

Fund manager profile Rob Drijkoningen, Neuberger Berman

CULTURE CLUB

Rob Drijkoningen took his whole team with him from ING Investment Management to Neuberger five years ago and he still finds the entrepreneurial culture of his employers to be empowering

Sebastian Cheek

In 2013, Neuberger Berman was looking to expand its global emerging market debt (EMD) offering. Rather than hiring one or two handpicked individuals to build a proposition from the ground up, it plucked an entire team from a rival asset manager.

It was ING Investment Management's line-up led by Rob Drijkoningen that caught its eye as being the best suited for this drag-and-drop approach.

Drijkoningen says he and the ING team were not on the lookout for a new home at the time but that Neuberger Berman's case for joining forces was strong and it soon became clear it would be "a perfect marriage".

"There wasn't enough time to hire in a couple of individuals and start growing organically," Drijkoningen explains. "Neuberger had to review a lot of potential teams and we came out top."

Twenty-two individuals came on board in May 2013, 19 of whom joined from ING, and they hit the ground running as their new employers had intended. The team adopted the same tools, same process and occupied the same roles as they had previously.

At the time, they oversaw \$200m of assets. Now, alongside Gorky Urquieta who was also his co-head at ING, Drijkoningen over-

sees \$18.6bn (£12bn) of assets and a global EMD team of 33 investment professionals across the company's global offices. The firm runs eight Ucits EMD strategies and Drijkoningen is based in The Hague.

Side-stepping

Drijkoningen spent 18 years at ING, where he was responsible for \$16bn of assets. He began his career on the sell-side, starting out in 1990 at Nomura and then moving to Goldman Sachs. He made the switch to buy-side with ING in 1995, working his way up the ladder to become the global head of EMD.

Coming from the sell-side gives Drijkoningen an "edge", he believes. "Being on the buy-side gives you more ownership of what you do. On the sales side you're always moving to the next trade. It was an interesting experience and gave me valuable insight."

After such a long time at ING, Neuberger Berman's offer must have been compelling.

"They have a very solid business model and it's free of any politics," he says of his employer. "There is an entrepreneurial spirit that is part of the culture and which permeates the organisation in terms of empowering people to do what they're good at and leaving them to it."



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Rob Drijkoningen, co-head of emerging market debt, Neuberger Berman

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Mix and match

Along with Urqueta, Drijkoningen is directly responsible for the \$2.3bn EMD Blend Strategy, which is a mixture of local and hard currency. The strategy, launched in April 2014, is where the best ideas across the firm's local and corporate debt funds, plus tactical asset allocation ideas, come together.

The portfolio's benchmark allocation is split roughly 50/50 local and hard currency, with Drijkoningen currently more bullish on the former.

As at 28 February, the strategy had just 35.68% allocated to the US dollar, with the rest split between the Brazilian real, Indonesian rupiah, Mexican peso, Polish zloty, Russian ruble, Thai baht, South African rand, Czech koruna and Turkish lira.

However, Drijkoningen says the recent increase in hard currency bond yields has meant the advantage of local currency over hard is less pronounced than it was.

"Treasury spreads widened a bit in the recent volatility spike and local currency was a bit more protected, which is atypical in a sell-off correction," he says.

Across all the EMD strategies, the team operates a top-down assessment of global market conditions and a bottom-up approach to countries, issuer credit quality, rates and foreign exchange.

Broader, deeper, wider

Drijkoningen says as part of the firm's team approach, each member is expected to contribute ideas as the specialist in their region or sector. The portfolio managers then judge the quality of this input and the reasoning behind it, before deciding if an idea is worthy of the portfolio.

"We don't have a *prima donna* approach where one person rules the game, ie that it's got to be me or Gorky," says Drijkoningen. "We truly rely on the people we have around the globe. We expect them to be the experts on their countries, sectors and corporates, and that input is then the prime feed for us taking a position or not."

As a result, Drijkoningen says portfolios contain several ideas he believes are broader, deeper and wider than some of the smaller teams at Neuberger Berman's competitors are able to tap into.

The firm is now moving outside of benchmarks to add value by increasing exposure to euro-denominated bonds that offer a premium. This is despite a general preference for hard currency, particularly those issued by Argentina, Peru, Indonesia and Colombia.

Drijkoningen notes that in recent years there has been a change in fortune for the



BIOGRAPHY

Rob Drijkoningen joined Neuberger Berman in 2013. He is co-head of the emerging markets debt team and a senior portfolio manager responsible for more than \$18bn in AUM and 33 investment professionals. He previously worked at ING Investment Management for almost 18 years, most recently as the global co-head of the emerging markets debt team responsible for more than \$16bn. Drijkoningen began his career in 1990 on the sell-side at Nomura and Goldman Sachs.

FUND PICKER COMMENT



Ben Yearsley
Director,
Shore Financial
Planning

How can you amass \$300bn of assets without being good at what you do? Although the emerging market bond desk at Neuberger Berman is only a small proportion of these assets at \$12bn, the key managers have specialised in this area for 20 years. You don't want to entrust your clients' money to generalists.

The Emerging Market Debt Blend Fund is arguably its best ideas fund having the flexibility to invest across the emerging market debt spectrum from hard to local and sovereign to corporate.

In my view, and bearing in mind emerging market debt will probably only be a small proportion of your portfolios, this is a good way to access the asset class. Performance has been good, though it has been beaten by Investec's Emerging Market Blended Debt Fund since launch (for sterling investors).

The process looks sensible and appropriate to the asset class mixing top-down views with bottom-up stock analysis – in emerging markets you have to view both parts equally.

'fragile five' – Brazil, South Africa, Turkey, India and Indonesia – whose current account deficits had become too reliant on foreign investment to finance their growth and threatened economic stability in early 2013.

These issues have now largely been addressed, he believes, yet some weaknesses remain in South Africa and Turkey. The other three, however, have turned a corner and reform is under way, which has improved productivity and growth.

Similarly, he says Mongolia, Sri Lanka, Egypt and Ghana have done well, particularly during the past two years.

In 2013, the 'taper tantrum' hit emerging markets hard when developing market stocks plummeted after the Fed said it would wind down its bond-buying programme.

Does today's rising rate, weak dollar and tapering in the US concern Drijkoningen? He admits potential overheating in the US is a risk for the asset class, given that usually "the more boom you get, the more bust you have after", but says it is sanguine for now.

"The stimulus in the US is coming when the economy is already running at full throttle, so that makes it a bit riskier down the line, maybe 2019 at the earliest, possibly 2020. We can worry about it later," he says. "It's not an immediate concern."

In the meantime, he believes yields might come under pressure but explains that rising yields have historically been a sign the economy is doing well, which often spells good news for emerging markets.

"Maybe we will see current account deficits in the US starting to widen again, which is maybe bad for the dollar but good for demand and emerging FX."

Drijkoningen feels there is a misconception in terms of Asia's powerhouse, China. People from outside the country tend to focus on the currency and are fearful of the leverage. However, while he believes there is the potential for a mild deceleration of growth, both Q4 2017 and Q1 this year surprised on the upside.

"I think there's an increasing dynamism in the local market that is less well understood by foreign observers, and this allows

growth to remain pretty solid. The service sector is continuing to grow as a percentage of GDP and is north of 55%."

He also notes that China's debt is largely incurred by state-owned enterprises and extended by state-owned banks, which means the policymakers can "control the problem from both sides of the ledger, which is a big advantage if there is a stress in the system".

Ethical efforts

Earlier this year Neuberger Berman slammed three of the largest credit ratings agencies over their poor integration of environmental, social and governance (ESG) factors into issuer ratings.

Head of ESG Jonathan Bailey said the firm was "yet to see a credit rating agency publish a transparent and detailed methodology for analysing ESG considerations as part of their analysis".

ESG factors are clearly a key aspect of the fundamental credit analysis at Neuberger Berman and the team views ESG as an important determinant of a country's investment destination potential.

The team uses academic literature and its own perspective to identify 15 ESG factors to incorporate in fundamental country analysis, making up 40% of the overall country score. The remaining 60% consists of macroeconomic factors.

These factors cover energy intensity, human development, government effectiveness, political stability, rule of law, corruption levels, ease of doing business, trade openness and banking sector risk.

Taking these factors into account throws up some interesting and less-researched countries. Drijkoningen says his team identified the Ivory Coast in 2012 when the presidential candidate Alassane Ouattara came to power after the civil war.

"Ever since he started to unlock some reforms, the country has been growing very close to double-digit," he says. "Agriculture was actually the weakest score in our rankings in those days and it's still weakish, but it has moved up a lot and left a lot of countries behind in doing so."

He says the company's model enables it to identify potential early, invest and then sit tight. "We've been overweight Ivory Coast since 2012 and we still are."

On the corporate side, the firm has hooked up with ESG ratings firm Sustainalytics, which covers about 90% of the firm's emerging markets corporate investment universe. For all of those companies, Sustainalytics gathers data on more than 50 specific factors in each of the ESG groupings.

In certain cases the team will use its clout as an investor to engage with company management and Drijkoningen cites chemicals, fertiliser and oil firm Sinochem in China as an example. The company's analysts wrote to the firm with specific questions and it replied.

"Fixed income engagement is always very difficult because you don't have a shareholder vote, yet there are ways to put a bit of pressure on the debt issuers to acknowledge certain concerns we might have. If we don't get a satisfactory answer, we don't invest."

The firm excludes tobacco, controversial weapons and child labour across the board but for the most part it applies the philosophy that if a credit's ESG credentials are weak, it commands a premium – ie, the higher the risk, the higher the premium.

This means the firm can, perhaps controversially, be overweight credits with weak ESG credentials. A case in point is Venezuela, where Neuberger Berman is starting to position for a recovery.

"Some people would possibly question this," concedes Drijkoningen. "I can understand that but we are positioning for potential recovery and recovery values. It could be that the regime doesn't leave, which would be bad news as we would then have to sit with it. I'm taking an extreme example saying we are not necessarily out of [controversial stocks]."

Drijkoningen sees this as a consequence of backing his team's convictions.

"You could, of course, create a strategy in which you are just playing best in class," he says, "but you are likely to give up a fair bit of potential upside in terms of alpha." **LW**

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