.6%, and the FTSE All World ex USA TR index, which was up 27.71%.

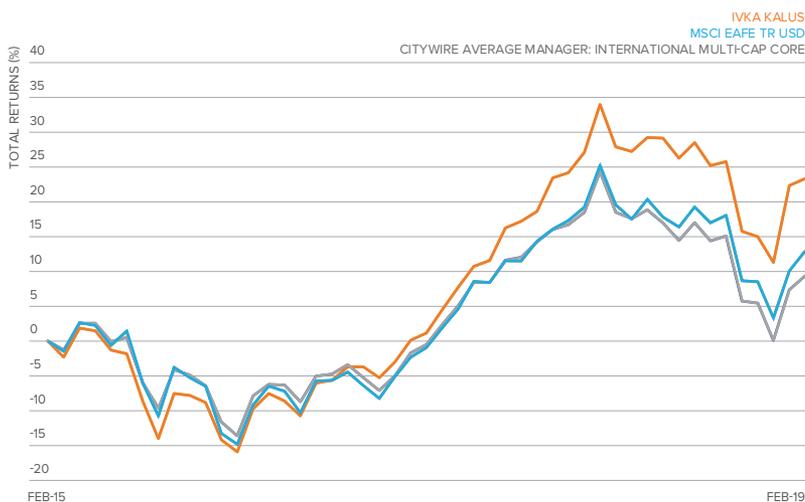
The risk-adjusted numbers were also impressive. In August 2018, Citywire compiled a list of the top 20 female fund managers running money in the US, based on the average information ratio of the funds they ran over the previous three years. To make the cut, managers must also have had top-quartile absolute returns in their particular investment disciplines over that period. Kalus was ranked third on the list.



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IVKA KALUS WAS WELL AHEAD OF THE BENCHMARK AND PEERS IN THE INTERNATIONAL MULTI-CAP CORE CATEGORY

DATA TO FEBRUARY 28, 2019 / SOURCE: CITYWIRE DISCOVERY



CRYSTAL CLEAR

At Promethos, she will again run an international multi-cap strategy with – my words, not hers – an ESG bent.

Kalus believes the term ESG has lost a lot of meaning and instead prefers to speak about “intentional investing.”

‘I have nothing against ESG, I just feel like the term has been misused and used to segregate a lot of really solid strategies into... “Oh, if you wear Birkenstocks and buy organic food then maybe you want to put 10% of your assets over here,” which is doing a huge disservice to this huge unmet need in the market of people wanting to be intentional with their capital and earn returns,’ she says.

Kalus believes that data points categorized by some as ESG are crucial financial indicators and an overlooked source of alpha.

‘It’s just about mispriced risk, which is what our industry should be all over,’ she says. ‘Everyone has exhausted the whole factor world of looking for a little bit of alpha based on what comes out, basically in quarterly results. But there’s a lot of price risk that no one wants to look at, because it’s harder to measure and evaluate, but that’s exactly where the alpha is.’

‘So things like gender diversity, sustainability, disclosure and climate resilience are harder to measure than the usual quarterly return framework that our industry, being very homogenous, is looking at. So it is totally missing out on this huge opportunity to reprice risk. We’re building our portfolios around factors that already have a lot of information in them, like gender and disclosure.’

MILKING IT

The firm’s flagship strategy consists of around 55 stocks, picked using a combination of quantitative and fundamental techniques. The strategy aims to neutralize

asset allocation risk and derive alpha from the manager's stock selection.

One stock that Kalus believes exemplifies her process and philosophy, and which has historically added alpha, is New Zealand-based a2 Milk Company. The firm, primarily listed on the Australian stock exchange, produces milk that only contains A2 proteins, as opposed to both A1 and A2 proteins, which is more common. The company claims people who experience discomfort when drinking regular milk may experience relief if they switch to milk with just the A2 protein. It has developed genetic tests to discern cows that produce A2 milk.

A2 Milk Company has distribution deals in China and the US, including an agreement with Walmart. The company went public in 2013 at \$0.59 a share, rising to a high of \$11.53 in July this year, although they have dropped sharply since.

'They found out that A2 is just much more tolerable, especially for babies and infants, but also vast swathes of Asia are dairy intolerant,' Kalus says. 'So, they built a business and they branded milk. It meets a nutritional need and a whole regional need.'

She explains that the stock fits with her philosophy as it is a company that identified a competitive advantage, has had tremendous growth, was women-founded and has impressive sustainability metrics.

GUCCI PAIN

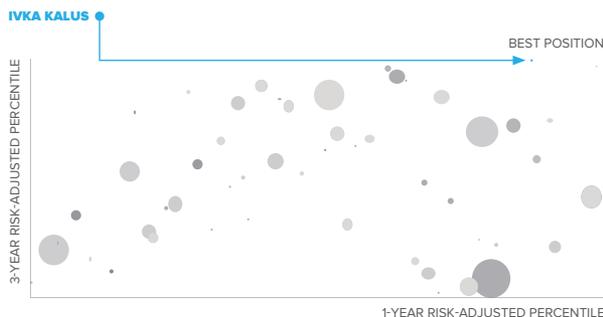
For every success story, there is a stock that has not gone to plan, and Kalus is upfront about this too. One such example is French luxury goods company Kering, which owns fashion houses Gucci and Alexander McQueen.

The stock had been on a stellar run since 2015, driven by strong Gucci sales and a profit margin of up to 40%, but dropped 20% from July 24 to August 23 as Gucci's growth slowed. This triggered analysts to readjust their outlooks and models.

'It still ticks a lot of boxes,' Kalus says. 'It has fantastic gender diversity in the management team. But we don't want to ever hold on to something just because we think, "No one else understands it and we do." We clearly got this one wrong, at least for the last three months. The question is, is this going to be a persistent theme or not? Is everyone going to keep writing down their numbers?'

KALUS BOASTED THE BEST RISK-ADJUSTED NUMBERS IN THE CATEGORY OVER THREE YEARS ON HER PREVIOUS FUND

DATA TO FEBRUARY 28, 2019 / SOURCE: CITYWIRE DISCOVERY



Risk-Adjusted percentiles are calculated in USD gross of tax, bid to bid, ignoring the effect of initial charges and with income reinvested at the ex-dividend date. Peer group rankings are based on managers tracked by Citywire in the U.S. Market share data based on total assets under management by managers tracked by Citywire in the U.S.. For more details, contact discovery@citywireinsight.com

CATHOLIC INVESTOR INTERNATIONAL EQUITY FUND QUARTERLY ESTIMATED NET FLOWS (\$M) DURING KALUS' TENURE

DATA TO FEBRUARY 28, 2019 / SOURCE: LIPPER



MAN'S WORLD

Promethis had been up and running for four months when I spoke to Kalus.

The day we speak, the firm has just secured its first institutional mandate, but with terms not yet signed, Kalus – understandably – declines to name the investor.

Despite the early win, she is under no illusions about the challenge of prizing assets away from the usual suspects – a phrase which, in this instance, means larger firms and male managers.

Citywire's 2019 Alpha Female study found that of the 26,003 actively-managed funds in our database, which account for \$15 trillion in assets, just 4,044 funds accounting for \$2.5 trillion are run by a

woman, a team of women or a mixed team of women and men.

The report also found that in mainstream categories, 90% of managers are men, with women tending to populate more niche sectors and therefore run smaller funds. The report found that the average portfolio size for men was £458 million (\$563 million) versus £296 million (\$363 million) for women.

Kalus bucks the trend for women running money in a niche category, given she invests in the mainstream world of international equities, but she has no intention of pulling the ladder up with her.

'We want to make sure that our team reflects the diversity that doesn't exist in the industry,' she says. ■