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B&R Magazine

Exclusive interview
William J. Kelly
CEO CAIA

Contents

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Preface

Dear reader,

It is an honour to present the sixth winter edition of the B&R Magazine to you. We would like to thank the Social Media & Design Committee and Editorial Committee, for their hard work and effort that contributed to this magazine! Next to that, we would like to thank William J. Kelly, and Bob Homan for their contributions to the B&R Magazine. Lastly, we would like to thank our partners for their input and cooperation.

In the last few months, many new members found their way to our society. We welcomed over 500 new members this year, which brings us to almost 1500 enthusiastic B&R members, a new record high!

This edition of the B&R Magazine gives you an insight into what is going on at B&R Beurs as well as into the financial world. You can read an overview of interesting developments in 2020 as well as some of our expectations for 2021. Furthermore, the magazine consists of many interviews with people that are linked to the society. Special interviews include William J. Kelly, CEO of CAIA and Adnaan Willson, commissioner of Education & Career of the B&R Beurs board 2018/2019. Last but not least, you can read an interesting article about the Investment Week & Symposium for the upcoming year written by our president Max Witte.

Have a great read!

Kind regards,

Jay Otten & Job Koning

B&R Beurs News!

2020-2021

HIGHLIGHTS

This year marks the 37th year in the existence of B&R Beurs, with some new records and highlights. We began the year during the Eurekaweek, where for the first time B&R Beurs was present on four different days. During the Introduction Period, we held a total of six drinks for members to get to know B&R Beurs, both at In de Smitse and at APARTT. This year we weren't able to end the Introduction Period with the Introduction Weekend due to the rising number of COVID-19 cases. This was also bad news for the Formation Period which was organised completely online. Fortunately it was a great alternative and we can proudly say that we now have a staggering amount of 1500 members and 52 Investment Groups! We want to thank our Introduction Period Committee for all their hard work in these challenging times.

After the Introduction and Formation Period we found ourselves in an unfamiliar situation. No social drinks, No fysical academies, workshops, or activities. It was time for a change. Starting in November, we hosted the first round of online activities of the year: The Online Beer Tasting, Poker Tournament, and Pub quiz.

In just a few months time we hosted everything online. The Academy Committee recorded and livestreamed all academies on Zoom. Now our members can watch the Academies online whenever they want on Youtube! We could still offer our members many career events such as the trading simulation with Morgan Stanley, an E-house day with FlowTraders and Optiver and many more. Now our focus lies on creating even more social, educational, and career events for the future.

AMBASSADOR

Do you enjoy being a member of the largest student investment society in the Netherlands? Would you like to contribute to this society and help promote the most prestigious career event of B&R Beurs? If so, then becoming an Ambassador of the Investment Week & Symposium 2021 is something for you! Ambassadors play a crucial role in making the Investment Week & Symposium a success by assisting the IW&S Committee with promoting our flagship career event. You will have a wonderful time and gain valuable experiences. To become an Ambassador, please send your CV and a short motivation to

logistics@investmentweek.nl.

B&R BEURS EVENTS
AGENDA 2021

1 Cocktail Workshop
21 JAN

2 Poker Tournament
28 JAN

3 B&R Beurs x ESN Pub Quiz
2 FEB

4 Music Bingo
11 FEB

5 City Trip announcement
18 FEB

6 FinTech Conference
2 MAR

7 Walking Dinner
4 MAR

8 Liga Investimento
19 MAR

9 Board Interest Drink
23 & 30 MAR

10 Woman in Finance Days
24 - 31 MAR

11 Banking & Valuation Bootcamp
7 - 14 APR

12 Dies Natalis
8 APR

13 Board Announcement Drink
6 MAY

14 Investment Conference
11 MAY

15 Investment Week & Symposium
17 - 21 MAY

16 GAM + BBQ
8 JUL

Scan the QR code to see all B&R events this year!

YEAR OVERVIEW

Market Sickness

Covid crash & recovery

2020 will without a doubt forever be remembered as the year where our lives were suddenly pulled into a screeching halt by the coronavirus. Even the most recent pre-Covid pandemic, which was the swine flu in 2009, pales in comparison to the significant change that this newly mutated form of the SARS virus has brought about. While initially viewed as an insignificant small-scale outbreak within the Hubei province in the People's republic of china, unprecedented global spreading quickly resulted in the world being dragged into a maelstrom. Much of what has since passed has been experienced by everybody firsthand: lockdowns, facemasks, and the inability to see loved ones to reduce the risk of the virus spreading. A sometimes overlooked major event, and which is barely noticeable when considering current equity prices around the world, has been the great stock market crash that Corona brought about. What exactly happened to the financial markets, and why are we currently trading at all-time market highs, as opposed to all-time lows?

Whilst news about the virus started spreading around the turn of the year, the actual stock market crash did not occur until the 20th of February 2020. From this point on, healthcare institutions started sounding alarms around the world, and everywhere governments started enforcing their respective lockdowns. The most significant sell-offs occurred between 9'th and 16th of March, the latter spanning the crown after global markets collectively dropped between 12-13%. Sectors that were hit hardest were all dependent on the ability of people to move freely wherever they pleased: petroleum, real estate, travel, and hospitality all were badly damaged over multiple months.

Psychological factors also played a big part in the dramatic charade, as nationwide hysteria due to media "doomsday-Esque" reporting and empty store shelves injected some significant negative sentiment throughout markets. People were starting to fear that we would enter a scenario reminiscent of the great depression in 1929, and forecasts were looking ever bleaker.

Few foresaw that the Covid bear market would be one of the shortest-lived ever and that stock markets would soon embark on their most impressive recoveries yet. After the Black Monday of 15 of March had passed, stock markets began rocketing back up after a reluctant start. The biggest motivator for this market recuperation was the unprecedented interventions undertaken by governmental financial institutions. Stimulus packages, securities purchases, and near-zero interest rate risk were tools that central banks employed to support the financial markets functioning and to prevent any additional economical impairments. It seems that the global financial crisis of 2009, which's impact was significantly amplified due to the lackluster governmental support at the time, has proven a valuable (but very costly) lesson after all. But governments are not the sole proprietor of this market recovery, as some big winning stocks helped carry global indices back to their peaks. Since life had shifted from outside to home, customer demands changed accordingly. E-commerce, food, software, and healthcare were more in demand than ever before, and the big players in these segments helped account for the losses that were incurred in the less fortunate industries.

Corporations such as Zoom which were barely known to the general public before the pandemic, now serve as cornerstones of the new 1.5-meter economy, which is reflected by their share price rising by over 378% in one year.

At the start of 2021, global financial markets are still performing exceptionally well, and are almost all trading at all-time highs. It seems that confidence in quick economic recuperation after Covid has been combated is the shared common consensus, with anticipations aimed at a back-to-normal situation at the end of this year. If these predictions will manifest at all, is unknown. As there is little to no previous experience with a vaccination and financial stimulation program of this scope and size it is hard to refer back to any previous recovery period, and much uncertainty (and therefore volatility) will

ted is the shared common consensus, with anticipations aimed at a back-to-normal situation at the end of this year. If these predictions will manifest at all, is unknown. As there is little to no previous experience with a vaccination and financial stimulation program of this scope and size it is hard to refer back to any previous recovery period, and much uncertainty (and therefore volatility) will remain in financial markets for the foreseeable future. One absolute certainty is that we are closer than ever to finally putting Covid to rest and that we will be able to change this worldwide infection into something not more severe than a common cold.

An overview of the 2020 Brexit process

by Jean Holleman

On Christmas eve 2020 it became clear that a last-minute Brexit deal would be closed between the EU and the UK. This deal followed months of negotiations between Brussels and London. This article will provide a brief overview of the 2020 Brexit negotiation process while detailing the different agreements made.

The UK already officially left the EU on the first of February 2020. However, there was no agreement on the terms of the divorce. Thus, an 11-month transition period started in order to find an agreement to define the future relationship between the UK and the EU. The transition talks officially started on the second of March, but were soon stopped by the Covid-19 pandemic. Countries went into lockdown, and chief negotiator Michel Barnier tested positive. This blocked face-to-face meetings for months.

On the first of July, the British missed the deadline for an extension of the transition period. This meant that if no deal was struck before the first of January, the UK would have to leave with a "hard divorce". Effectively meaning that trade barriers would be raised on UK imports and exports to the EU. By mid-October, as the time started ticking, Johnson suspended the negotiation talks, claiming the EU was not serious enough in the negotiations. The major friction point concerned the fishing rights. The European Union wanted to keep the actual quotas, while the UK wanted them to reduce drastically. In parallel with the negotiations, a solution had to be found to be able to vote the treaty after the first of January. This was necessary because there was not enough time left for the usual paperwork. During the third week of December, it became clear that the sealing the deal would only be a matter of time. The UK assembly voted the Brexit deal on the 30th of December, barely one day before the start of the treaty.

Now, let's take a look at what is decided in the treaty. One of the key points of the Brexit agreement is the so-called level playing field. This is a concept that enables the UK to stay in the European single market while ensuring the EU that it may take restrictive measures if the contract is not respected. This system holds for both environmental and social standards, as well as for state aid to enterprises. Another important agreement was made around the as well as for state aid to enterprises. Another important agreement was made around the fishing rights. Indeed, the UK demanded to regain control over its own fishing waters while the EU wanted to keep the pre-Brexit quota's. In the end, it was decided to have a 5 year transition period during which the European quota would shrink and which would be annually renegotiated. From a European point of view, the fisheries might be the biggest losers of the agreement. On the UK's side, it is the financial markets that seem to be disadvantaged. Indeed, there have been no agreements concerning financial markets. This could mean that UK financial firms and institutions might lose their "financial passport", which is basically the ability to trade in the EU single market. They would have to agree with each member state separate conditions to enter their market. This could in turn make London's banking jobs migrate to the major European financial hubs.

United States Presidential Elections
by Robert Zdonkiewicz

The 2020 presidential election, similar to the run between Donald Trump and Hilary Clinton, might be one of the most discussed elections in the history of the United States. With Joe Biden being the favorite, it became quite clear on election day that the run would be close and contested throughout the entire country. For the most part, the US citizens recognized a division between rural America and the urban areas with larger populations.

The most prominent speaking points of the election surrounded some old topics and some new topics. The old topics that were discussed enclosed gun control, health care, climate change, immigration, and the potential repayment of college tuition for students in debt. Some new discussions and focal points hinged on the topic of the coronavirus and the relationship between international countries – specifically the relationship and the conflict revolving around Iran. The candidates held viewpoints respective of their parties – neither one of them particularly strayed from the assumed beliefs and consequently, both groups tended to secure their expected voter groups. As usual, a battle for swing states happened with Biden coming out on top of the votes in the end. Arguably the largest point of debate and discussion surrounding the legitimacy of this election was the usage and acceptance of mail-in ballots. The security of these ballots was largely debated, and thus many citizens questioned the legitimacy of the election results and the possibility for fraudulent votes to be submitted using these mail-in ballots. Regardless of one's political opinion, we can expect some consequences in the coming couple of years.

Firstly, the concept of mail-in ballots will most likely become more incorporated and used during future elections, resulting in more possibilities for voting fraud. In regard to international affairs, Donald Trump was widely known for being very strict. If Biden takes a different path, the United States could be seen as a more lenient nation with regards to foreign affairs in the future. Economically speaking, the US stock market might recognize a downward trend due to uncertainty associated with new leadership and the division of the Executive and Legislative branches. Beyond these conflicts, it is likely that further hardships and difficulties will come, but it would be too speculative to point out what political differences or viewpoints these will revolve around.

United States Foreign Policy 2020

When unpredictability and uncertainty have seem to become the norm during the Trump Administration course, it is important to reflect on what is happening from time to time. This is especially true for International politics, with statements from high ranking officials making headlines daily, making it hard to keep up with what is happening for the layman. Not to mention that even though the COVID-19 pandemic kept both us and the news cycle occupied. Let us therefore recap two important U.S. foreign policy stories from the Middle East of 2020 which deserve some more recognition.

Sardar Qasem Soleimani

2020 was characteristically ushered in with a bang, as on January third Iranian General Qasem Soleimani of the Islamic Revolutionary Guard Corps, or IRGC for short, was assassinated in Iraq by a targeted U.S. drone strike in Iraq. The strike came amidst escalating tensions surrounding the Iran Nuclear Deal, which the US already formally withdrew from in 2018. General Soleimani has been a topic of debate amongst US officials due to his connection to several paramilitary forces scattered throughout the Middle-East which see to undermine US influence in the region, and was considered by many to be the second most powerful man in Iran as commander of the Quds branch of the IRGC. Both the Iranian populace, amongst who the general was popular, and Iranian government were outraged, and the Iranian government vowed revenge.

Although Iran launched several missile attacks on U.S. forces in Iraq, no additional action has since been taken since the Iranian military accidentally downed a Ukrainian passenger flight, which they had mistaken for a cruise missile.

The controversy in January stands in stark contrast to the Abraham Accords signed in August. Talks led by Jared Kushner led to a brokered agreement in which the United Arab Emirates (UAE) and Bahrain agreed to bilaterally normalize diplomatic relations with Israel. The joint statements made by Israel, the UAE and U.S., marked the first normalization of relations between an Arab country and Israel since decades. Support for the treaty on the international stage was overwhelming as China, India, European nations and others approved of the developments. Reactions in the Middle East were expectedly more cynical however, as officials from Iran, Turkey, Libya and Morocco condemned the treaty, with some even citing that the UAE "betrayed" the Arab world. Morocco however soon agreed to normalize relations with Israel itself in a deal where the US agreed to recognize Morocco's claim to the disputed Western Sahara territory.

Aside from easing diplomatic tensions, the treaties opens up more possibilities for economic cooperation, which was already de facto present in areas such as defense, technology and diamond trade.

An interview with CAIA ASSOCIATION CEO William J. Kelly

Board member Alex Cheung asks questions about CAIA, Covid and Finance

Could you introduce yourself and tell us about your role as CEO of the CAIA Association?

Sure! Thanks for having me, the academic partnership side of CAIA is a very important one. Rotterdam and Erasmus are near and dear to me heart, having worked for Robeco for many many years, I have spent countless days and nights in Rotterdam, a city I know quite well and like quite a bit. So Alex, like you said I'm Bill Kelly, CEO of the CAIA association. I'm starting my eighth year here which is hard to believe, I came in at the beginning of 2014 after having spent a pretty long career in the Asset Management space. Prior to Robeco I was with a firm called Boston Management where I worked in the Asset Management arm, a group of us left and started our own firm in 1995 which we ran as an independent Asset Manager from 1995 to 2002 and then sold that business to Robeco. Robeco had been making some acquisitions in the U.S., most notably Weiss, Peck & Greer and then Sage, which was a fund of funds. It was an interesting and relevant turning point for me and maybe my enlightenment which maybe indirectly led to how I got to CAIA today. I really grew up in the really traditional space, Boston Partners and the Boston Company, really valued equity shops. Weiss, Peck & Greer was into Venture Capital and Private Equity very early on, they were the first investors in Federal Express, to show how early they were god knows how long ago. They also had single strategy Hedge Funds, they had a fund of funds. That really opened my eyes up towards a greater view of Portfolio Diversification. As you might know in the Asset Management Industry, you are hired by a very sophisticated client to run a very specific mandate. If your wares mostly consist of value equity, that is where you focus yourself.

But having a vast array of clients looking for different solutions through this lens of this Robeco acquisition got me focused more on alts. Before I got to CAIA I did a lot of independent board work and I saw more and more how alternatives are now being put to the masses in an opportunistic way, both good and bad. We had this advent of liquid alts, UCITS wrappers and 40 fund wrappers, and as a headline giving investors more access is a good thing. But what I saw was lacking was financial literacy and education, and then along comes CAIA. Having grown up in CFA shops I knew very little about them, but the more I heard about the mission and the story, the more I said " you know what, this could be awesome". As I begin my 8th year there, I've never felt more optimistic about the opportunities to the end investor and the importance of education.

That's great to hear. So you joined CAIA in a sense of purpose to provide better education for those in alternative investments and therefore get rid of some of the negatives that alternative products might have?

I think that's an interesting point you make there Alex: there is a little bit of a prerogative spin, especially from traditional media, when you talk about alternative investments. Maybe our industry has either invited some of that or refused to push back on it. But I think if that when you look at the pure play diversification aspect of having uncorrelated risk premia in a portfolio, who should be against that? So I think that when I think of my mission at CAIA, we are an exam based body, we have 11 thousand members in 90 different countries, and if candidates pass our level 2 exam they join us as members. You might think my focus is very much on candidates and members and trying to grow both of those, and to some extent it very much is. But what I am trying to accomplish is by raising awareness, globally, about what alternative investment can do and by interacting with student bodies, global regulators, and some of the largest asset managers and allocators.

> ***"If I can win over their hearts, minds and souls a big part of the job is done for me."***

But if I had to sum up what drives me and I think about every morning when I get up is "investors first" and thinking more about long term solutions as opposed to products . Case in point: maybe a latent skill for me is social media. The two of you are far younger than me and you probably do this naturally, but I opened up the Wall Street Journal this morning and there's this article about SPACs, which is quite a new way to do an IPO. They're very fee intensive, very interesting to the investment banks, and the whole article was about how these investment banks are making coin on doing them. Nowhere in the article does it say anything about what it means for the end investor. So I took this article and I tweeted it and the quote was "where are the clients yachts?". And at the end of the day the client has to have something, we're capitalists in our industry and I fully respect that, it's a high margin business with high operating leverage and those are all good things. But we have to be thinking about the clients first and having a sustainable business model.

So you've got this 60/40 model, with 60 percent equity and 40% bonds, which is the model my parents generation grew up with. Equities have been stretched beyond fair value in most parts of the world. Fixed income rates, or at least the risk-free rate, is below 1 percent. We've got negative inflation, so if you look at the outlook of 60/40, you're lucky to get 4% over the next 10 years. I think many investors with the wrong expectations are going to say "alternatives will bail me out of this". But it is not that easy. Areas like Private Equity, Private Debt, Hedge Funds, these are not normal asset classes, these are very sophisticated industries. And if your goal is just to have Private Equity in your portfolio you could have done that all along, but if you don't get the manager in the right market with the right processes and approach, you're most likely going to get median results, which look exactly like the public market proxies. So Due Diligence has never been more important and that is a big part of our program. I think that there is a lot of value that we can add, and again I want to underscore that aspect of "investor first", that's so important.

Thanks! You already started elaborating on the following question that I had about CAIA in the financial world. So as you might know B&R Beurs has quite a long standing relationship with CAIA. Each year we are lucky enough to give about 10 of your scholarships to our members. For our new members, could you briefly elaborate on the benefits of alternative investments and the CAIA charter?

I'll first take a step back and then get back to the heart of your question. The Asset Management industry in the world is really an industry and not a profession. And I say that from a standpoint, and this is very apropos to the Netherlands, and I know this for a fact having worked for Robeco.

The first mutual fund in the Eurozone was started by Robeco started circa 1920. The first mutual fund in the U.S. Was started by Mass Financial, starting circa 1920. So we started as an industry long before the professional bodies showed up on the beach ahead. CFA came ahead as a professional credentialed bodies in the 1960s, CAIA came around in 2000, the Certified Financial Profession came around in the 1970s or so and GARP financial risk management came right in the middle of that timeframe too. So if you parallel that path to let's say, public accounting, where I began my career way back - In the late 1800s somebody named Earnst, somebody named Young, somebody named Price, somebody named Waterhouse, said: "we are going to compete by day, but we want accounting to be a profession. Where standards and ethics matter". I think every industry loses its way from time to time, but that is an industry that grew up with professional roots. We do not have that. So what we are trying to do at CAIA, and what CFA is very effectively trying to do as well, we are trying to retroactively professionalize a massive global industry. And that really goes back to the point I made earlier, which is "client first".

One opportunity I think we have is that we look at the two of you as two professionals as young professionals, you are the stewards of this business when my generation leaves the stage. It is going to be up to you to improve what has been entrusted to you for the next generation. A big part of our curriculum not only has the learning about how each of these assets (hedge funds, real assets, structured products) should be integrated into a clients portfolio, with a massive overlay of Ethics based principles. And it's not a program with ethics on the side, it is integral to the program as a whole. So when I think of the opportunity with you as an example, the ability to have an impact on the next generation is such an important one that we must do as the leaders of the industry. Beginning with greater education and greater awareness of ethical based principles where the client comes first.

But concerning the mechanics of your question: Our program is a two-part program that is given twice every year in March and in September. It is not for the faint of heart and about 200 hours of study time. Pass rates are in the mid 50% range. It really is an outstanding tour through each of the verticals like I mentioned before, so Hedge Funds, Structured Products, Real Assets, Private markets, etc. to give you a greater understanding as to how these works. Show you this knowledge in a practical and pragmatic way as opposed to reading it in a very biased way on the front page of the financial.

Thank you for the elaborate answer, so let's turn the current year with the COVID-19 pandemic. How did COVID-19 influence the world of alternatives? For example private equity and venture capital.

I think that it has affected the real market and real economy. When we had that massive drawdown in the S&P 500 or any index in the world, we had the capital market and real economy hurting together. The central banks came in and provided monetary and fiscal stimulus on steroids, and a lot had to be done so I'm not saying it is a foolish move, but all of a sudden it has given tremendous octane to the equity markets. If you look at the separation between the capital markets where we seem to be hitting new records every day, and then what is going on in the streets of perhaps Rotterdam but certainly in Boston. I went in for a dentist appointment which is only about 10 miles from my house, and I was shocked at how much of a ghost town it looked like. I couldn't find a single coffee shop including Starbucks that was open. We have got to think about how we reconcile these two markets and how to get them back together again. Jeremy Grantham from GMO just came out with a PGS today and called this market the biggest bubble since the Dutch Tulip crisis. He's old enough to say whatever he wants, but he's certainly not a dummy. I think we should be looking at some of these signs - and I'm not predicting a market crash, just to point out the very obvious discrepancy between these two worlds.

You mentioned Private equity and venture capital specifically. When you think about a sustainable business model and really try to look into ESG risks for example, there is a school of thought that it is going to be much better had in the private markets. There you have long term investors with patient investors, that's what you need to have, and I agree with that. But when you look at the playbook going into COVID, what seemed to happen more often is not that the GP is calling portfolio company X and saying this "Draw down your line of credit, furlough employees and push your vendors out and squeeze your landlord until you get a better deal on the rent". That does sounds like a shareholder first model, and that really showed that most companies, while they didn't necessarily have to expect a pandemic, were not prepared for a business interruption. I think that all of us have to take a step back and figure out what we should have learned going out of COVID and how to be better stewards of our business.

So speaking of CAIA, but we quickly adjusted to working from home. This happened right in the middle of our March exam, and as a result of that which went okay for the level 1 candidates and then the level 2 crashed. All the test centers went down because of COVID. So fortunately our candidates said we'll do the exam in September. But then we're looking forward - is COVID- is still going to be with us in September? Naively I think most people did not think it was going to stick around through the summer. We made a decision during the early days to move to online proctoring. Any candidate that wanted to take our exam anywhere in the world could take the exam from the comfort of their own home. We ended up seeing the largest Exam class in the history of CAIA in September 2020. I think that really underscored the fact that our mission has got to be sustainable. When we say to our candidates "we'll take a couple of cycles off", that's a bad answer. Is online proctoring perfect? No, far from it. But we did our due diligence, we looked at the exam results and we found no discernable difference, although some kinks might need to be worked out.

"I think COVID forced organizations to make strategic decisions that normally might have taken years, and we had them in a matter of days or hours."

Organizations that failed to step up and answer the bell probably ended up making some poor decisions by not deciding anything at all. We saw a tremendous crisis, professionally and personally, and tried to make the very best of it. I couldn't be prouder of our colleagues and friends for what they did, not for ourselves, but for the benefit of the end investors around the world.

So you mentioned the discrepancy between the real economy and the capital markets. I wanted to touch a bit upon real estate. You also mentioned low interest rates for example. We've also seen home sales in the US increasing because of this, but does this stir some worries reminis**cent of 2007/2008?**

This could be a very different crisis if it does come to that, and there will be an end to this, as we can't have this intervention forever I don't think. I just don't see central banks disengaging and walking out quietly with nobody noticing. I think that what we had in 2007 was driven by subprime lending to a large degree. There is probably still some of that in the system, but I think the underwriting risks are less and that the person holding the bags at the end are going to be less the banks. What ended up happening, broadly speaking, is that a lot of the lending has gone down to the funds. The fund is now the lender, that is one thing for start but to bail out a bunch of private partnerships and funds? I don't think so.

But I don't think the average homeowner knows the complexities of what happens when you take out a mortgage. The thought that that bank still owns the mortgage like the good old days, that thought was never true then and isn't true now. It's sold many times over, who services it turns over a couple of times too, these securities get packaged in some kind of mortgage-backed security and tranches are setup. In a world with ultra-low interest rates, the only kind of way you can make these attractive is by having a higher yield or equity tranche. That attracts more risk as well. I think that the structuring side of the house, that light is always on. And as rates get more and more tight, they'll always get more creative. Maybe that is an area that we have got to be thinking about. I mentioned these SPACS earlier, I don't know enough about them to be hugely conversant here, but there is a lot that the end investor doesn't understand. There is a lot of transparency that has got to come in the market. The point is most investors are stretching for yield, and I don't think they fully understand the risks they're taking.

Ultimately we have a tale of two cities as well. Minority communities and the less well off are really suffering due to COVID. I saw something in Barron's that like 60% is owned by the top 1%. That Is not the people's market, that's a little cohort's market which is not a good thing. We need advancing middle classes. As someone from the tail end of the baby boomers, I need a functioning generation coming after me to buy these houses from me. That is something we need to give more thought to. We can't have the top 1%

or maybe the top 10% control the majority of the wealth with the other 90% suffering.

With these vaccines coming up and being approved, we are interested in your economic outlook. What might be interesting next developments? Are you optimistic about the short term?

Short term less so, long term I am bullish and optimistic. I think there are a lot of interesting developments, and we are just scratching the surface of the usefulness of for example AI and machine learning, especially in our industry. We just rolled out a new credential, the financial data professional, which is meant to bridge the gap between the data scientist and the more traditional analyst which are both involved in the same investment process. So I see tremendous innovation and opportunity for the good long term, but short term we are just masking what seems to be a brewing problem. If you go back to downtown Boston and all the stores are dark, how are they going to come online? Will the employer bring all those employees back to Boston? Some people have compared this COVID-19 situation to 9/11 in terms of what it did to the mental psyche of the working row. That was a horrible event, but it had a shorter shelf life, there was a sense of resolve of coming back and rebuilding. Certainly in the US some sense of national pride. COVID is going to be well over a year of lockdown, I used to be on a plane nearly every week, but now I haven't been on a plane since I flew back from London earlier this year. Those muscles atrophy, we have got to figure out what the global employers are going to be doing. Will there be a hybrid model or back to business as usual? And what will the employees want?

What we found is that business worked quite effectively on a remote basis and even a lot of universities. I think it has shown that education to some degree as a commodity, and universities have to set themselves above and should demand a premium price, but going in terms of an education proposition it should be like buying an index fund. You should be able to get that beta at a very low rate, and if you want something above that you've got to pay.

That's an interesting analogy that you've used to see education as some kind of commodity. I've read online that many students are questioning proceeding with an MBA program as it costs up to 80000 euros.

"I very much believe in education and the arts play an important role too, but I think that as a parent and as a student this is going to be one of the most important investments you'll be making. "

You have to be thinking about what your expectations are for the returns on that investment. It doesn't have to be all monetary, but you are writing a pretty substantial cheque, or at least someone is, through loans or subsidies or parents. I don't think we've had to ask ourselves that question. Having had kids going in and out of college the past years like clockwork, tuition bills ticked up 6% to 7% every year when inflation was at zero. The tide has gone out and there is very little place to hide now.

Going back to this point I made earlier about this whole disruption tied to machine learning, logistics, AI, this is going to require a very different kind of employee. Some employers have gone out on record and said: "you know what, I'll bring you in myself and I don't need you to be trained with a college degree. In fact a college degree is going to leave you polluted and I'd rather bring you in raw and teach you some of these skills". Universities need to be thinking about what the working world wants and need from graduates in order to bridge that gap.

Do you believe that CAIA and CFA for example play a bigger role, where employers feel that traditional education will not be as essential as before as opposed to credentials and practical certifications?

Well it would be very self-serving for me to say: "absolutely you're right". And I'm not going to say that. Every single day I do give some thought to, aside from investor first, that I view myself as the steward of the CAIA association and brand. The board has entrusted a very important responsibility to me and my goal is to, whenever I step down, hand it off better than when I inherited it in the first place. But then I also think about the cab driver who thought: "that Uber and Lyft thing? That isn't going to get anywhere". Next thing they know they get run over by an Uber driver. It's not in a paranoid way, but we have always got to be looking over our shoulders and into the future. There is not a single business, including the credentials industry, that is not going to be faced with a certain degree of disruption. Is it going to be a one size fits all credential? 11 thousand members, and someday 20 or 30 thousand, is that single certification, single textbook, single curriculum, going to suit the needs not only of the candidates, but also about the employer wants? Do they need something that is more geared toward how an algorithm works? Or how you could take a Bloomberg feed and turn it into something that has some Machine Learning tool hooked up to it? I could envision a world where some of these credentials are still viable because professionalism is always important, but there might be different pathways. Could CAIA or CFA or RFM be a series of "micro badges". Where if you want to take a certain path, you do this, this and that part of the curriculum as it is mandatory, but there are certain different pathways where you can go. So if you are more focused on Machine Learning take this part, if you are more focused on ESG take that path, and if you are more focused on Private Markets take this path. I could very much see that developing. We have got to have our eyes wide open and never adopt the hubris that we'll be the exception to that rule. There will be no exceptions, and if you think you are the exception you will not be a survivor.

So you can almost say that supplementary to traditional education you can pursue CAIA for alternatives, GARP for risks, as a sort of electives?

Yes, absolutely. When I was travelling I talked to students all over the world and I very often got the question "Should I take CAIA?". I would ask them what they want to do with their career, and if their answer was "I'm not quite sure, but I'm interested in Asset Management" I would go on and say go take CFA. It's a broad-brush credential and viewed as sort of the minimum to identify yourself as a broad brush professional, and CAIA and GARP sit neatly on top of that. But if they're interested in alts? CAIA, absolutely. Interested in financial planning? Go take the CFP. We do not have to be a one size fits all, and certainly as CAIA we are very narrow but very deep and I recognize that. But every early professional should think less about how to monetize a credential or how collect all of the credentials so employers will be impressed. You need to think about the credential as in how it fits into the mosaic that establishes you specifically as a professional. Just because your friend or colleague has the credential, it may or may not be the best fit for you. I will say that professionalism matters and credential matters, but it has to fit into your story.

If you are going to monetize a credential in the short to medium term, it's a very slippery slope. I'll tell you from personal experience, I didn't mention I used to work for PwC for the first couple of years I got out of college. I got the CPA and then left public accounting. I moved into asset management and wasn't using the credential. So I'm a retired CPA and don't use the credential because I'm not up on the continued education. But in terms of the mosaic how it fits in, I've chaired audit committees, I'm designated as an audit committee financial expert. I used to be involved in them from a CFO perspective. I think that people look at the mosaic that I have as a professional, what I've accomplished, what jobs I've had, the school I went to, and the CPA is an important part of what defines me as a professional. It's an important piece but it is not the only piece, and it is not the only thing that defines me as a professional.

We noticed that you used to work at Bear Stearns, which is funny because our mascot is Bear Stearns. Do you have some interesting stories from that time, or could you tell us something about the difference in working in finance between then and now?

So I left Bear Stearns in 1988 and I remember distinctly when it went down and JP Morgan picked it up, I was shocked that a firm like that could ever, ever go under. It was shocking to me. At my last job there they would send out a large group of young professionals to go out and around the country and buy entire mortgage books of business. So we would take a sample of that and re-underwrite that just to make sure there were no credit risks or underwriting standards that fell by the wayside. When your liquidity dries up, you're dead. Liquidity and cash are king when going gets tough. If I have to take anything away not from my time there but from the demise of that firm, it's not time to stop dancing but maybe you should be dancing a little bit closer to the door. You always want to be well diversified and know that your trap doors are.

ETFs & mutual funds

From consolidation to commonality

The asset management industry has been transforming quickly. It is especially under pressure due to the rise of passive investing. We see a shift from active money management and mutual funds (MFs) towards exchange-traded funds (ETFs). To illustrate this shift: in 2018, $369 billion shifted from long-term mutual funds to ETFs. In 2019, Charles Schwab was the first online brokerage to eliminate commissions or ETFs (along with U.S. equities and options), fueling the popularity of ETFs. 2020 sends another warning for active managers: Investors added $427 billion to U.S. ETFs in 2020, whereas MFs have lost about $469 billion, a record loss.

Not only does the ETF industry exhibit an episode of growth, we also see that this segment is becoming increasingly concentrated. It is easy to see why: passive investing is just a game of efficiency, especially for index funds. For example, each ETF that tracks/replicates the S&P 500 provides the same gross return. So ETFs, amongst each other, can only compete by having lower costs than everyone else, i.e. ETFs aim to be cost-efficient. The main way to do so is to spread fixed costs over the amount of assets under management (AuM).

In other words, ETFs exhibit economies of scale. It doesn't cost significantly more to run a $100 billion index fund compared to a $1 billion fund. Consequently, larger funds are able to charge less fees than the little fund. As investors pick the fund with the largest net return (lowest cost) for a given index, the largest index-fund managers will get bigger. On the other hand, the smaller index-fund manager will see that his AuM decreases over time. Ultimately, the ETF segment will consist of a few major players. This is exactly what we observe in practice, with firms like Vanguard and BlackRock dominating other firms by far.

To illustrate the concentration in the U.S., the largest asset manager in the world, BlackRock, known for its iShares, has $7 trillion AuM. Index pioneer Vanguard has $5,6 trillion AuM, whereas State Street has $2.9 trillion AuM. All three firms (the Big Three) together possess about 80% of all indexed money.

Is it "game over" for MFs? It's unclear how MFs can recapture the market share that they have lost. Management fees for these funds can't drop by too much as talented fund managers want to be compensated for their "skill". In addition, the big players like BlackRock can undercut with respect to fees. Especially, for example, in the fixed income segments (where yields are already low), a small difference of a few basis points (bps) can be a total gamechanger.

It is clear that the rise of passive investing puts pressure on active managers, and this is visible in the form of consolidation among active managers. Recently, we observe increasing merging activity within the active asset management world. Invesco acquired Oppenheimer Funds from Massachusetts Mutual Life Insurance in 2018, while Janus Henderson Group and Standard Life Aberdeen were formed in mergers in 2017. In addition, On Feb. 18 (2020), Franklin Resources announced a deal to acquire Legg Mason for almost $4.5 billion, which would bring its combined assets (AuM) management to $1.5 trillion.

More recently, in October (2020), Morgan Stanley announced that it was acquiring Eaton Vance for approximately $7 billion. Bringing in Eaton's AuM ($500 billion) meant that Morgan Stanley Investment Management would manage over $1.2 trillion, reaching James Gorman's (CEO Morgan Stanley) goal to join the $1 trillion club. Morgan Stanley's move induced a domino effect among asset managers. On the 29th of October, Bloomberg reported that Bank of Montreal was exploring options for its asset management operations, which already had $273 AuM in 2019. Earlier that week, similar news was announced for Wells Fargo ($607 billion AuM). Meanwhile in Europe, Société Générale had decided to pursue a sale of Lyxor ($180 billion AuM), one of Europe's largest ETFs providers.

On the other hand, Credit Suisse Group said it would cut 10% of the staff at its asset-management business, which oversees $494 billion, as it tries to turn around the tide. Another notable announcement (11th of December, 2020) came from State Street, which is exploring options for its asset-management business. It is evaluating potential combinations with Invesco and UBS. State Street has over $3 trillion AuM, including the SPDR S&P 500 ETF Trust, which became the first U.S. ETF in 1993 and is the world's largest with $320 billion AuM.

Thus, we see four developments in recent years. The asset management industry is growing (i), which is driven by growth within ETFs (ii), the concentration within the ETF sector is increasing (iii), and increasing merger activity within the active management segment (iv). These trends are likely to continue in the upcoming years, especially because active mutual funds want to remain market share, and have to stand their ground.

Time for some food for thought: are these developments a good thing? Let me perhaps rephrase this question: does the ETF industry induce anticompetitive effects on the real economy, and should this be put under higher regulatory scrutiny? A simple answer is likely to be a "no". First, investors want to hold a broadly diversified portfolio across the cross-section (see Modern Portfolio Theory). The growth in the ETF industry implies that investors, especially from the retail segment, can easily obtain a diversified exposure. Second, the fees of passive investing products have been decreasing over the years. In this sense, ETFs facilitate cheap and easy access to financial markets to investors, therefore may increase market efficiency, and might be considered pro-competitive.

However, I'd still like to raise some red flags. If large ETF players continue to become even larger, and the active segments keep consolidating, it won't be hard to envision a future in which the investment management industry is being run by a handful of mega-size asset managers. What is troublesome, to me, is that concentration may reduce product-market competition. For example, if vehicle manufacturing firms are all owned by the same handful of investors, then the managers of those firms prefer to keep their product prices high, rather than cutting prices to gain market share from competitors, since competitors are part of the holdings of the main shareholder. In a sense, you could argue that competitive behaviour from one manufacturer results in self-cannibalization of the profits of the main shareholders. This line of argument has been used by academics: common ownership encourages coordinated behaviour among companies linked by mutually-linked shareholders. Recent empirical evidence validates this line of argument (Elhauge, 2020).

But there is a deeper problem. Eventually, most public companies will predominantly be owned by the same dozen asset managers. The shares will be split among those funds and portfolios at the big asset management companies, each with their own portfolio managers and objectives. Of course, the shares will be held on behalf of the ultimate investors in those funds.

Nevertheless, every big public company will look at its list of top shareholders, and share commonality due to names such as "BlackRock", "Vanguard", etc. The people who run those asset management firms, who set their voting policies and supervise their portfolio managers, will have a lot of power over all of the public companies.

Suppose, a company like Shell is owned by three large asset management firms for 80% of the shares. What does this imply? Should someone intervene? How will 80% of the votes be justified, as they are made by 3 other entities? Do we exclude that 80%? That would not be fair. Ask their ultimate investors how to vote? I doubt that ultimate investors want to participate in voting for hundreds of firms that are being held in the average index-fund. How do we construct other formal rules for shareholder voting? Is this just the consequence of the "free market mechanism" and everything is just okay like this?

I might be exaggerating a bit, as 80% is too much. But to illustrate the magnitude of this problem, in realistic numbers: ~22% of the shares (Jan 2020) of the average S&P 500 company is essentially owned by the Big Three, compared to 13.5% in 2008. Their voting power is greater than the 22%, as many (smaller) stockholders don't bother to vote their shares. In addition, the Big Three owns 18% (Jan, 2020) of Apple Inc.'s shares, compared to 7% at the end of 2009. Of the four largest U.S. banks, they own 20% of Citigroup, 18% of Bank of America, 19% of Wells Fargo, and 19% of JPMorgan Chase. The holdings are even more pronounced among small caps. In the figure below, you can find the stake of the Big Three for each S&P 500 company.

Passive investment firms argue that there is nothing to worry about as they don't vote as a bloc. Index funds don't buy shares to pursue some goal, they just track the index and buy whatever there is in the index in proportion to market values. One other argument made by passive investment firms is that if they don't run their business, then active investors would be holding those same shares, which probably doesn't serve investors as good as passive.

Nevertheless, voting power is voting power. Fund companies' combined votes allow them to express their views on important financial decisions of the underlying companies. Even Vanguard founder Jack Bogle warned just before his death (Jan 2019) that there may be too many shares in too few hands. Index funds are so successful that they could one day effectively control the U.S. stock market. "I do not believe that such concentration would serve the national interest," he said.

In B&R's winter magazine of last academic year (2019-2020), I raised ETFs issues pertaining to illiquidity, systemic risks, and asset pricing distortion. Here, I described another dark side from a different angle: voting power and antitrust. I'd consider asset-management mergers as some meta-mergers for the entire economy. As big asset managers get bigger, and also more concentrated, the ownership of every public company becomes concentrated as well. In addition, the economy is increasingly being tied together by common ownership of public companies by a few large asset managers. Antitrust issues are probable in the future, and I'd be definitely raising my red flag!

Want to read more about ETFs?

Das Kapital Investments

Get to know a new addition to B&R Beurs

What was your motivation for forming a new group?
I had talked with quite a few other students who were looking into joining B&R Beurs about what teams they were planning on joining. Most interested people were worried about the time commitment, because it was hard enough to keep up with their studies as it was. So I decided to make a group which wouldn't have as strict membership requirements, so we would still be able to participate in B&R activities, slowly learn more about the stock market, and not have to commit to anything we didn't have enough time to pursue. And also, we wanted a group that consisted entirely of graduate students.

How did you come up with your group name and why have you chosen it?
We went through a democratic process on deciding on our team name. Everyone was able to input a name suggestion. Then after a series of votes we concluded on Das Kapital, which is the name of the text written by Karl Marx. We wanted to use this name to demonstrate our belief in a political system that isn't dependent on the exploitation of the masses, and that our participation in B&R Beurs also shows our belief that such a system would still be able to exist within a capitalist market. We also thought that the extreme contrarian viewpoints would be funny.

What do members of your Investment Group have in common?
Besides all of us being graduate students. The vast majority of us are Econometrics pre or masters students. We met via various classes and events put on by the school. The rest of the members joined because they were friends of various other team members.

What would you do if you won the Flow Traders Investment Competition?
All of the profits would be split equally up among all of the group members. And then my portion of it, at least, will go straight into my personal investments.

How is your experience of being a new Investment Group?
It's been a strange time to have just started something like this. With one of the primary goals of it to be a social group, it's difficult to keep everyone engaged while being able to meet all together in person. We have, instead, been able to do many small dinners, within groups abiding by the Dutch government's guest size regulations, where we all cook together and then, often, play a board game after. These have been great fun and have also been better, more intimate ways to get to know people, than in a small group. B&R itself has done a good job at trying to host different online events and the ones that we've participated in have been enjoyable. And they have also been consistently good at sending required documents and responding to questions. The actual investing aspect has been frustrating, as the broker is very unresponsive and slow at resolving any of our requests.

VACCINTATION
The future of our pandemic

- By Jean Holleman

> "Boycotting a vaccine would greatly affect the economic recovery"

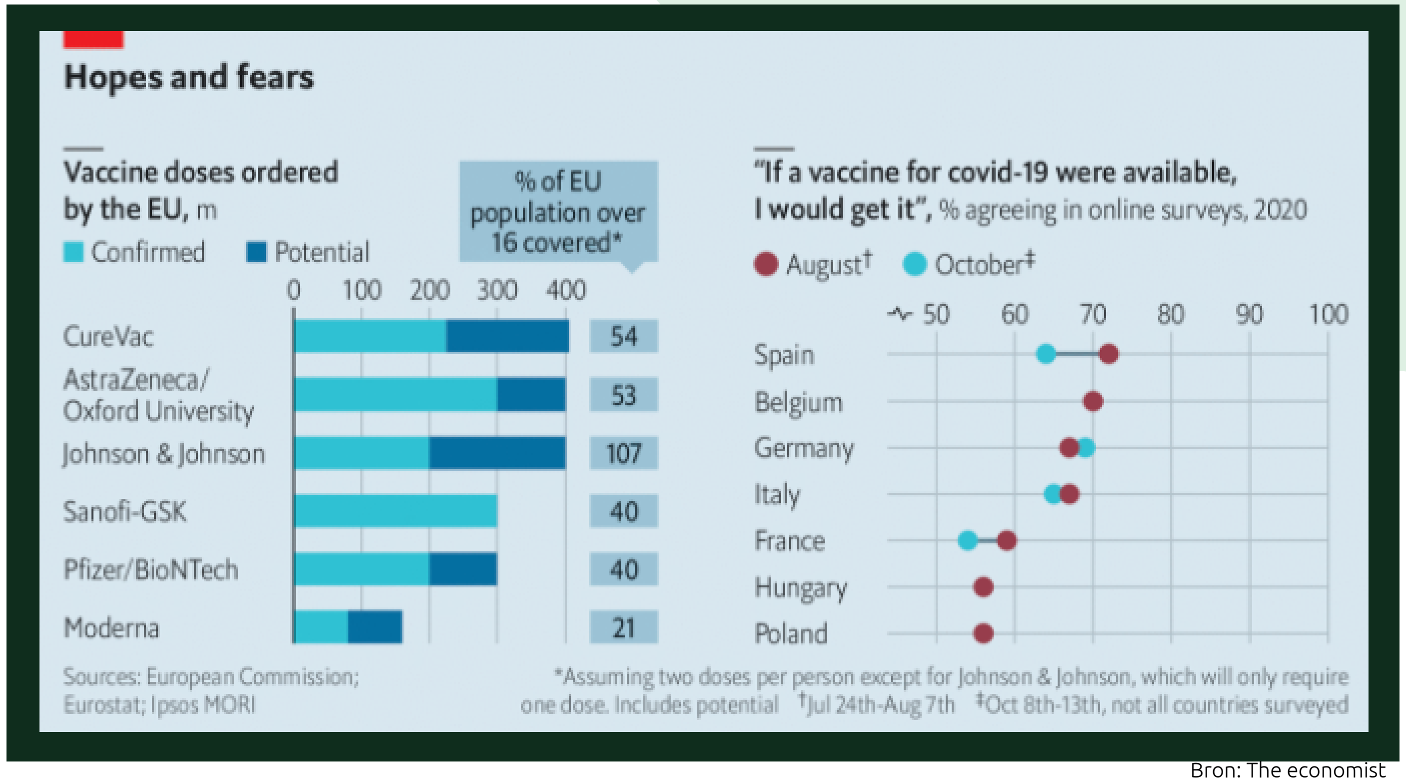
In November, Pfizer and BioNTech announced the first successful Covid-19 vaccine. After having been validated by different sanitarian authorities it will hopefully be able to fully deploy over the world in 2021. In this article, we will have a look at the deployment of the vaccines and the upcoming challenges that this will bring.

First of all, the shortness of the development period could make people distrust the vaccine. Indeed, the deployment of the vaccine might let us feel the downside of years of tremendous scientific advancements. In the past finding a vaccine could take decennia while the Covid-19 one has been found in just a few months. This could, coupled with increasing mistrust towards governments, reduce the population's willingness to vaccinate itself.

The boycott of the vaccine would greatly affect the economic recovery and probably lead to more political polarization. The mistrust could be exacerbated by the Russian and Chinese vaccines since there is a significantly bigger chance of them leading to health complications.

They could in turn increase their soft power, which would lead to tensions on an international level. The securement of the vaccines by the rich countries will probably also lead to a higher death toll for humanity as developing countries will have larger mortality rates and vaccines would be way more prolific for them.

Thereby, some vaccines themselves create logistical puzzles. For instance, the Pfizer vaccine has to be kept at -70 degrees. Most countries do not possess these refrigerators in enough quantities to be able to vaccinate their populations quickly.



Bron: The economist

Good news is that other vaccines like the Moderna one do not require these temperatures and can be more easily deployed. Furthermore, the vaccines have limited scalability. According to the Serum Institute, the world's largest vaccine manufacturer, there would only be enough doses to vaccinate the whole world in 2024.

Lastly, there is still a lot of uncertainty surrounding the effects of the vaccine. Indeed, it could well be that the vaccine only protects us from being sick but not from making others sick. If this is the case, the vaccination process might be more difficult as people would need to be protected for longer. Another uncertainty is raised by the volatility of the virus. The virus could mutate which would make the available vaccines obsolete.

Overall, while we might see the end of the tunnel, the pandemic is far from over.

There are still many challenges needing to be resolved and frictions to be overcome. The vaccination process may lead to long-lasting stigmas for our societies both from an international as from a domestic point of view.

Cautious optimism

"Forecasters did a terrible job in 2020 and it is easy to see why"

2020 will be memorable in so many ways, especially how ex ante market expectations were just plainly wrong. Forecasters did a terrible job. It's easy to see why. Not a single market strategist incorporated terms as "global pandemic, "lockdown", "34% market crash", "worst economic recession since the 20's" into their economic outlooks and decision-making.

However, 'black swan' events, whatever that might be, often shake down market expectations. There is one important lesson that we never should forget: Financial markets are packed with drama, and will never change. With precedents, such as the 1929 crash, Black Monday (1987), DotCom Mania (1999), the Great Financial Crisis (2007), nothing should come as a surprise. Yet 2020, nonetheless, has shown that we fell again in this fallacy. What is more remarkable, given this pandemic year, is the widening (and consistent) gap between financial market expectations and the economy.

A gut-wrenching sell-off in equity has been followed by rapid recovery in asset prices. Between February 19th and March 23rd, the S&P 500 index lost a third of its value (see the blue line in figure 1). Without missing a beat, since then it rocketed, recovering more than half its loss. The catalyst was news that the Federal Reserve would buy corporate bonds, helping big firms finance their debts. Investors shifted from panic to optimism. Major US indices even hit record levels, way before the recent good news on Covid-19 vaccines.

The V-shaped recovery of asset prices, however, did not match the sluggish response from the real economy. The red line (inverted scale) in Figure 1 shows that the US continued jobless claims rose substantially and remained high. This disconnect between the quick recovery of financial markets and the sluggish response of the real economy has been the source of much debate. While asset prices implied too rosy views, macroeconomic releases and estimates pointed toward a stagnating economy. To me, it seems that the risk of an aftershock was underpriced during Q2 and Q3 of 2020.

Meanwhile, the global economic situation remains uncertain. Another coronavirus wave is sending parts of Europe back into recession. That is sapping energy out of the US recovery, and limiting the extent to which better performing east Asia can be a powerful locomotive of global growth. In addition, a new variant of the coronavirus is haunting us, while we do not know the hazards of this version yet. The longer this continues, the greater the risk of "scarring" that erodes longer term growth.

Given this gap between economic fundamentals and market expectations, the outlook for 2021 can be summarized in two words: cautious optimism. Among asset managers and institutional investors there is a consensus that 2021 will experience a large rebound in economic activity, supporting assets that gained since March 2020, but also those assets that have been lagging. In addition, bond yields are expected to stay low.

Nothing is more reassuring to investors than knowing that central banks, with deep pockets, will buy the securities they own. Especially, when central banks are willing to do so at any price with their unlimited patient funds. The result is a market fueled with liquidity, resulting in rallies regardless of fundamentals. Although equity investors judge that the Fed (or ECB) has their back, for now, there are multiple reasons to stay cautious. Against a rosy consensus, dangers lurk in inflation, a virus setback, and the sheer weight of optimism.

In addition, the hunt for yield with exploding negative-yielding debt is being pushed to the extreme. Currently, there are over $1.5 trillion bonds outstanding in "zombie firms".

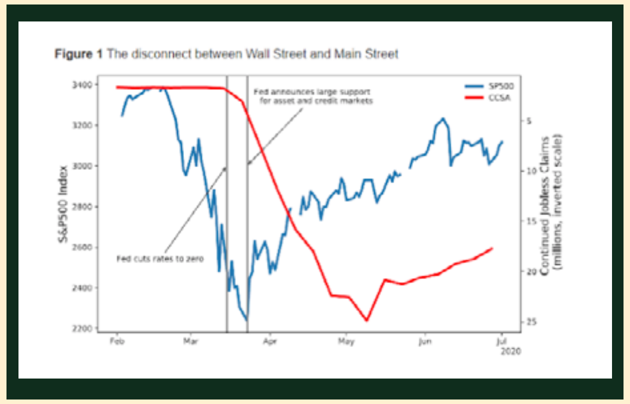


Figure 1 The disconnect between Wall Street and Main Street

In total, the high-yield market has 4.5x more debt than the "last 12 month earnings before taxes and other items", a ratio that already exceeds the 2008—2009 default cycle peak, and is likely to worsen in the future. As interest rates are consistently low, investors have an incentive to accept lower quality credit into their portfolios, thereby giving rise to credit risk.

Lastly, there is a possibility of a virus setback in 2021. The market rally that we have seen in 2020 is based on the assumption that everything will revert to "normal" or even better due to corona vaccines. This is a risk, as we do not know how long it will take before economies are back at full level. It won't be a walk in the park to produce, and distribute these vaccines on such a large scale, and might take a full year before most of the population got vaccinated. Although there is a consensus that 2021 will be a recovery year, it is still unknown what shape this recovery will take form. Lastly, what should be concerning is the optimism and sentiment in itself. The success of the market itself has caused overly optimistic sentiment. In itself, stretched sentiment doesn't portend an imminent correction, but it does mean the market is more vulnerable to the extent there is a negative catalyst, which could come in any number of forms.

Leaving Libor – the game changer that nobody is talking about

Imagine one single event that would affect (almost) every single financial institution on the globe , and potentially impact billions worth of outstanding financial contracts. Surely such an event would cause an uproar, panic even, and is sure to stir up a considerable storm. And yet, with all eyes diverted towards geopolitical and pandemic events, barely anybody is speaking about this ongoing shift within the financial system. What is this big transition all about? For that, it is important to take a closer look at so called "reference rates"

Reference rates are benchmarks that are used to determine interest rates or pay-offs within financial contracts. Contracts such as loans, swaps and mortgages are all examples of products that utilize such reference rates, and are therefore widely used by almost every player within the financial industry. One of the most widely used reference rates , is the London Interbank Offered Rate (LIBOR). LIBOR is a benchmark that is commonly used for short-term (overnight to one year) interest rates, and is based on estimates submitted by a collection of leading banks in London that lend to one another . Since LIBOR is used in so many large scale instances of valuation, commercial contracts and risk management, it is often dubbed the "world's most important number". With LIBOR underpinning more than $300tn of financial contracts, one can imagine the implications that can come about when this number is influenced.

However, LIBOR is not only being influenced, it will cease to exist altogether. As LIBOR transactions have been steadily declining since the 2008 financial crisis, they are now viewed as a sub-optimal. Since banks and other financial institutions are now financing themselves from other sources than the interbank markets (which is what LIBOR benchmarks), the number is no longer a representative benchmark to compare loans against. Financial authorities have therefore decided to utilize different rates, called "Risk-Free Reference Rates'', which should provide a more accurate and trustworthy reference for lenders. One of the flaws that LIBOR had was that it was prone to manipulation, as in the past some banks were caught falsely inflating and deflating their LIBOR rate in order to profit from trading. The newly proposed rates such as SOFR (secured overnight finance rate) and SONIA (Reformed Sterling Overnight Index Average) are both based on transactions significantly higher than LIBOR, and are "backward looking", meaning that they are based on past transactions, as opposed to LIBOR which was a "forward looking" estimate.

Even though these reforms will provide additional stability and safety into the financial system in the long run, the short-term impact of the transition will bring about considerable risks and costs. Not only will financial firms have to change their risk-profiles and hedging strategies based on these new rates, it could also cause many contracts to be re-negotiated. Since LIBOR rates will cease to exist at the end of 2021, and there are still many contracts outstanding with a later expiration date that reference it, lots of price changes for these contracts can be expected to occur. This could have significant impact for either the lender or the borrower based on the nature of the contract, which could prove a potentially fatal blow during the post-pandemic recovery era.

It is therefore no surprise that financial institutions around the globe are buckling up for this ride to come. Although many financial regulators and government bodies are assisting and supporting this transition, the responsibility ultimately lies with all private and corporate players active on the market. Being aware that LIBOR is leaving therefore prepares you for things to come, as failing to say your proper goodbyes will end up costing you.

Europe Big Tech

Robert Zdonkiewicz

Tensions between the United States and China make it clear that Europe should gain more technological independence. The European economy is very large, yet Europe is far behind when it comes to big tech companies. What is the cause of this discrepancy?

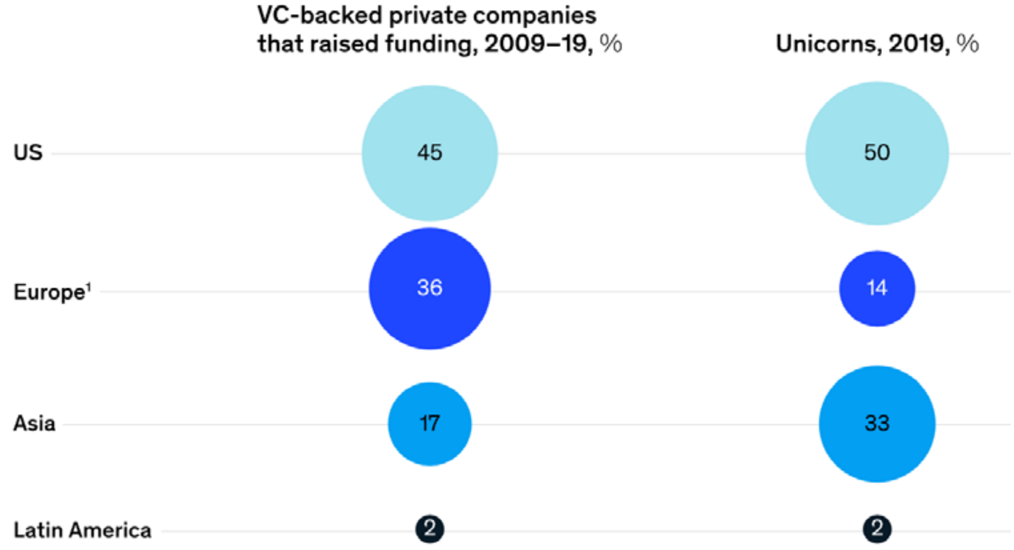
"It's much harder to do business in Europe than in the US. There is too much regulation and not enough capital for growth" said ex-Google executive Eric Schmidt in an interview five years ago. Since then, the European tech sector has grown 4x times in total value from €155 to €618 bln. In addition to that, 205 unicorns (privately held companies worth more than €1 bln) have been born in Europe between 2005 and 2020. Some examples are Klarna from Sweden, Deliveroo from Great Britain, and Mollie from The Netherlands.

Despite these promising numbers, Europe is still far from where it should be. This year, the top 10 biggest IPOs in Europe only raised €26 bln, whereas in the US, the ten biggest offerings raised over €108 bln. The same goes for China: just the IPO of the Chinese fintech company Ant Group alone was expected to raise over €27 bln. Although postponed, this offering illustrates just how far behind Europe is.

According to McKinsey, the problem is that very few European start-ups become unicorns. China and the US are far more successful in making start-ups grow to become large companies. Those 205 European unicorns are great, but there could have been many more. What contributes to this problem is the fact that the venture capital market in Europe is relatively immature. In the US, VC firms have made billions on their investments in companies like Facebook and Google. These gains allowed them to further invest in new start-ups. In Europe, such massive gains have not been made yet.

Prince Constantijn van Oranje says Europe's position is still "vulnerable". "The founders of Adyen, Elastic, and Takeaway succeeded in growing their business because they are exceptional entrepreneurs, not because the ecosystem works so well", according to the prince. This is changing, slowly but surely. Europe is beginning to form a network of ex-tech founders who invest private funds in promising companies. Last year Niklas Zennström, founder of Skype, and Daniel Ek, CEO of Spotify, started funds to invest in European start- and scale-ups.

So, how can Europe secure a stronger position in Big Tech? Raising startup capital is not an issue anymore, but when firms want to raise large amounts of capital they often have to turn to US investors. To fix this, national governments and the EU should not start funds for small start-ups, but for very large investments. This will allow Europe to make a "tech catch-up".



Source: McKinsey, October 2020

Adnaan Willson

Let's start with a quick introduction, who are you, what did you do at B&R Beurs and what are you doing now?

Honoured to be featured in this year's edition and this read will be worth your time. My name is Adnaan and I am finishing up my studies in econometrics (quant finance). In my second year (2016), I joined B&R Beurs and fell in love with the society. I joined two committees and Conquistadores Capital. A year later, I applied for the role of Education and Career commissioner, which was one of the best decisions in my life. Currently, I am leading algo trading in the academy committee and am a proud member of the supervisory board.

Why did you decide to be an active member and subsequent board member?

After a year of econometrics, I was looking to join a society which wasn't only about drinking. Coincidentally, a good friend dragged me to the first introduction academy, and I attended every event during the first months. After joining Conqi, I held that momentum and applied for committees. I met different people and learned valuable soft and hard skills. After my exchange, I spoke with board members about doing a board year and how it impacted their lives positively and that motivated me to apply.

What are some of the most important things you've learned during your time at B&R?

That depends on how much time you have. In all seriousness, my time at B&R Beurs gave me opportunities to speak with students from other disciplines and practitioners in the fi-

nancial services industry (and other fields). In terms of investing, the relationship between human cognitive biases and investing has made me aware of my own biases.

Have you got any stock tips or trends to capitalize on for new members looking to make their first investment proposal?

Depends on the person, they may have experiences that would give them an edge in certain industries. Being a retail investor, you have to understand what you can do versus what funds cannot do. You may focus on companies with small market capitalisation. With your time and judgement, you could formulate a different view from the market. Keep it simple, it's about understanding the investment decision process. Concretely, take a look at trend following strategy (momentum) such as the recent boom in electronic vehicles companies and their suppliers. Look at second and third order impact of news. If oil crashes -> oil manufacturers drop -> oil storage (can) rise -> oil transport (can) rise. Finally, don't follow the crowds and manage your risk taking!

Career

What is your advice to those who are stuck at home due to the Coronavirus but want to keep developing themselves career wise?

Companies are limiting their recruiting and people are stuck at home, but people have more time for (video) calls. Reach out to alumni from B&R Beurs to ask them questions about their career. People love to talk about themselves. Furthermore, consider picking up a new skill or interest, it doesn't have to be finance related. I started triathlon training. Career wise, you could learn Python and start with coding a calculator and then try harder projects or challenges (Machine learning on Kaggle).

You've had internships at an Investment Bank and two hedge funds, what are your tips for students trying to break into notoriously competitive industries?

Get the right people around you who will support and challenge you. Concretely, apply early, make sure you stand out (have an edge): this could be networking with (former) employees at that firm, company events and/or extracurricular projects. Understand these industries well, both have very stressful jobs which aren't 9-5? Feel free to reach out to me.

Fun

What's the most memorable moment you have had at a B&R social drink or activity?

There was one professional academy by fund manager Harold de Boer. The content was simple: 'How do markets work and trend following', but he made the audience get up from their seats and form groups. We even did a small assignment, which left a great impression on me. Also, he had a strong 'Drents' accent

Do you have a general message or piece of advice for all B&R members?

Get the most out of your time studying because before you know it's over and proactively network with other students and professionals. Create a LinkedIn account and people are surprisingly willing to talk to you if you are a student.

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In Depth Article

Explaining the IPO craze

by Jean Holleman with insights from Marc Frippiat

Traditionally, tech companies are known as being reluctant to open up their equity. However, this trend seems to have changed lately as we witnessed a surge in tech IPOs. Indeed, many firms took advantage of the market frenesy t raise money. In this article, we will take a look at the causes of this bubble and its implications.

We will first have a look at some of 2020s most remarkable IPOs. The most famous one was definitely Airbnb which closed at three times the range given by the company itself. This difference might have been partly fuelled by the interest in travel stocks after the vaccine announcements. Another, quite more controversial IPO, was that of Palantir. This data company has never been profitable, has low ethical standards, and an opaque governance structure. It was still valued at $21.2 billion, nearly 1.5 billion more than the private valuation by the banks.

This surge in the valuations of the tech companies may have multiple causes. On one hand, it could be driven by the belief in a long-term change of consuming habits. This assumption would hold for instance for companies like DoorDash, the meal delivery service. This may also hold for tech companies as digitalisation took advantage of the lockdowns and will probably stay way more important than it has been before the Covid-19 crisis. As examples of this type of start-up think of Snowflake, Palantir, or even the aborted Ant Group IPO. This equity rally could also be a bet on a rapid economic recovery. This may be the case for a start-up like Airbnb that had endured severe losses during the pandemic.

However, taking into account a broader market view, the bubble may largely be driven by the amount of liquidity injected by the central banks (see the graph). In March, they bought securities from companies covering their risk of default and thus making them valuable to investors. This high level of liquidity also affects the actual IPO market. Indeed, the companies that had an IPO were often start-ups and are thus, often driven in the long-term and not always profitable in the short term. Thus, they require funding and they are taking advantage of the high valuations in order to bring cash in.

The ability of these companies to sustain their value in the long-term will greatly depend on multiple factors. First, they will have to consolidate their balance sheets and protect themselves against possible upcoming future regulations. This will reduce the possibility of them going bankrupt in case of a harsher economic situation and will also secure their cash flows. Indeed, the quantitative easing policy has been successful so far but nothing tells us it will continue to be in the future. For instance, if strong inflation occurs the bond market will likely be impacted as the interest rates would increase. This could turn out to be critical for companies that rely too much on debt.

An interview with Bob Homan

Bob Homan is 52 years old and has been managing ING's Investment Office since the start, 13 years ago. Before this, he worked in different roles as an advisor, portfolio manager and analyst. Since graduating in economics from the University of Amsterdam he has always worked in investments.

What intrigues you the most about investing and why so?
A colleague of mine once stated, we have the best job in the world. We're studying all day and get paid for that. And I consider that as a good summary. Investing has so many aspects to it. It's about geopolitics, macro,- meso- and micro economics combined with sociologic and psychological aspects.
You can form an opinion about all these and put that into an investment conclusion and then execute that in a portfolio. Then the competitive part starts. Are you able to beat the market performance with your portfolio? In other words are you smarter than your competitors? In a discipline where every such thing can be calculated these comparisons are easy to make. Thinking about it now I may say that I like the competitive part.

What distinguishes a 'good' from a 'bad' investor in your eyes and how could one become a better investor in the future?
I think a good investor must be very flexible and must be prepared to change his style in different periods. Sometimes the markets look at valuations, in other periods trends are the drivers of return then some factors drive the market. You must be smart enough to see this market regime changes and be flexible enough to jump on the bandwagon.
Bad investors are those who are always a little behind the curve and thereby buy high and sell low.

Which industry has been impacted the most interestingly or unforeseen with the outbreak of Covid-19 according to you?
As you could see in the returns over 2020 the energy sector performed worst. Not so strange given the fact that traffic by car as well as by plane diminished. The same holds for the hard-hit travel sector and bars and restaurants. On the other hand, the demand for IT like companies increased sharply because of the forced living in an online world. Both these impacts seem pretty predictable. Perhaps a little bit more surprising, but still a bit predictable were the exploding sales of sport bikes and fitness gear for home-usage. And for some effects, you have to think a bit harder. So did the demand for gas fall deeper for the big brands than for independent gas stations due to the contracts between car lease companies and the big brands. What seemed an advantage with more or less guaranteed turnover appeared to be a disadvantage. The impact on leased cars miles was way bigger than on private cars.

How could a (young) investor best hedge his or her portfolio during the pandemic crisis?
A very simple answer here: Not! Especially younger investors must foremost harvest the risk premia. Hedging your portfolio isn't for free. Just like fire insurance, it will cost you money/return. What in my opinion holds for all kinds of insurance, don't buy one if you can afford to take the risk yourself. Investors with a longer horizon can afford a short term draw-down.

What do you like most about the Symposium, hosted by B&R Beurs together with FSR each year?
Foremost I like the atmosphere of the big young enthusiastic crowd that gathers every year. You can feel that the organizers as well as the rest of the public feel like they are attending a very special event, which it is. An event that is so well organized and with a lineup of such good speakers that every event manager will be jealous

Where do you see yourself in 10 years from now?
Given my background and interests, I will probably still work in the investment industry and even in a function that looks like my current one. I like the combination of economic and financial content combined with responsibility and leadership.

Can you give us a golden tip regarding investment decisions, speaking from your own experience and wisdom?

Sure, don't look back too much. Instead, think of what is to come.

Stock prices don't have a memory. When a stock is beaten severely it doesn't mean it will move back to previous levels. On the other hand, when a stock has gone up severely it still can go way up. Think of Apple, LVMH and Microsoft, with a relatively small investment 20 or 30 years ago you would have been a millionaire now. In reality, hardly any of the early investors have enjoyed that ride completely. They were out when their profits were 50, 100 or even 1000%. There is a saying that taking profit doesn't make you poorer. I would add that it doesn't make you rich either.

Investment Week & Symposium

Max Witte is a 21 year old member of Fides Investments and the President of the 37th Board of B&R Beurs. He has been a member for almost four years and has taken part in the Almanc, Introduction Period and Investment Week & Symposium Committee. In this article he will elaborate on the current challenges faced by the IW&S committee and how they will try to overcome them.

Can you tell us what the IW&S is all about?
The Investment Week & Symposium is the largest career related event of B&R Beurs which is organized in corporation with FSR. The IW&S consists of the Investment Week in which we invite numerous partners from Monday up and until Friday to give workshops and information sessions to the members of B&R Beurs and FSR. The Investment Symposium is hosted on Thursday night, usually at De Doelen, where four partners will discuss a certain topic within the world of finance. The IW&S is the perfect opportunity for students to get in touch with companies and the work they perform on a day-to-day basis. As we invite partners in all sectors of finance, such as private equity, M&A, asset management and trading, the IW&S really is for all students that have an interest in finance.

How did COVID-19 influence last year's IW&S?
Last year, when I was part of the IW&S committee, COVID-19 just started to unfold itself over Europe. We then decided to host the Investment Week fully online and to cancel the Investment Symposium. Unfortunately, as COVID-19 influenced the event at a late stage of organization, the event didn't really came out the way I wanted it to I'm dedicated to make this year's IW&S a great success in corporation with FSR and our committee members!

What can we expect to see this year for the Investment Week?
This year, we have prepared ourselves for all different scenarios that COVID-19 could bring us. The most likely being a hybrid-event where a few students can join the workshops physically and the majority of the students join via Zoom. As B&R has invested in good quality camera- and sound equipment, we are able to give all students that join us online the same experience as the students joining physically.

We are already talking to all of our partners to make sure that also they will be able to enjoy the event as much as all the students. So, this year the IW&S will be fully tailored to make it suit to the situation as best as possible without compromising on the quality.

How will the Investment Symposium look like this year?
With regards to the Symposium, we are also working on different scenarios. What those different scenarios are, is still a secret. However, we can assure that the symposium will be a great success for everyone that joins! So if you want to join go to www.investmentweek.nl

When will it take place and how long is it going to be?
The event will take place on the **17th of May up and until the 21st of May.**
Within these five days, a total of ten workshops and information sessions will be held.
On **Thursday the 20th of May**, the Investment Symposium will take place.

Become an ambassador for the IW&S!
Send your CV and a short motivation to:
logistics@investmentweek.nl.

Accent Circonflexe Groupe

Let's introduce ourselves

Accent Circonflexe Groupe, established in 1992, is a trading company trading mainly shares at all major European financial markets. In the early years we were active on the Amsterdam Stock Exchange, as Market Maker. We are proprietary traders, have no clients and we are trading on behalf of the company. Our traders are independently analyzing the markets and taking positions in various instruments on stock exchanges, on their own initiative (day-to-day hedge fund). We think we have the winning trading environment: an in-house developed application suite integrated with a range of worldwide recognized financial software products. At this very moment we are looking for Junior Traders to man our US-desk. In a recently set up training environment you check in early afternoon, prepare for US-markets and start trading the moment exchanges across the Atlantic open.

Most of our traders work from our Amsterdam office. Sitting in the monumental "'t Einde van de Wereld'" (End of the World) we could hardly aim for a better spot: next to Central Station and in the heart of our ever-lively capital. In 2016 a new office opened in the heart of Utrecht, a historic city, characterized by canals, terraces and a vibrant atmosphere! This fast-growing office is viewing the famous 112 meters high Dom. And then there's the sister-company on Cyprus, a good place for our Dutch traders to share their insights on trading with our international colleagues and meanwhile enjoy the advantage of beautiful sunny beaches there!

What do we look for in our traders
Our traders are mostly young and enthusiastic with a professional attitude. Defining a typical trader from background, education, hobbies and interests, is very hard, although there are some obvious similarities between them. Most have had an academic education and a strong personality. There is always passion for the business and an urge to win 'the game'. Most traders show this in private life as well: some are excellent poker players or professional sportsmen, but also online gamers that are devoted to DOTA and LoL; anything, as long as it involves risk assessment, patience and controlled aggression.

Through a flat organization structure, we maintain a positive working atmosphere. Even now, when we have to keep our distance, most colleagues love to come to the office. Not only to find an advanced state of the art trading set-up; they also find the fridges filled to their liking, there's room for relaxation (darts, pool table, boxing bag, bikes, weekly professional massage) all without dress code. We are happy that terraces in Amsterdam and Utrecht have opened again so we can -like before COVID-19- evaluate markets over drinks and food. Next Spring, we hope to visit Ischgl again for a ski-trip.

What about you?

You read the above and realize we are looking for you! If that's the case, and you don't mind the US-trading hours, send us your resume and a hell of a motivational letter. We will invite you to our online tests and if the results contribute to our impression of you as an excellent candidate: before you know you might be sitting at one of our desks to experience the real thing in a personal assessment!

http://www.accentgroupe.com/EN/Jobs/Vacancy/job-opportunity-for-trader-Amsterdam

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