

# Groupe ABC arbitrage

*Présentation SFAF - Comptes annuels 2018*  
*“ça s'en va et ça revient”*



## ***AVERTISSEMENT***

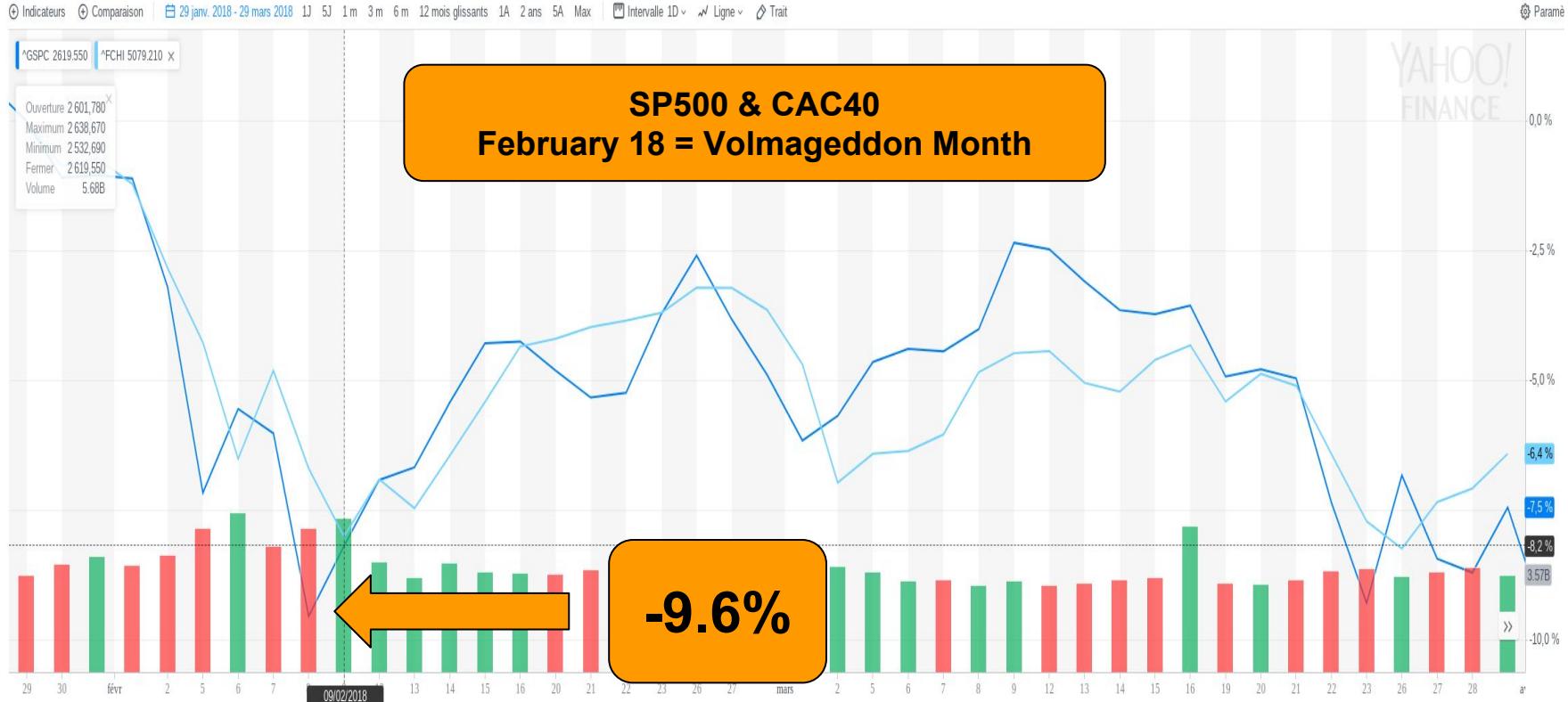
*Ce slideshow est un support de communication remis aux participants de la présentation SFAF du 26 mars 2018 et publié sur le site abc-arbitrage.com*

*Ces éléments d'information sont donnés à des fins d'illustration et ne sauraient se substituer aux documents officiels relatifs à l'année 2018.*

# S&P 500 vs. CAC 40



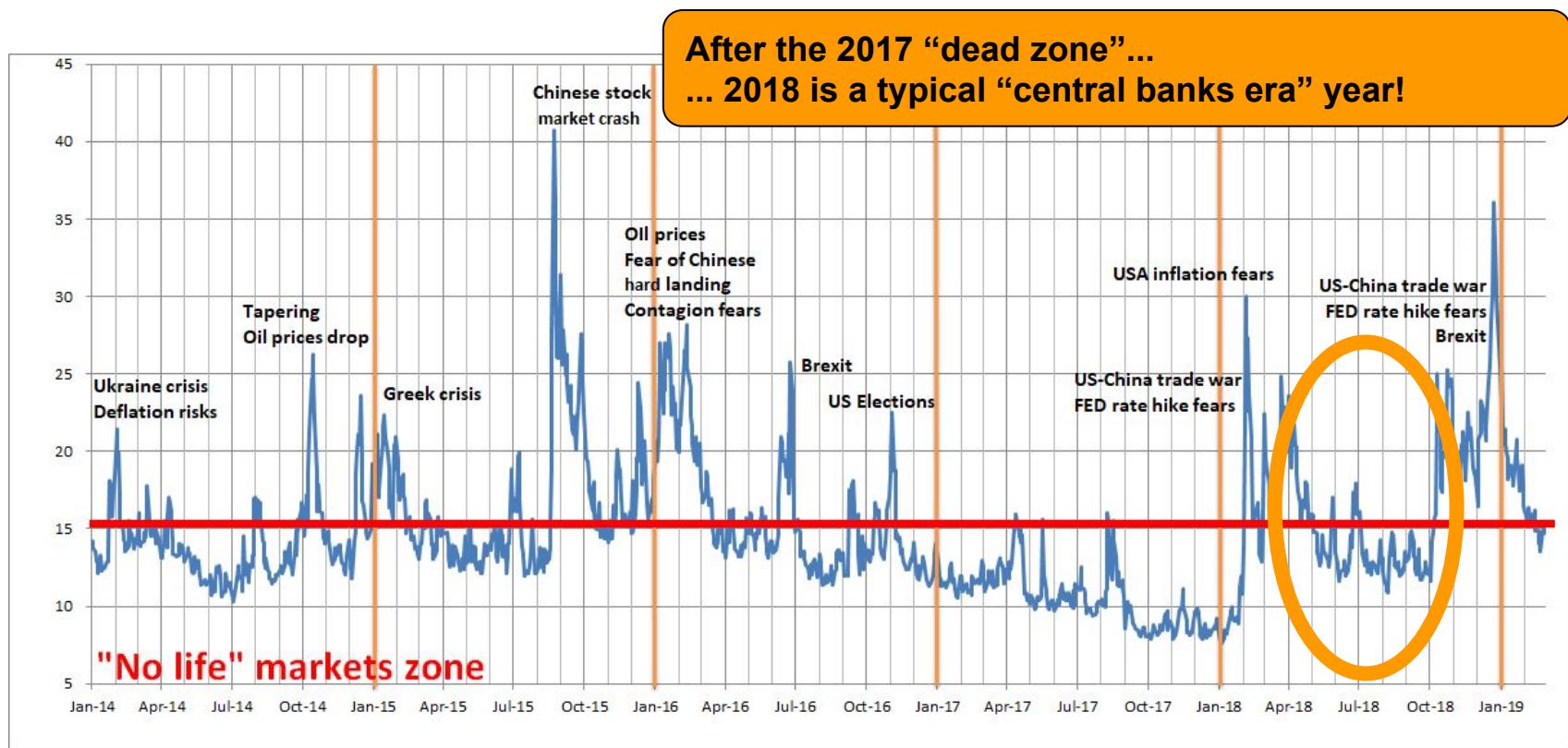
# February 2018



# Q4 2018

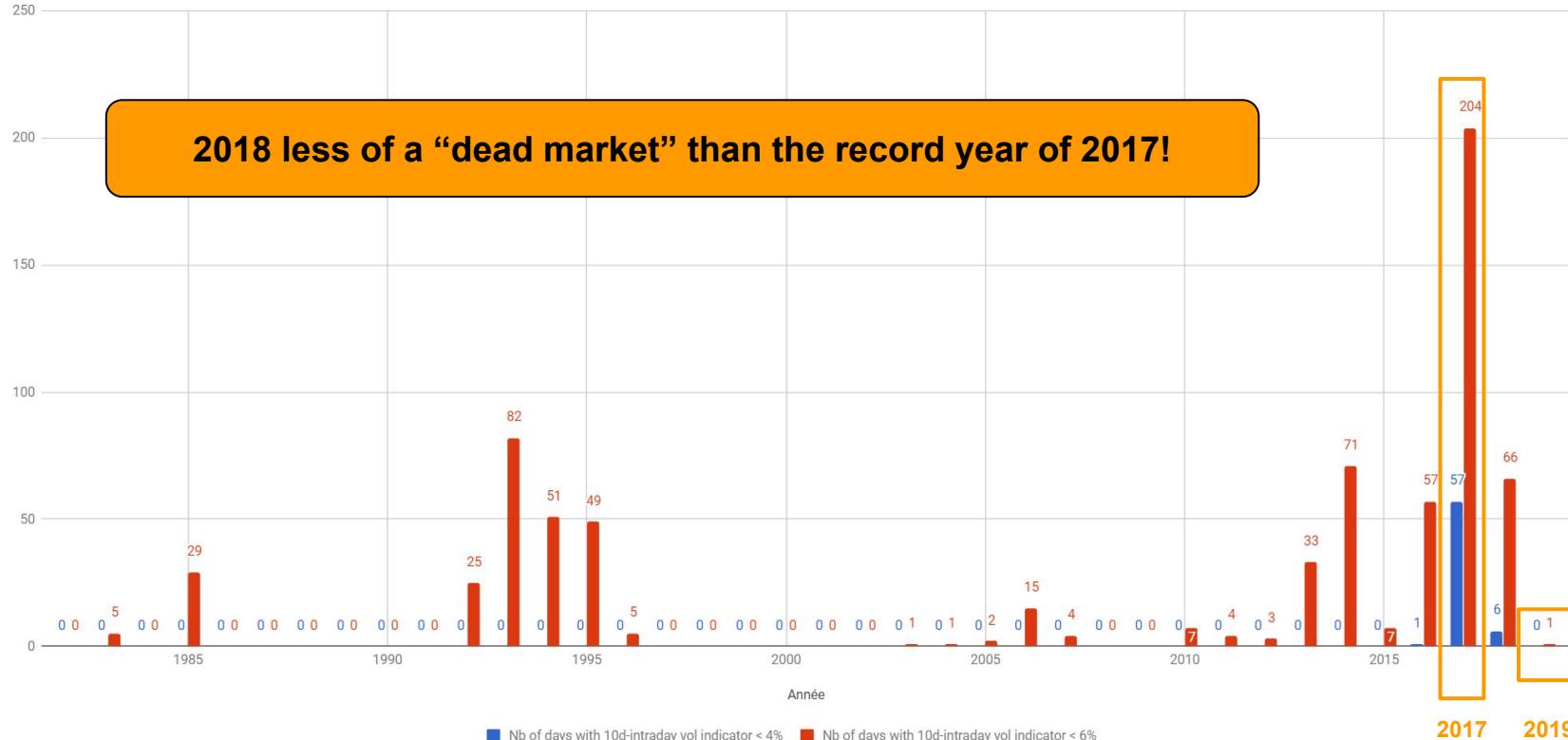


# Historical VIX since 01/2014 x Main Events

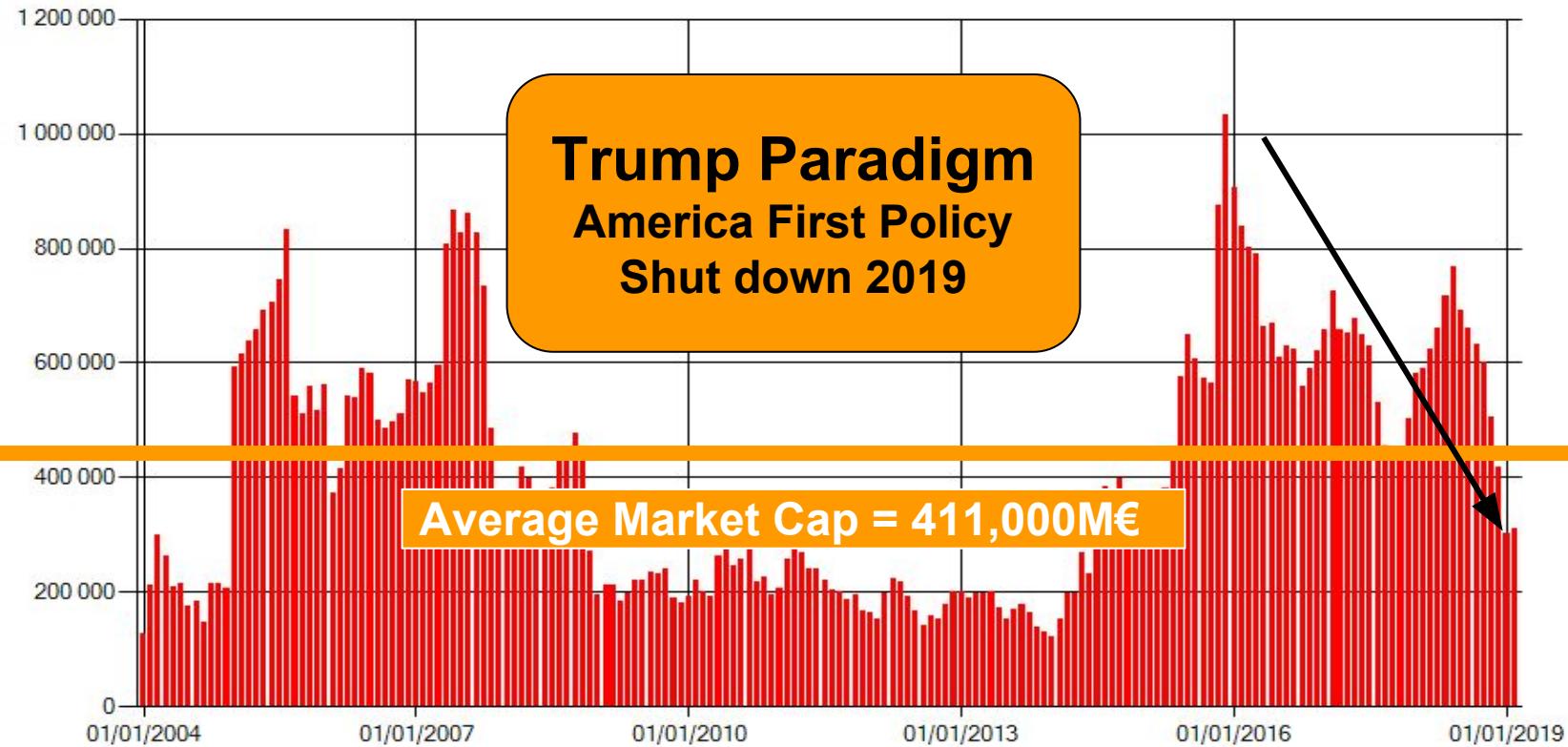


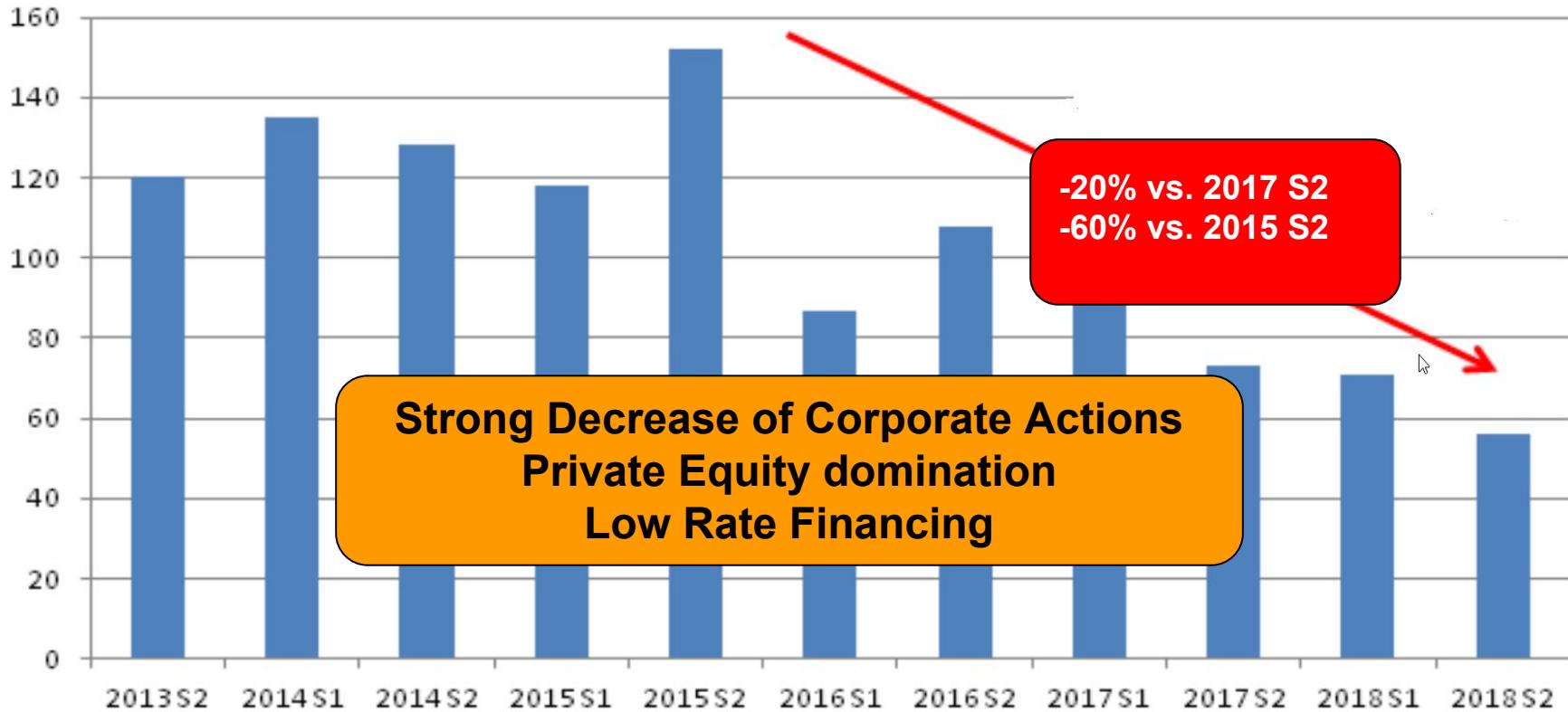
## Realized S&P 500 index Volatility





# Existing Deals Market Cap.





# S&P 500 Volumes \$ & Number of Shares



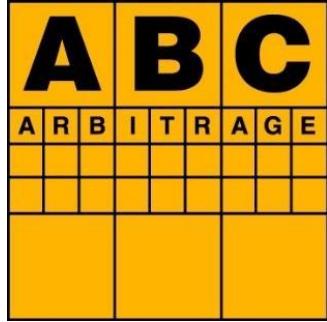
# ABC arbitrage - Consolidated Net Profits

In EUR million	31/12/2018 IFRS	31/12/2017 IFRS	Change
Investment Services Fees	16.8	16.0	5.0%
Net gains at fair value through profit or loss	23.3	22.5	3.6%
<b>Net revenues</b>	<b>40.1</b>	38.5	4.2%
Payroll costs	-13.1	-13.8	-4.7%
Occupancy costs	-1.6	-1.6	2.0%
Other expense	-5.8	-5.3	10.2%
Other taxes	-0.2	-0.1	49.9%
<b>Total costs</b>	<b>-20.8</b>	-20.8	0.0%
Income before tax	19.3	17.7	9.1%
<b>Net income attributable to equity holders</b>	<b>19.7</b>	18.3	7.5%

ROE  
12.8%

\*Taxes and costs are already in Net Revenues for subsidiaries which are accounted for using the “Net gains at fair value through profit or loss” method (IFRS 10).





Know-how ABC

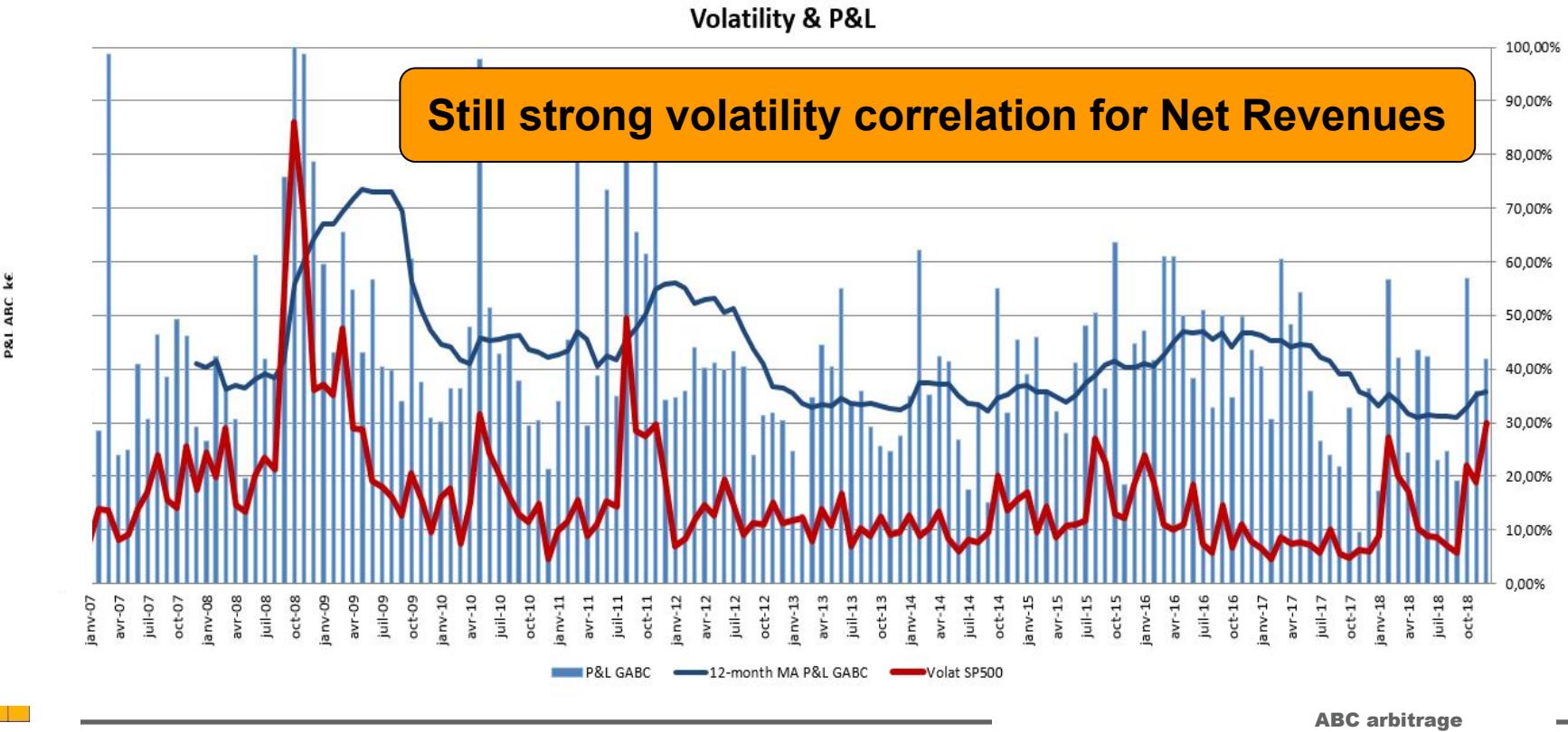
Markets Parameters

(+4.99)	189,413.27	(+12.20)	5,854.81
<b>48,829.82</b>	(+12.64)	185,475.60	(+1.70)
<b>(+29.34)</b>	52,394.62	(-2.08)	151,872.25
<b>777.65</b>	(+7.30)	58,042.14	(+14.12)
<b>(+26.38)</b>	1,002.66	(+10.78)	65,708.22
<b>15,127.81</b>	(+28.93)	1,385.27	(+12.37)
<b>(+16.63)</b>	16,696.99	(+38.16)	1,782.33
<b>9,240.74</b>	(+10.37)	(-1.89)	(+29.30)
<b>(+20.63)</b>	11,714.54	16,381.51	16,017.81
		(-22)	(+1.91)
		9,700.89	15,880.8
		(+26.77)	(+1.78)
		(-17.19)	(+2.81)

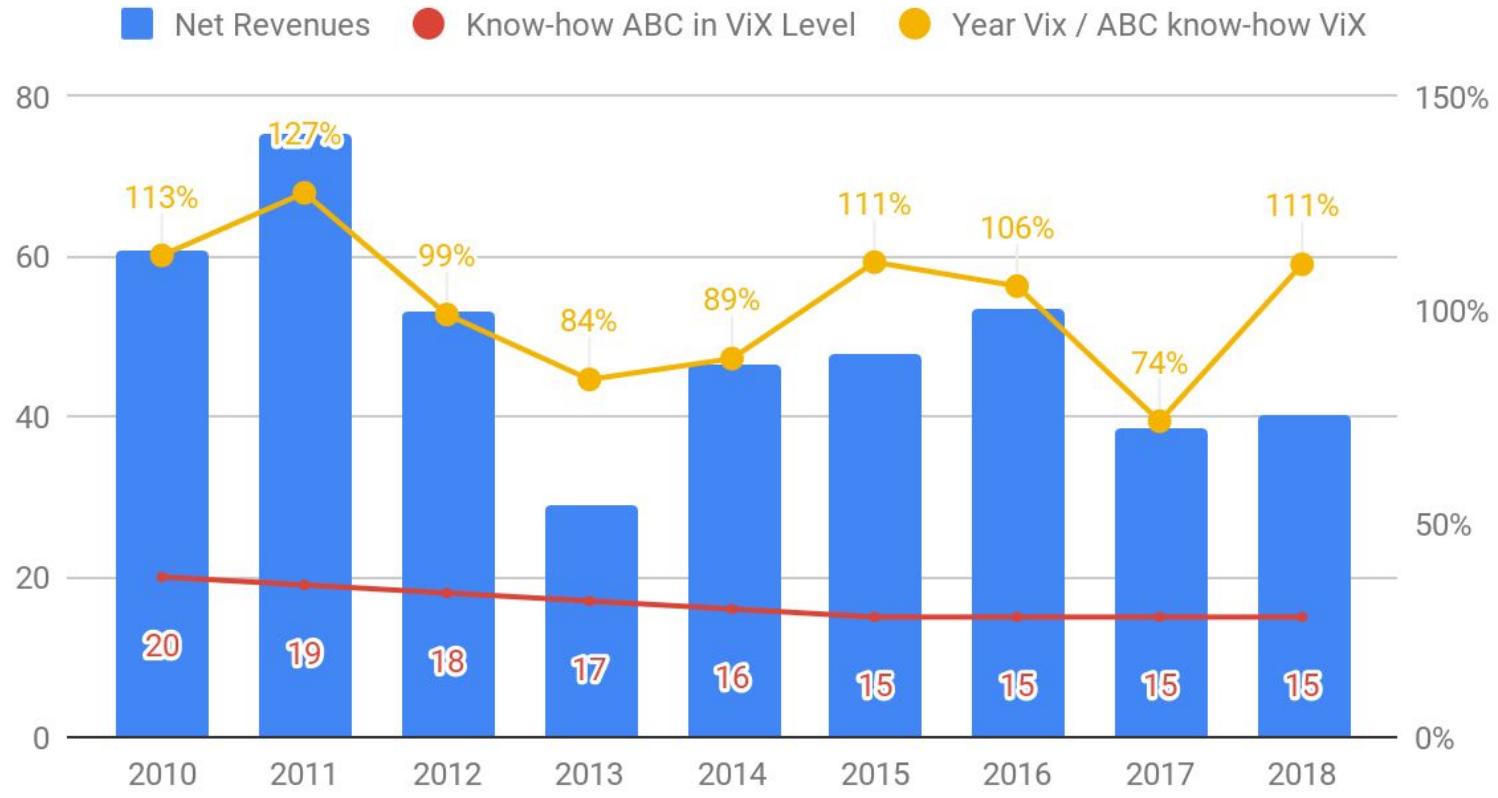
2018 = Consistent Financial Results



# SP500 20 days Volatility and ABC Business Level

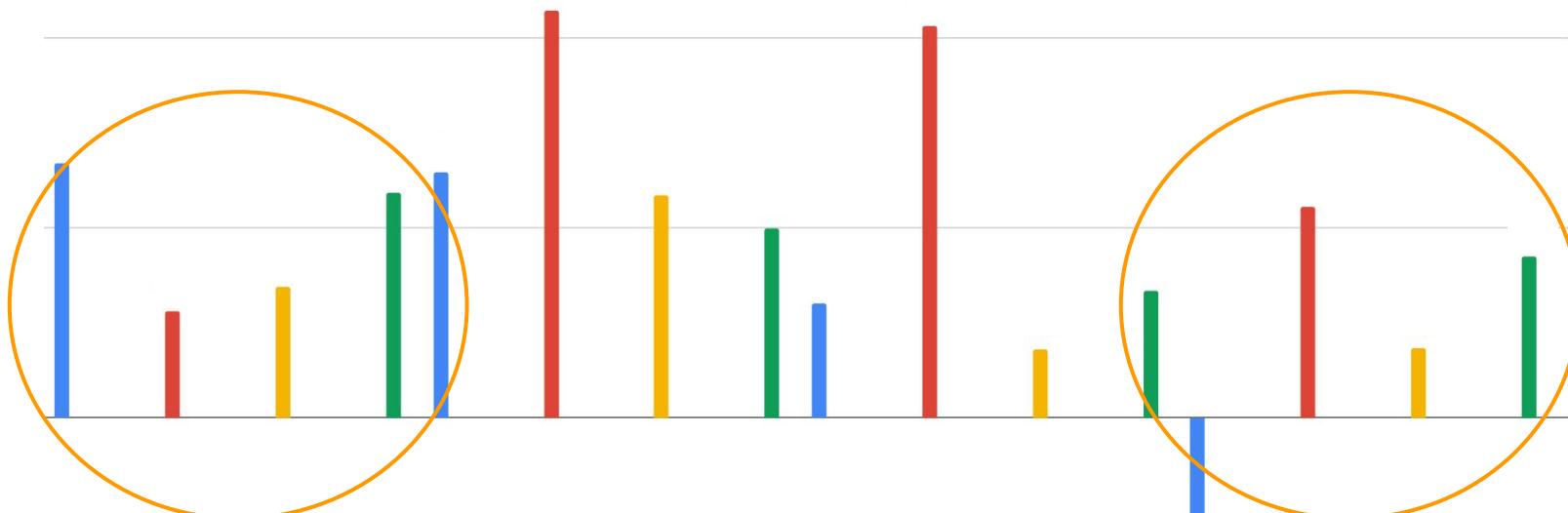


## Business Level & ViX



■ M&A & CA Gross result Q1 ■ M&A & CA Gross result Q2 ■ M&A & CA Gross result Q3 ■ M&A & CA Gross result Q4

## Low M&A and Corporate Action Revenue Drivers Trump Paradigm and Negative Rate Financement



*inhouse analytics figures*

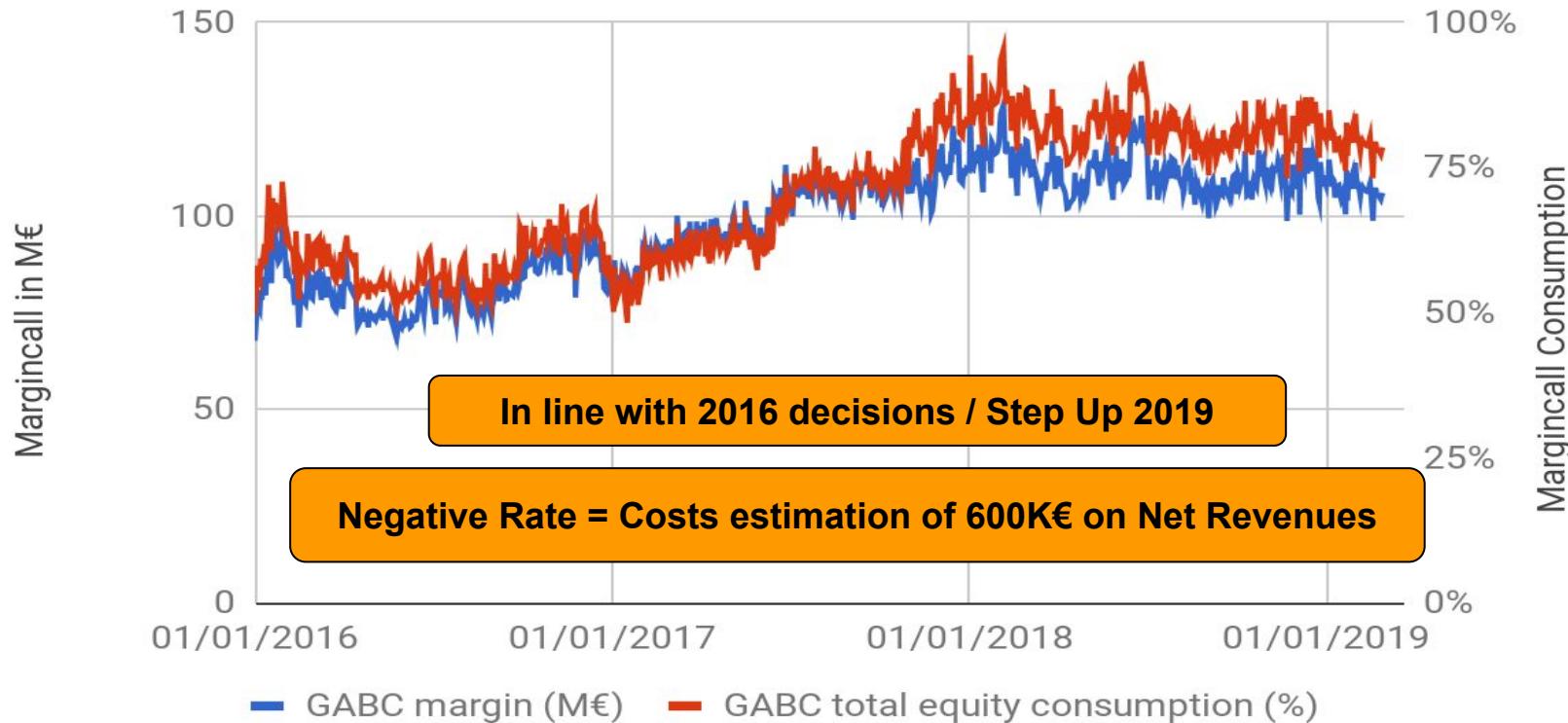
Mar-2015 Jun-2015 Sep-2015 Dec-2015 Mar-2016 Jun-2016 Sep-2016 Dec-2016 Mar-2017 Jun-2017 Sep-2017 Dec-2017 Mar-2018 Jun-2018 Sep-2018 Dec-2018



ABC arbitrage

# Indicator of the Employment of Capital

GABC

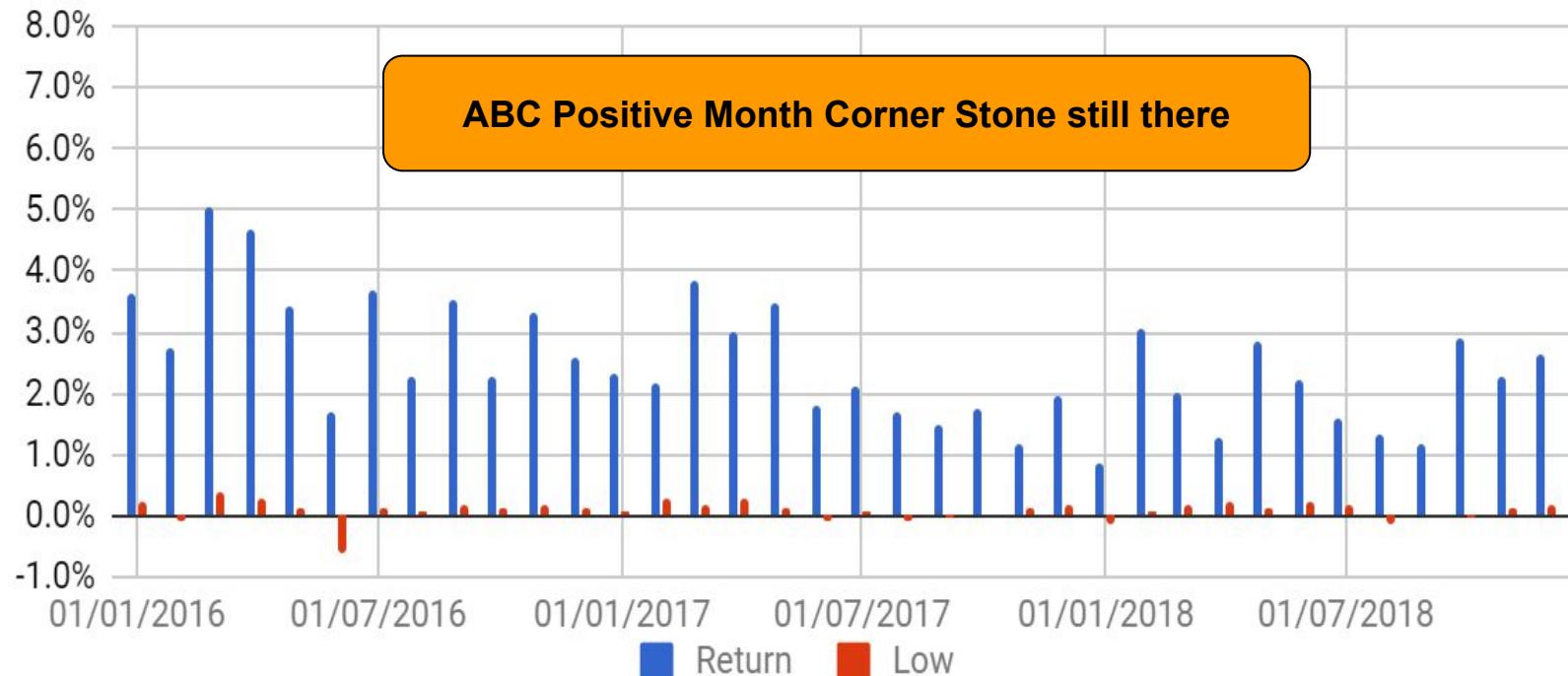


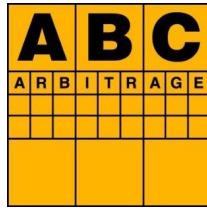
# Draw Downs and Business Level



# ABCG monthly returns

## Monthly return





# Asset Management Business



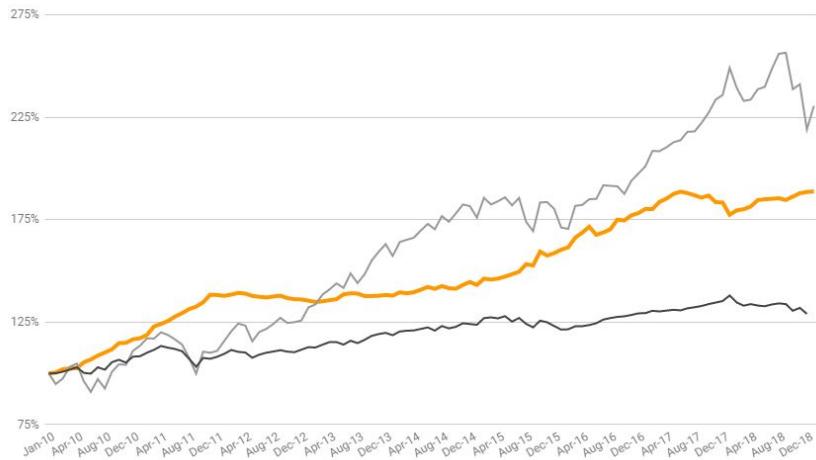
# ABC Opportunities Fund

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Since 2010
<b>Net Performance / Annualized (\$)</b>	<b>16.6%</b>	<b>17.5%</b>	-1.5%	1.7%	4.6%	9.7%	13.0%	4.6%	4.9%	7.6%
<b>Net Performance / Annualized (€)</b>	<b>16.6%</b>	<b>17.5%</b>	-1.6%	1.6%	4.6%	9.2%	12.3%	2.9%	2.8%	7.2%
<b>Positive Months</b>	100%	92%	33%	58%	58%	67%	83%	50%	83%	70%
<b>Average Negative Mth</b>	NA	-0.1%	-0.4%	-0.4%	-0.4%	-0.7%	-1.3%	-0.6%	-1.8%	-0.6%
<b>Average Positive Mth</b>	1.3%	1.5%	0.4%	0.5%	0.9%	1.5%	1.4%	1.1%	0.7%	1.1%
<b>Volatility</b>	2.9%	2.9%	1.6%	2.1%	2.5%	4.8%	4.5%	3.3%	4.1%	3.9%
<b>Sharpe</b>	5.0	5.1	-1.2	0.7	1.8	1.9	2.5	0.8	0.7	1.9
<b>Leverage (xNAV) Average</b>	Simulated and extrapolated data until Sept 2015									2.5
<b>Net Exposure (%NAV) Average</b>	2018 until	31/12/2018								106%

## Performance Chart

Simulated Data until September 2011. Extrapolated Data from Oct 2011 to Sept 2015 (ie ABCA Multi real performance since its launch enhanced with the effect of the dynamic and optimized allocation of capital and the new fee structure).

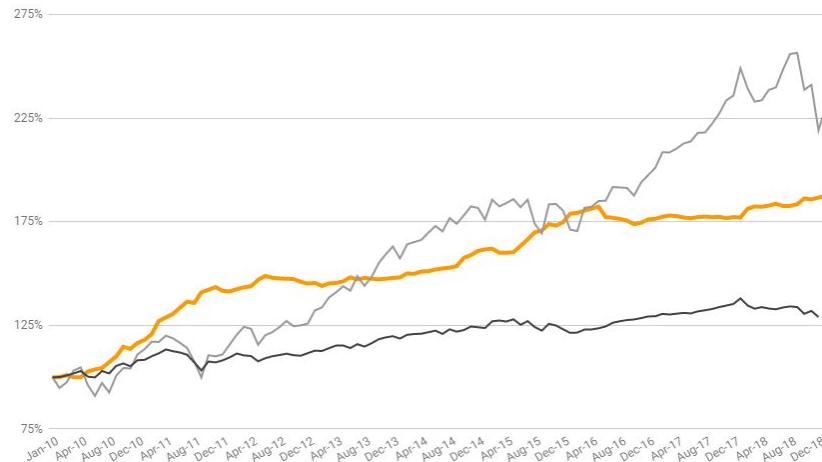
**Strong 2018 finish !**



# ABCA Reversion Fund

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Since Launch
Net Performance / Annualized (\$)	18.2%	21.6%	2.6%	2.0%	8.8%	9.1%	1.6%	2.1%	7.5%	8.1%
Net Performance / Annualized (€)	18.2%	21.6%	2.5%	1.9%	8.8%	8.6%	0.8%	0.6%	5.3%	7.4%
Positive Months	83%	83%	42%	67%	92%	75%	58%	58%	67%	91%
Average Negative Mth	-0.5%	-0.9%	-0.4%	-0.5%	-0.7%	-0.6%	-0.9%	-0.3%	-0.3%	-0.6%
Average Positive Mth	1.8%	2.2%	1.0%	0.5%	0.8%	1.1%	0.8%	0.3%	0.8%	1.1%
Volatility	5.3%	6.0%	3.1%	2.2%	2.6%	3.6%	4.0%	1.0%	2.7%	4.1%
Sharpe	3.3	3.2	0.8	0.8	3.4	2.4	0.2	0.6	1.9	1.8
Leverage (xNAV) Average	2010 comprises both extrapolated and real performance									1.0
Net Exposure (%NAV) Average	2018 until	31/12/2018								12%

— ABCA Reversion — S&P — CS LAB Index



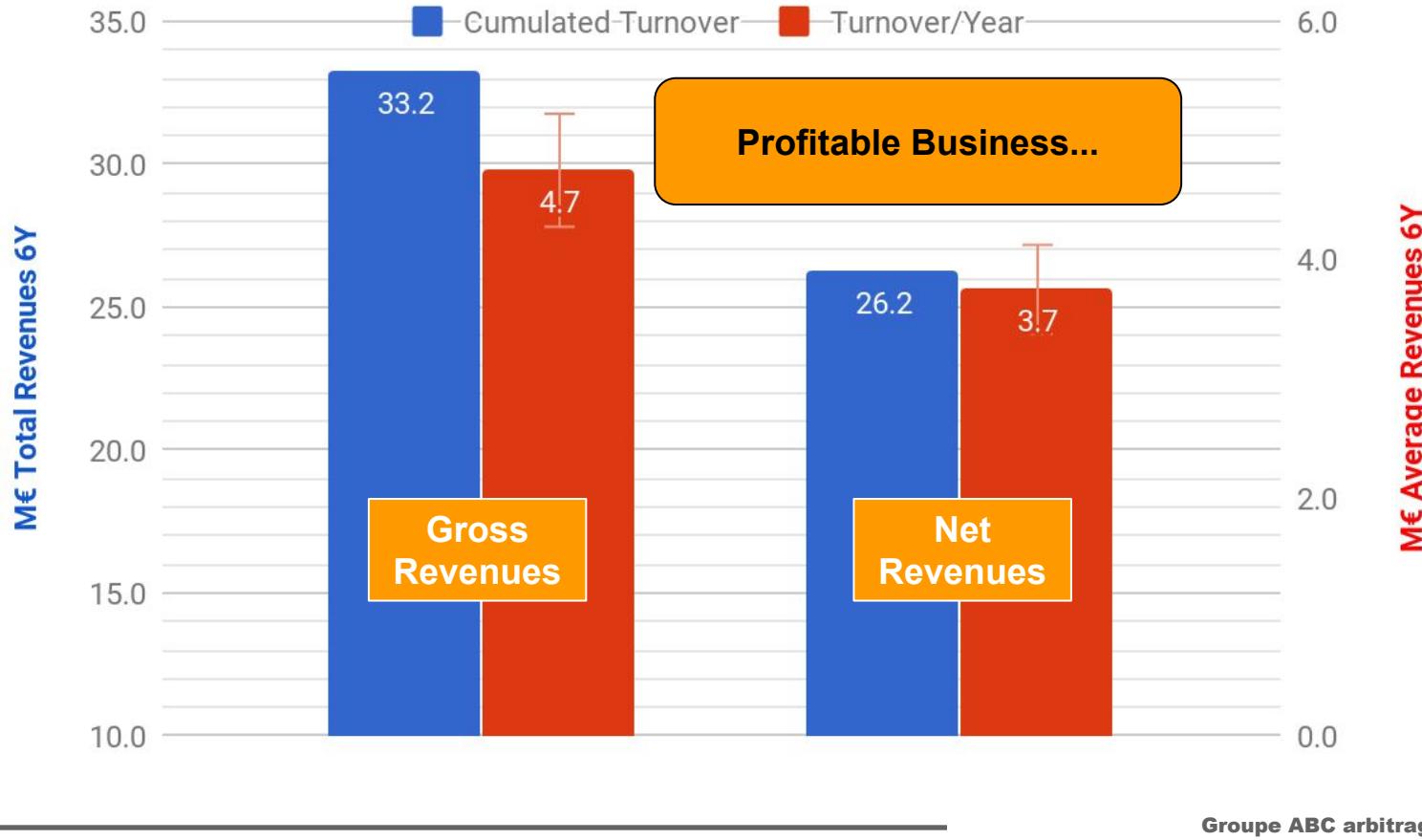
EuroHedge Awards 2018

Winner

EQUITY MARKET NEUTRAL & QUANTITATIVE STRATEGIES

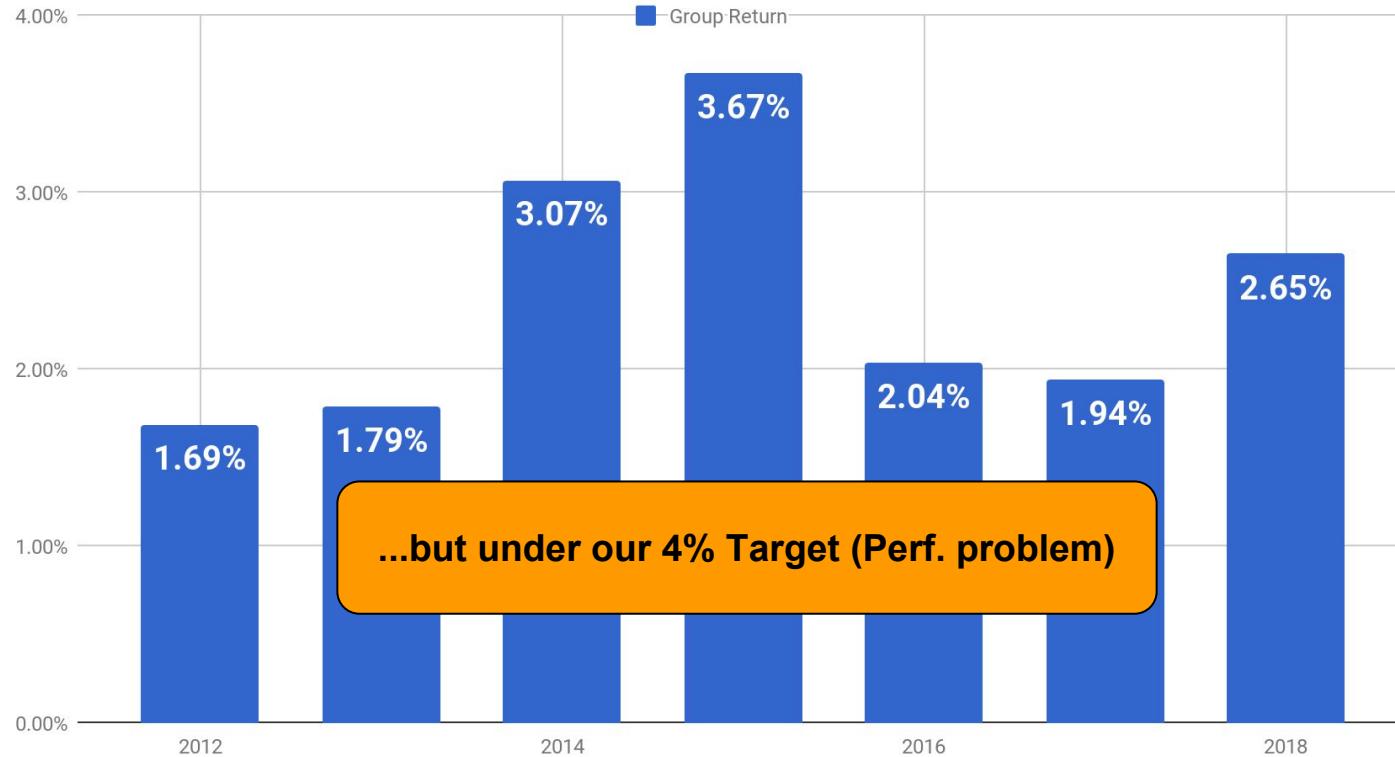
ABCA Reversion

## Revenues from External AUM since 2012

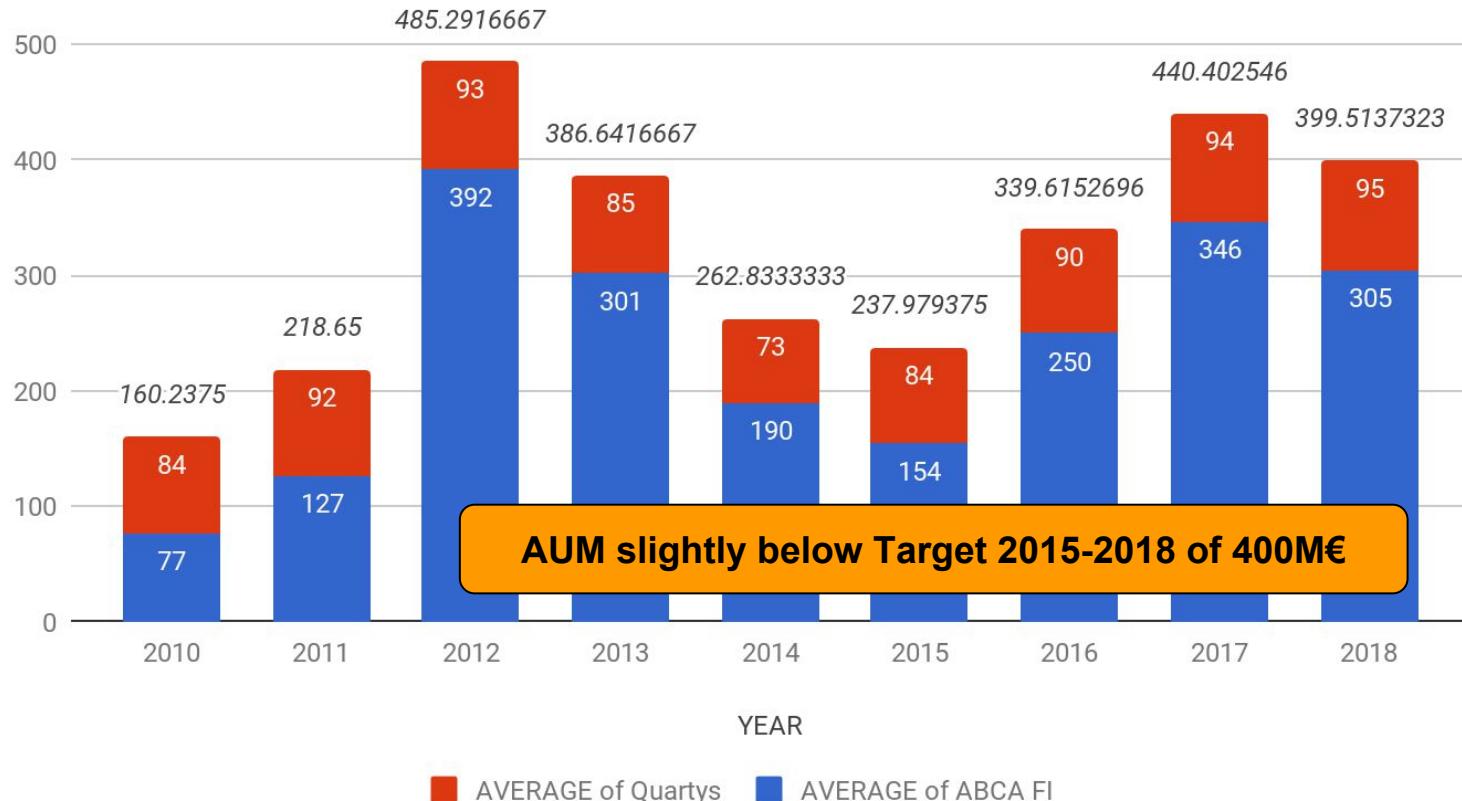


# Return on AUM

ABCG Return on External AUM

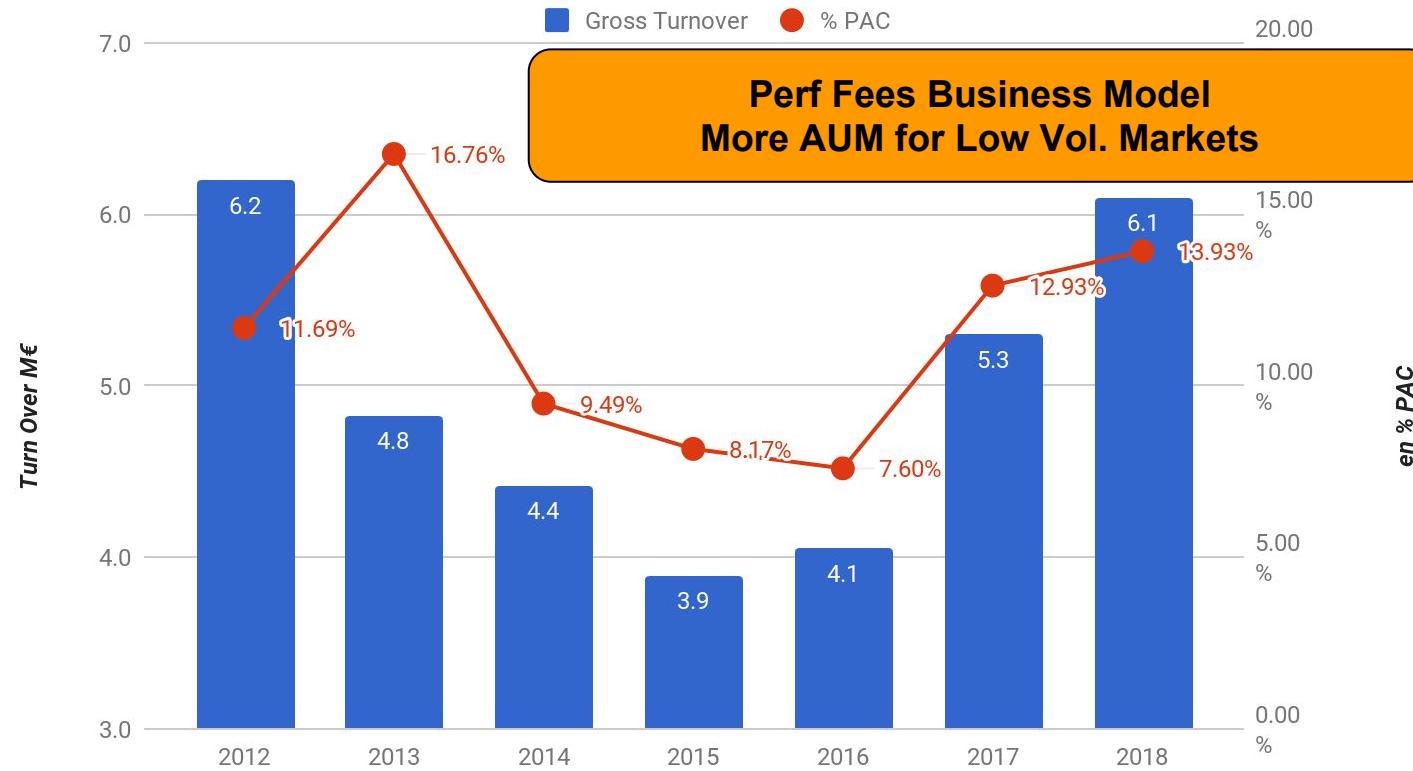


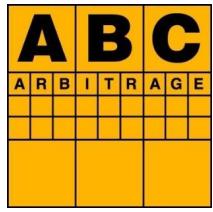
## Average of Total AUM ABCA Funds Ireland + “Seed Capital” (M€)



# Client Revenue

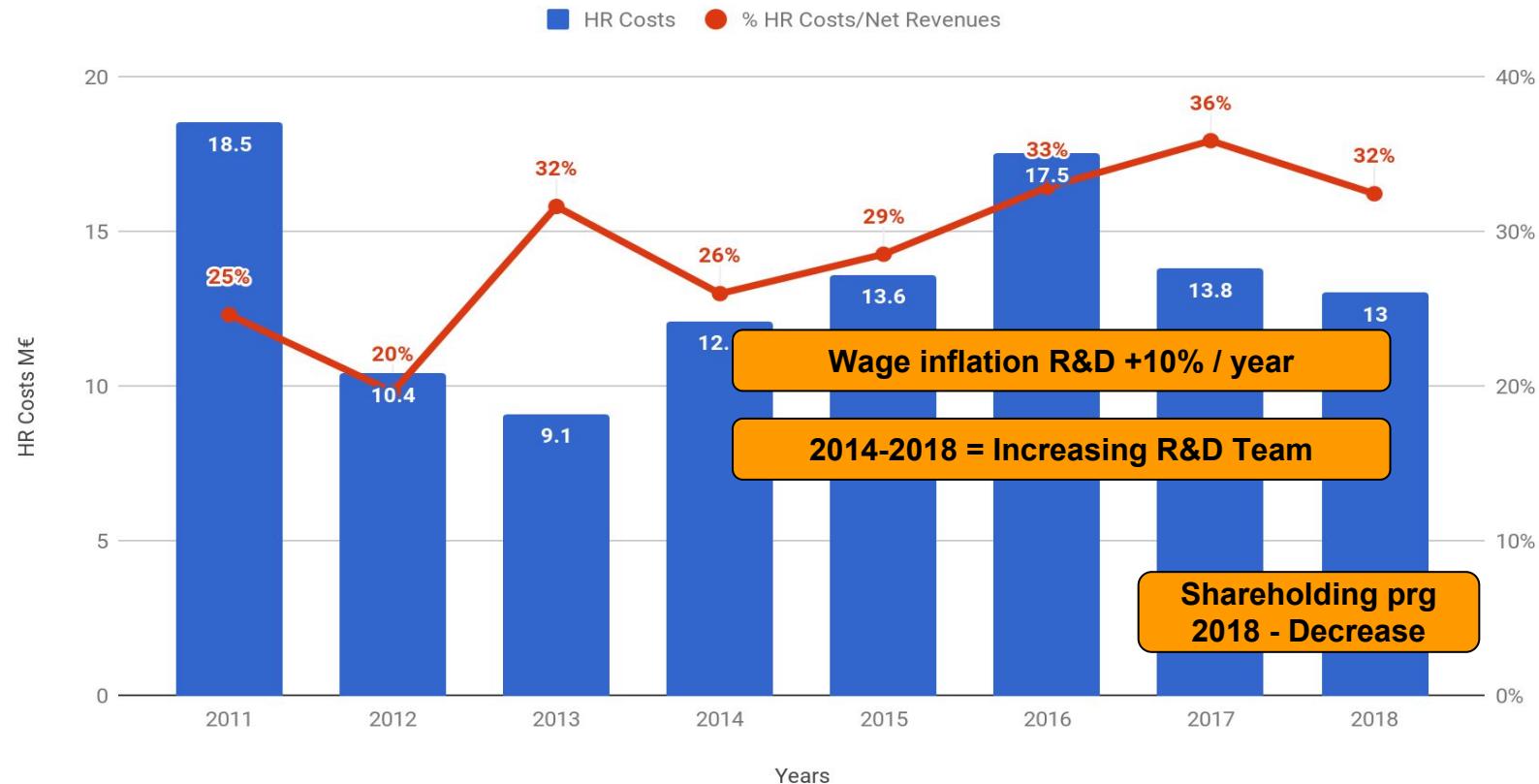
Turnover outsourced clients



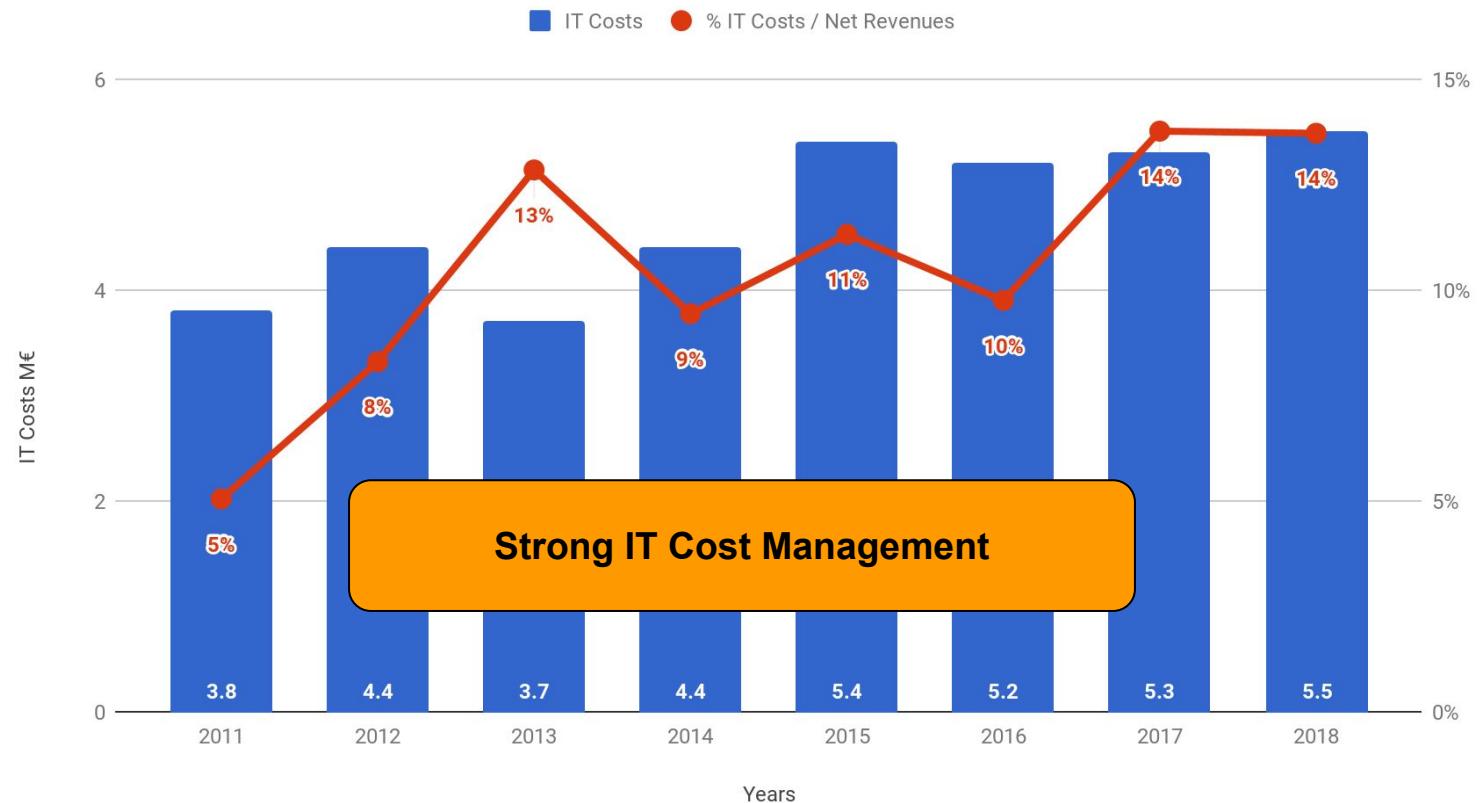


# Costs

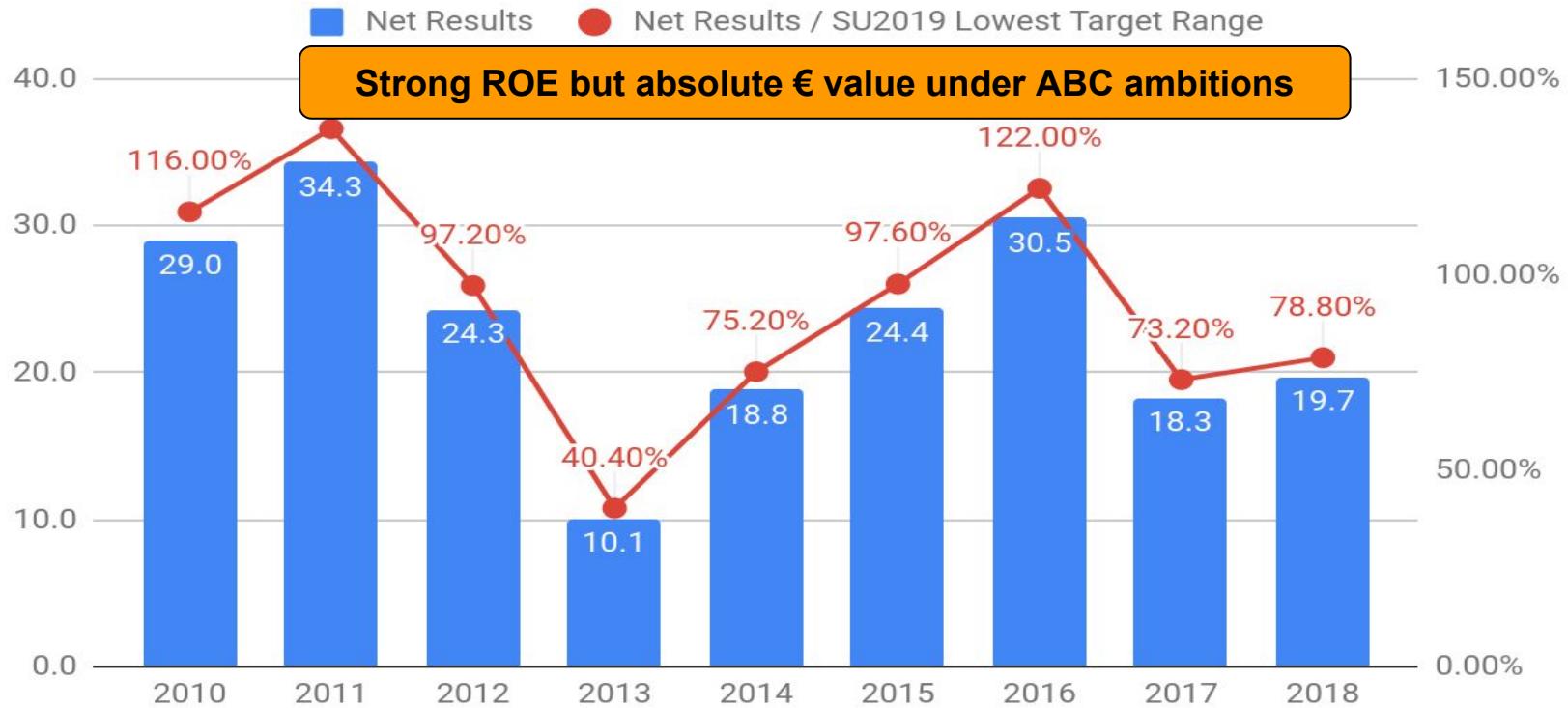
## HR Costs € and % of Activity Level



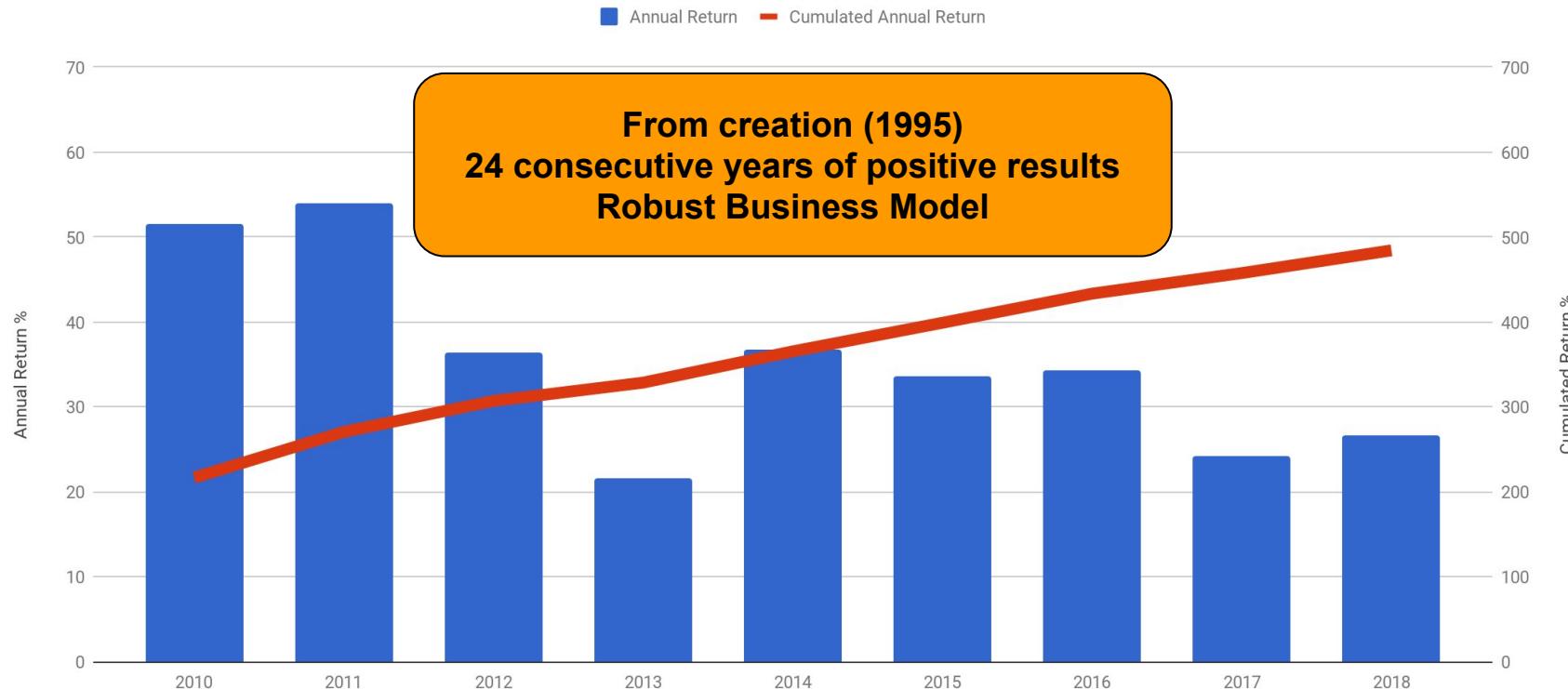
## IT Costs € - % of Net Revenues

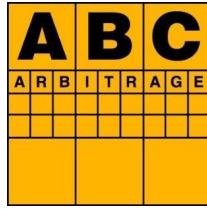


## Net Results vs Ambitions



# Gross Performances ABC arbitrage Group - From 2010 to 2018



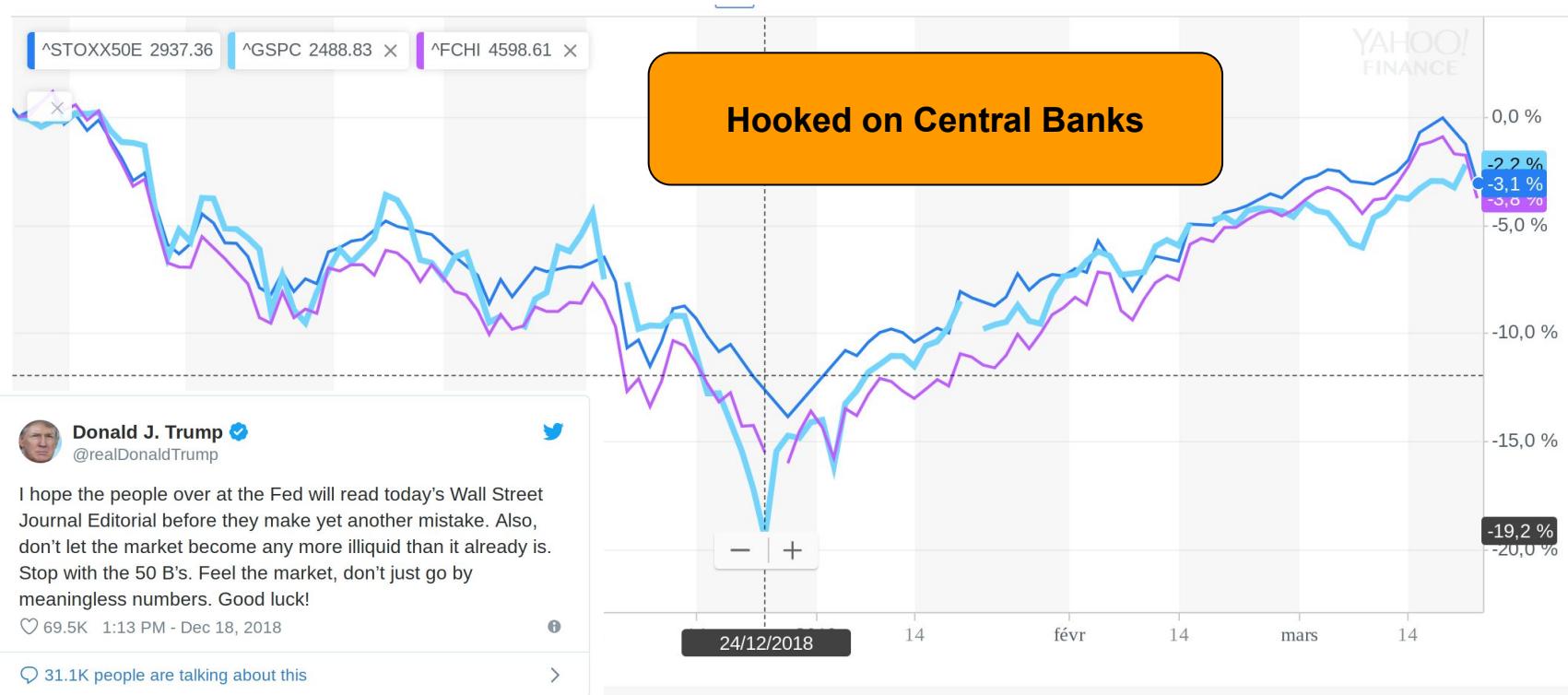


2019  
“ça s'en va...ou  
ça revient ??\*

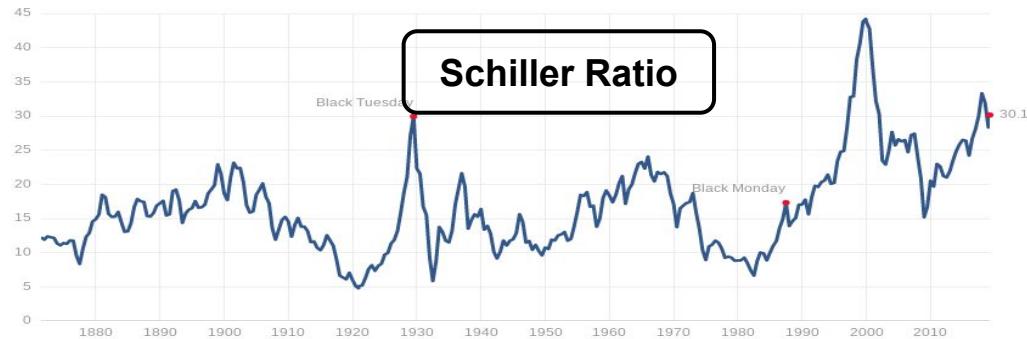
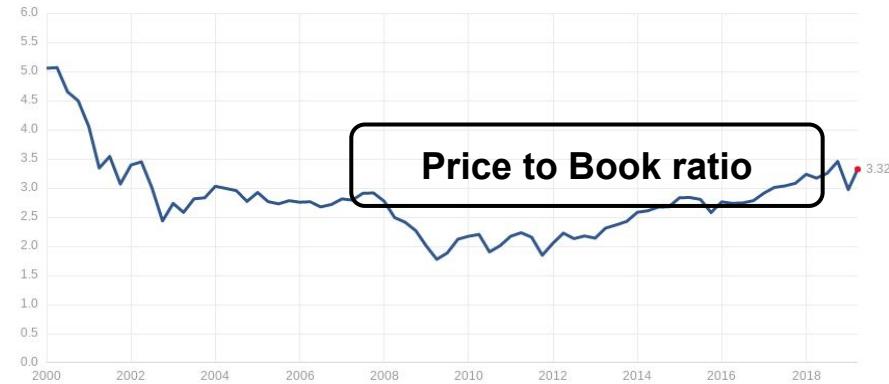
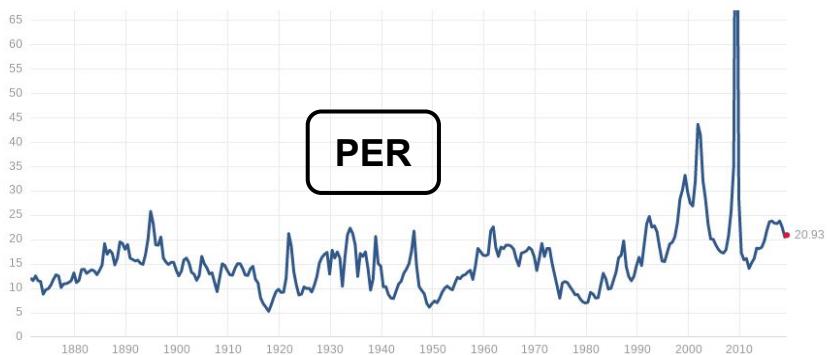


\* from a french song of Claude François “ça s'en va et ça revient” (it does go away and comes back) - <https://youtu.be/nBSY4mNznzk>

# Q4 2018 followed by an euphoric Q1 2019



# 2018/2019 - More “reasonable” ratios ??!!



<http://www.multpl.com/>

ABC arbitrage

## Volatility returned in 2018, but average choppiness remains below long-term average

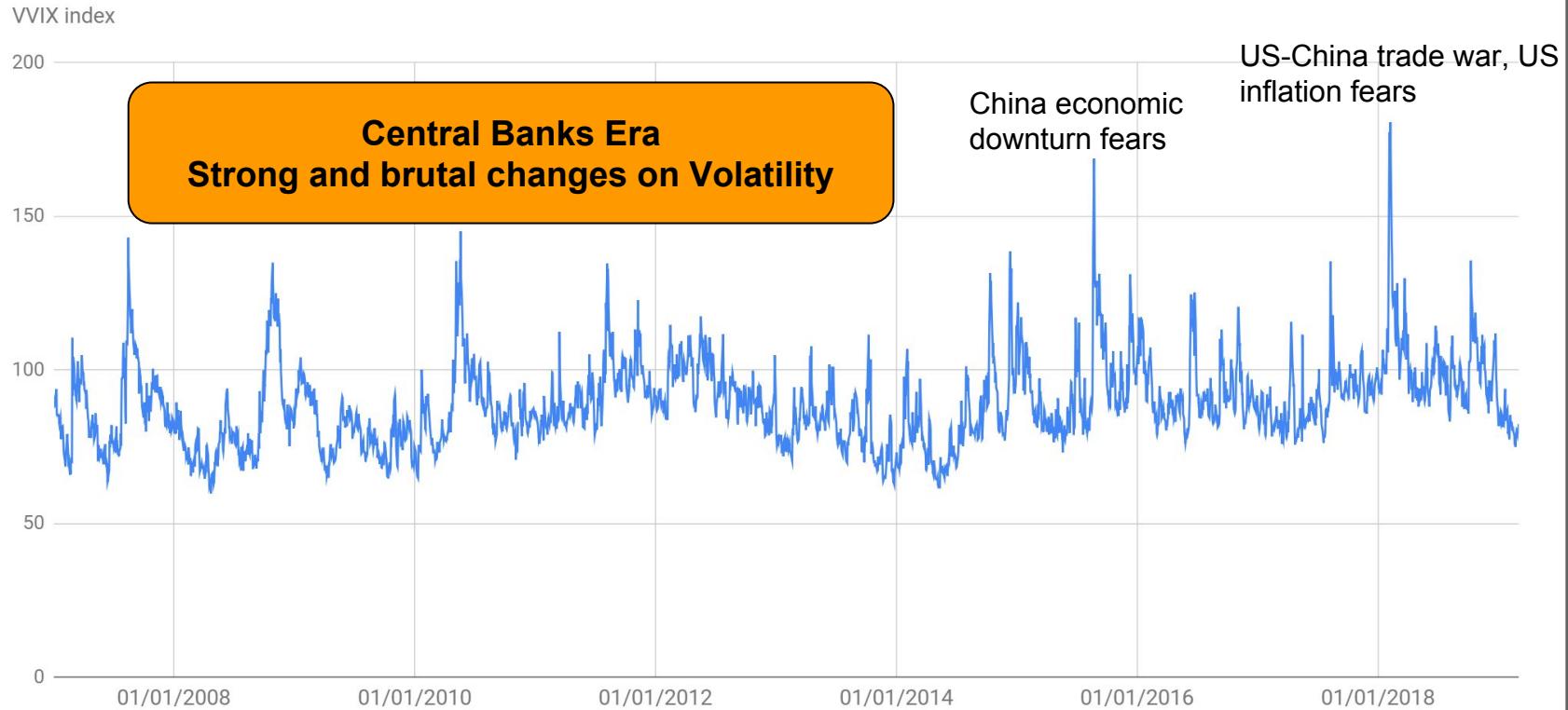
One-week, 30-day volatility of the S&P 500 (%).

Long-Term Average Volatility = 19%

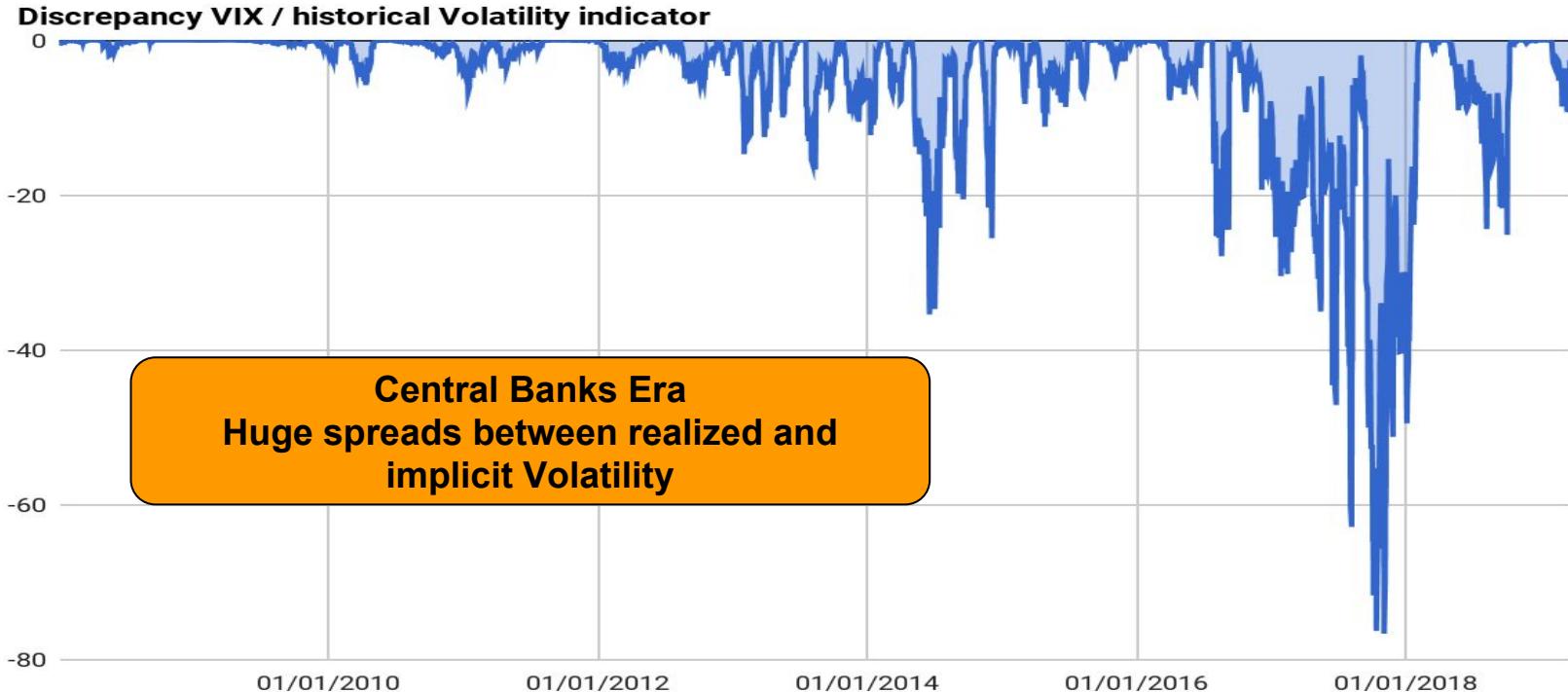


Source: Bloomberg  
© FT

# Volatility of Volatility



# ABC inhouse ratio (From June 2008)



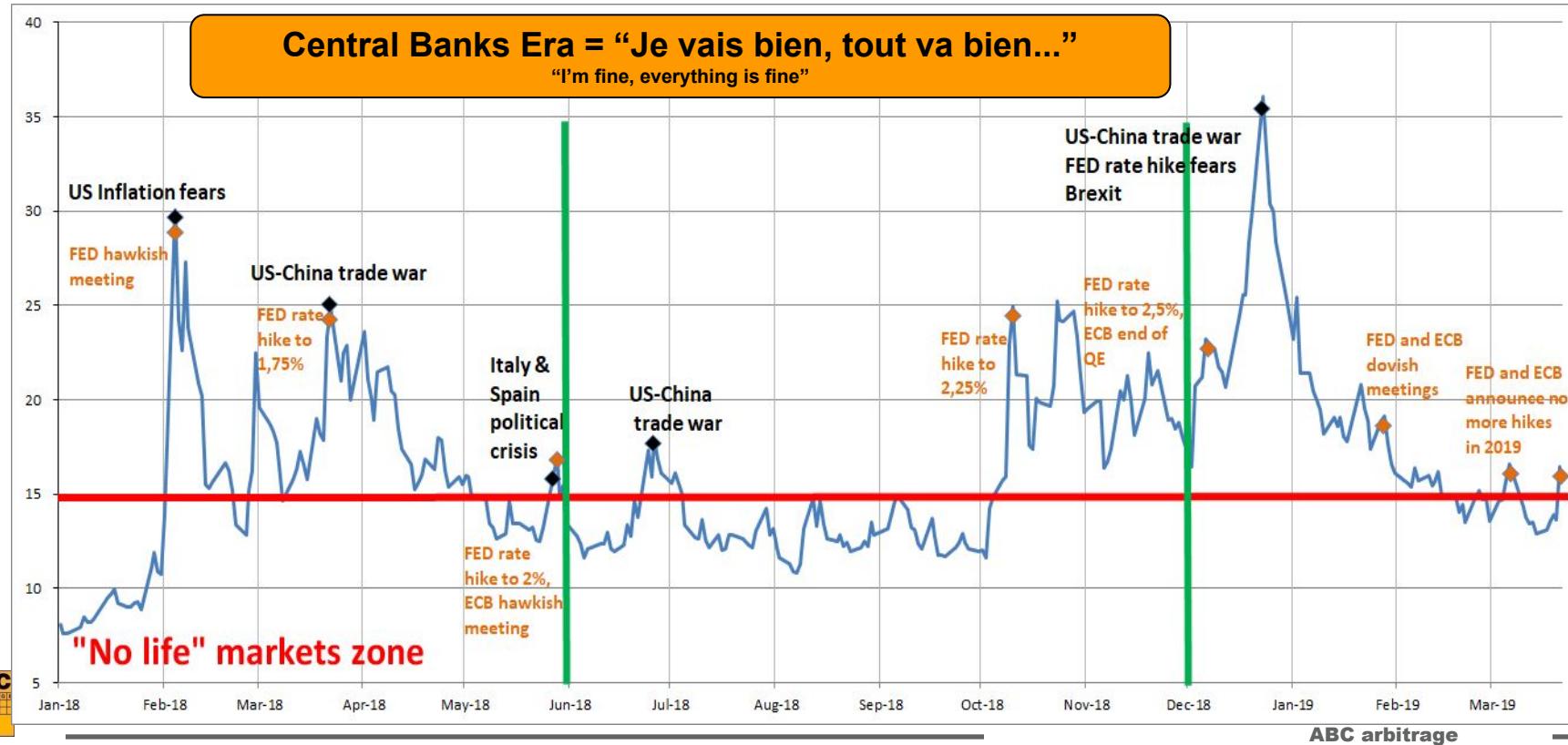
## Sudden shocks become more common

Number of major S&P 500 tumbles in last three-year window hits highest since 1940s



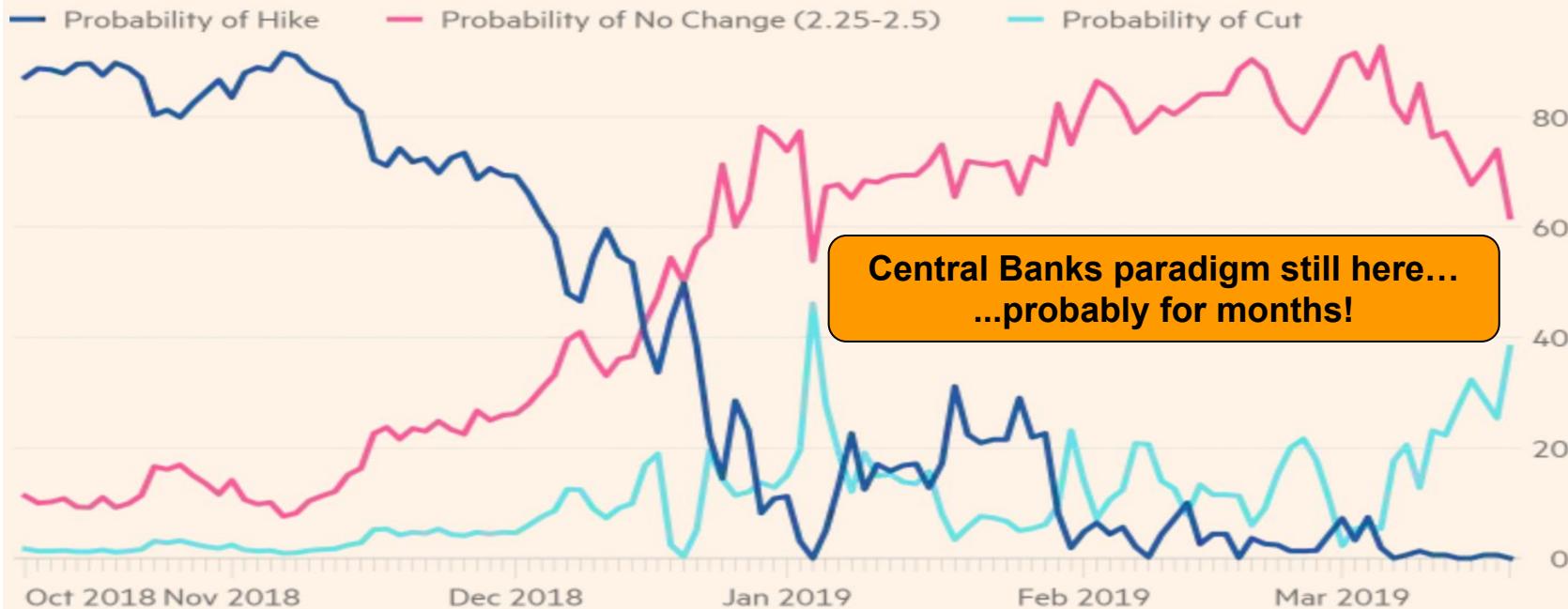
# Historical VIX since 07/2017

## Main Events



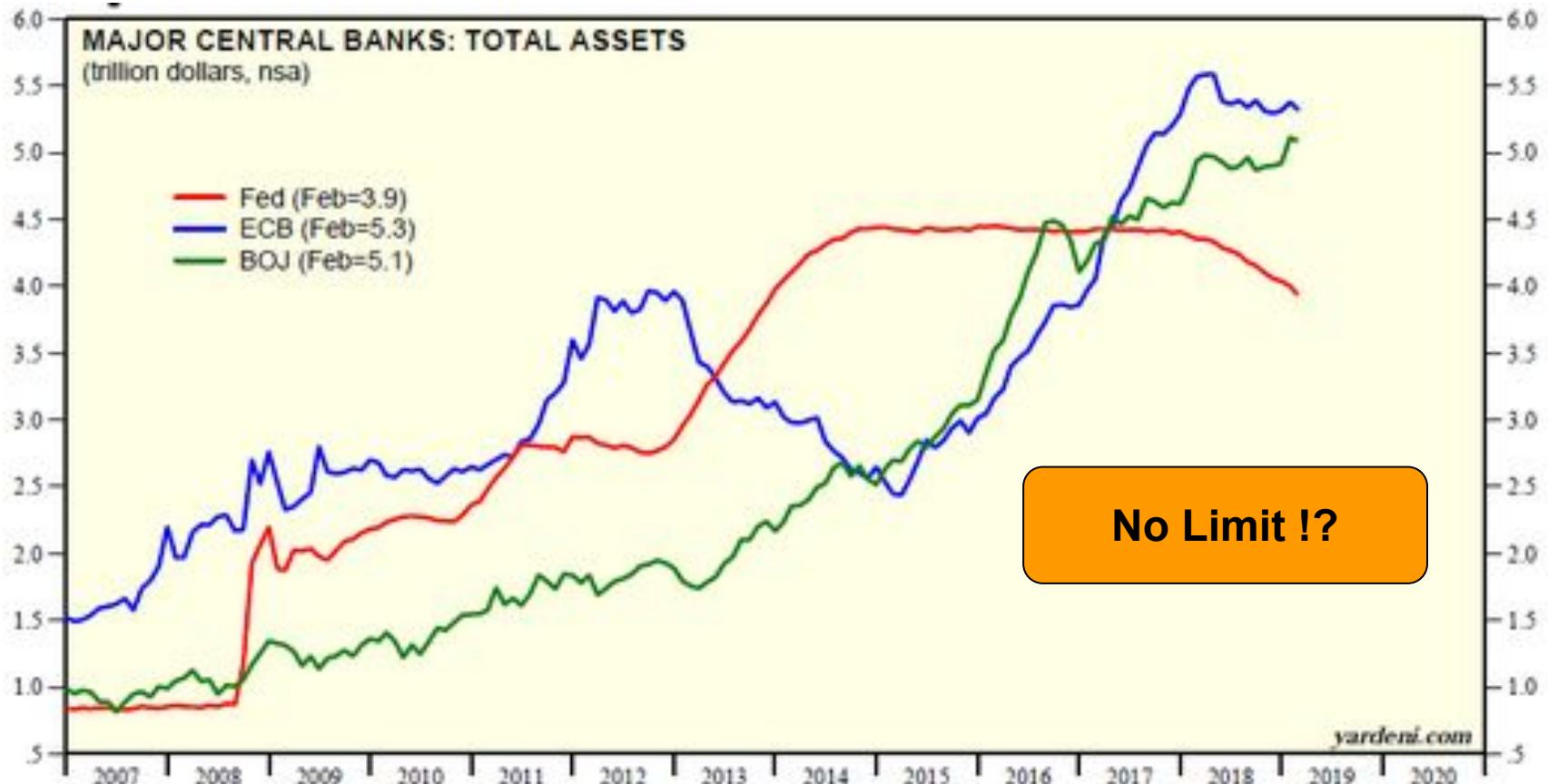
## Fading expectations

Implied odds on interest rate cut by end of 2019 jump higher after Fed meeting (%).



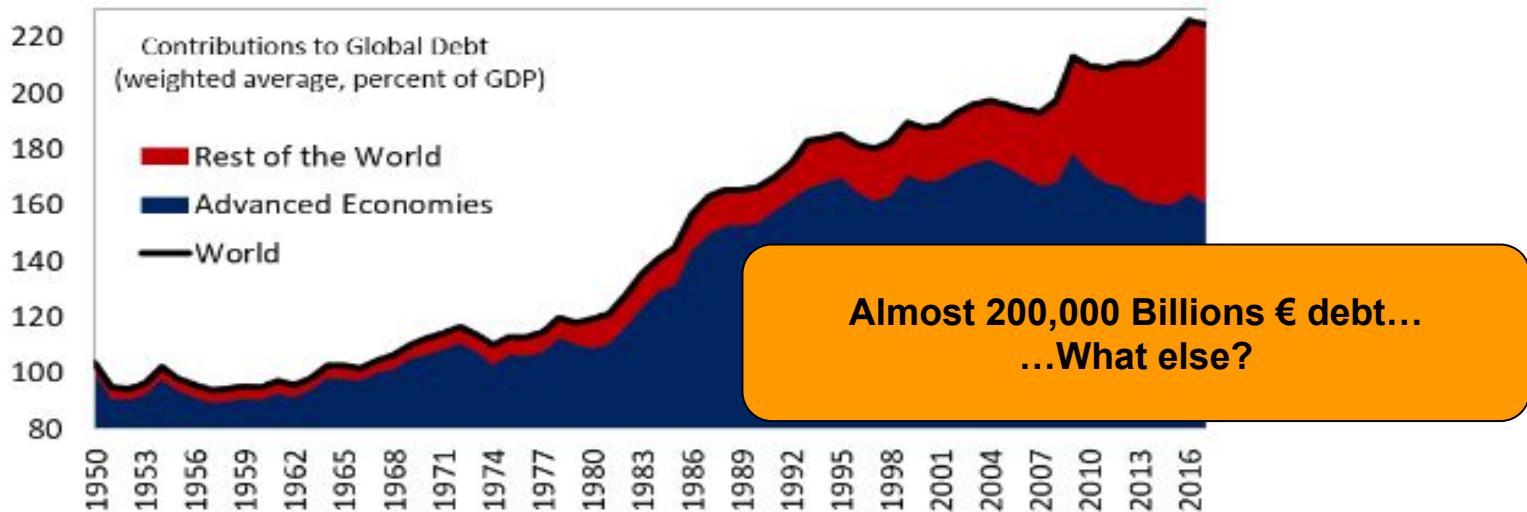
Source: Bloomberg  
© FT





## A history of debt

While global debt has risen dramatically since 1950, the global debt ratio came down in 2017.

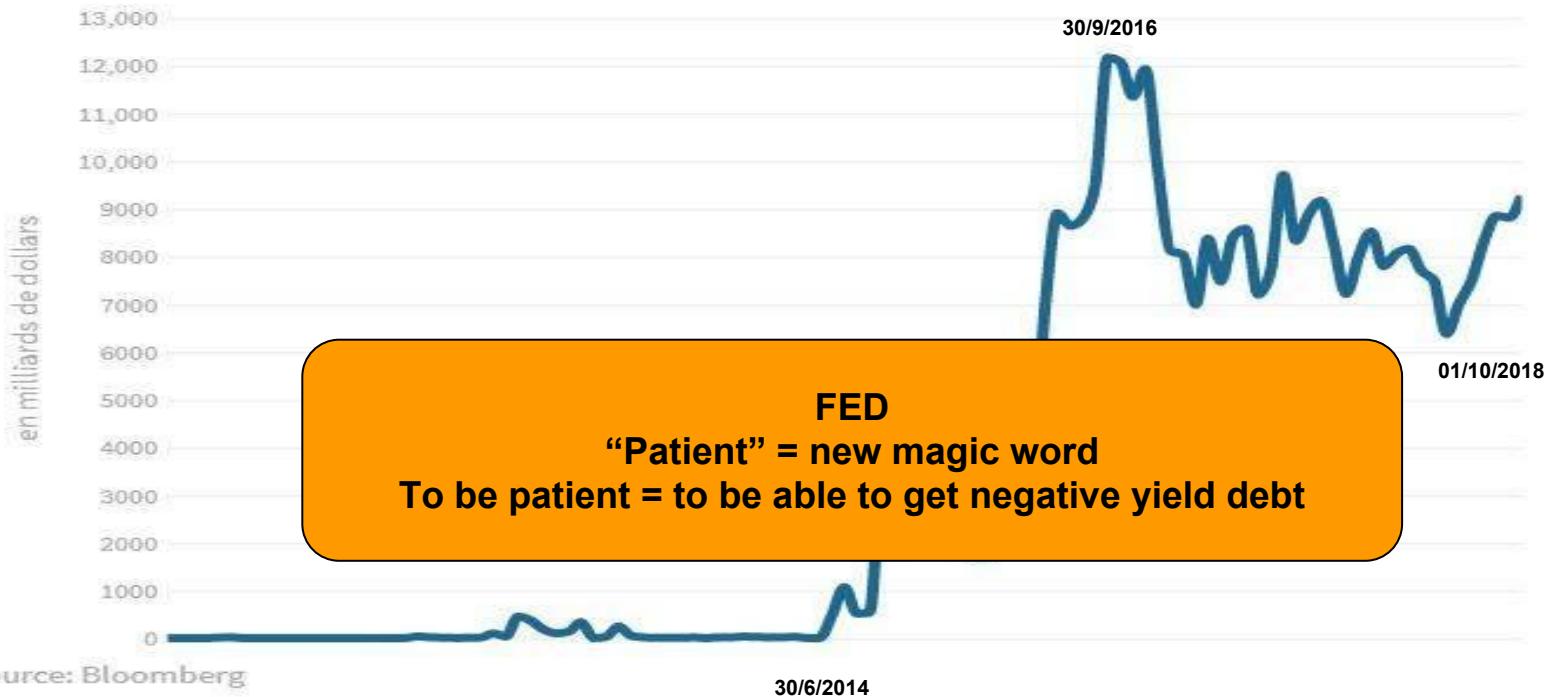


Sources: Global Debt Database and authors' calculations.

## Le stock de dette à taux négatif

Les banques centrales restent accommodantes

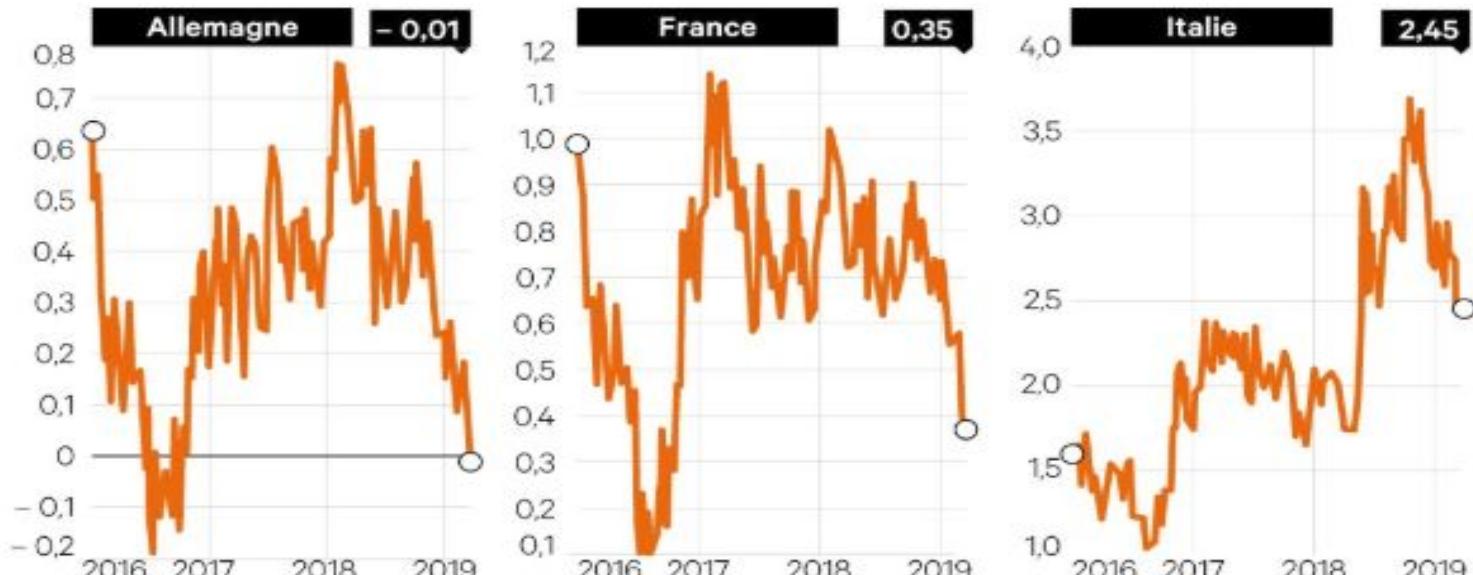
Bloomberg Barclays Global Agg Negative Yielding Debt



## Central Banks Paradigm “Don’t worry, be Happy” World ?

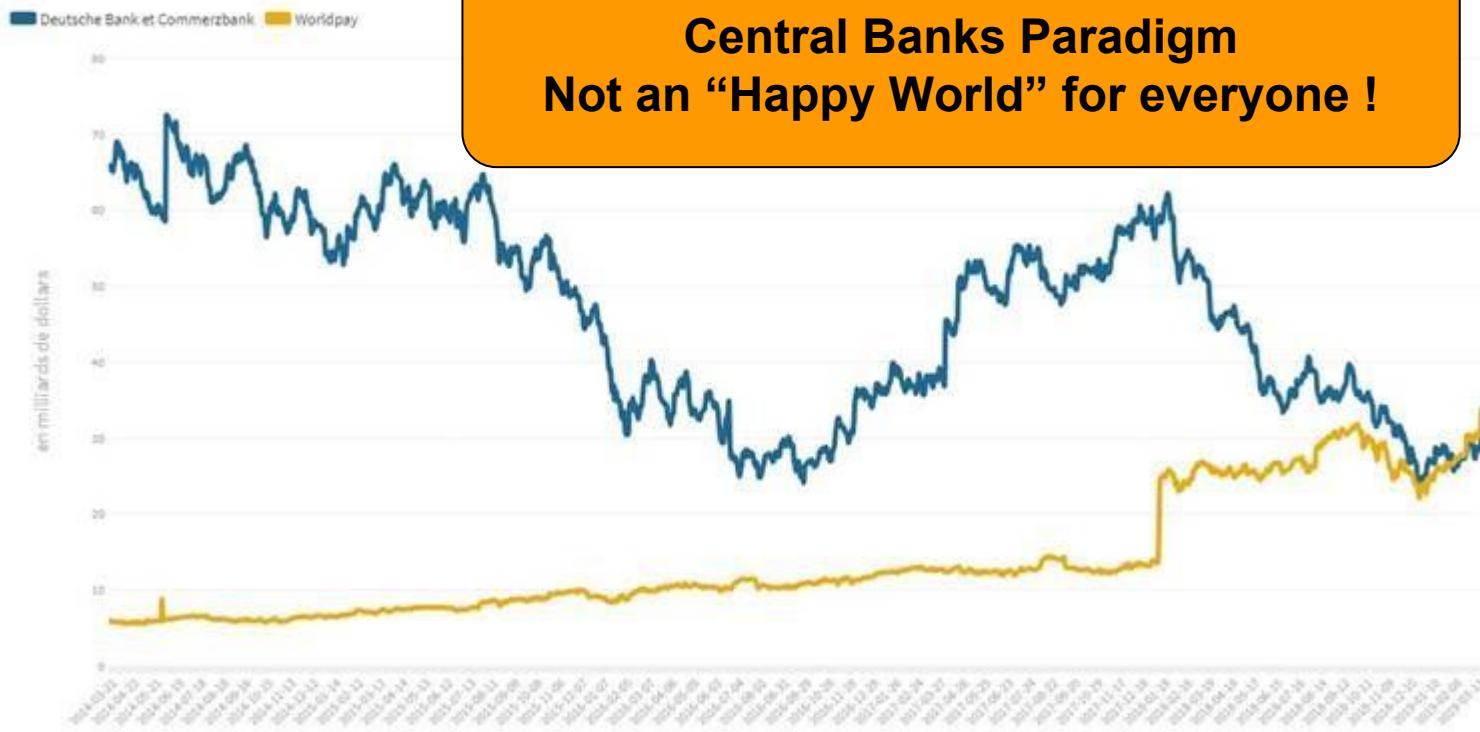
### European gov. bonds yield evolution La chute des taux à 10 ans en Europe

En %

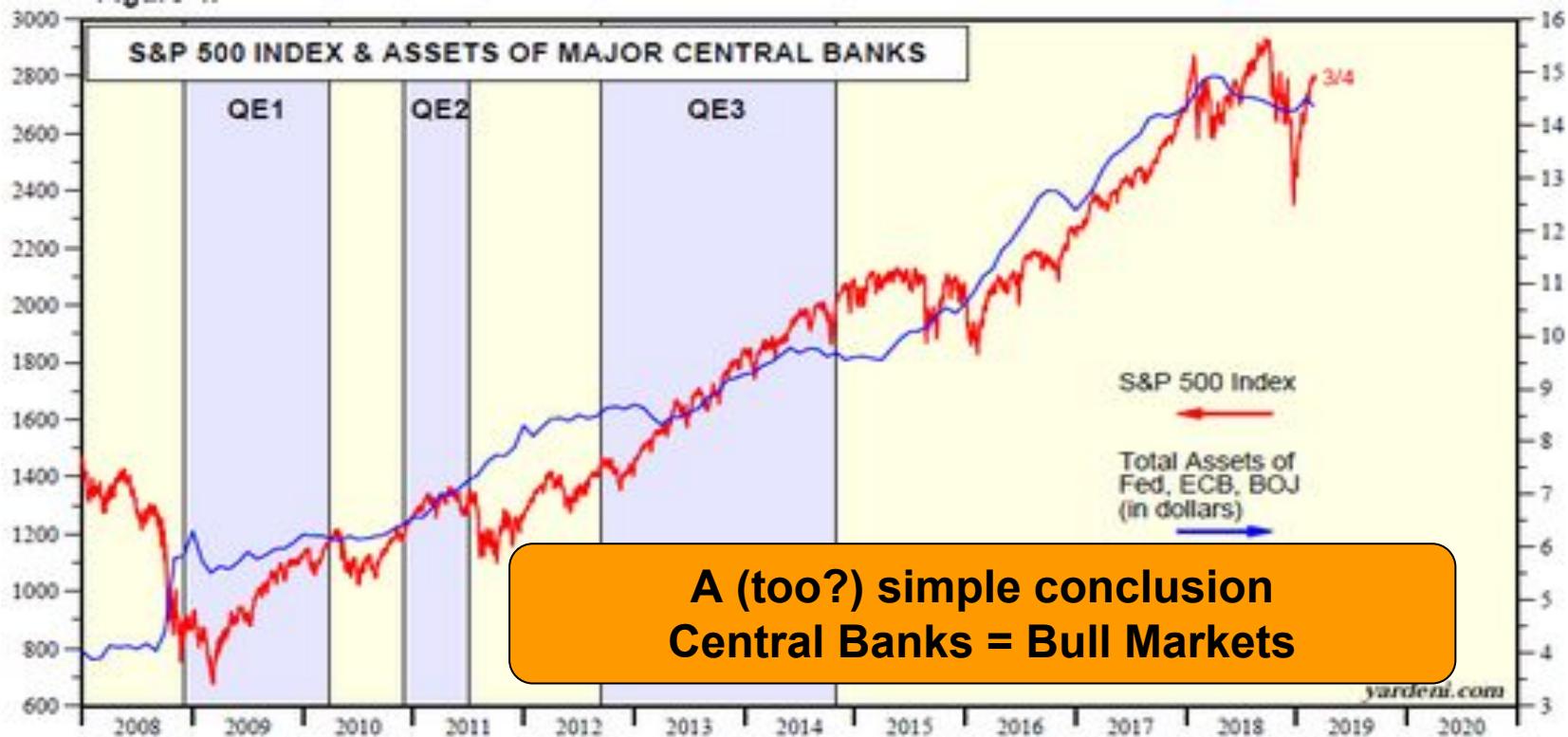


\* LES ÉCHOS \* / SOURCE : BLOOMBERG

## Quand une Fintech vaut plus que deux banques historiques capitalisation boursière



Central Banks Paradigm  
Not an “Happy World” for everyone !



Note: QE1 (11/25/08) = Fed starts buying \$1.24tn in mortgage securities. QE1 expanded (3/16/2009) = Fed starts buying \$300bn in Treasuries.  
 QE2 (11/3/10) = Fed starts buying \$600bn in Treasuries. QE3 (9/13/12) = Fed starts buying \$40bn/month in mortgage securities (open ended).  
 QE3 expanded (12/12/12) = Fed starts buying \$45bn/month in Treasuries.

Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

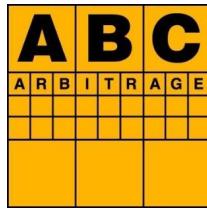
## US 3m/10yr yield spread turns negative for first time since 2007

Difference between yield, %, of 3-month T-Bill and 10-year Treasury yield



Sources: Bloomberg, @\_PeterWells  
© FT





# ABC arbitrage

## 2019



# Financial Markets 2017/2018 Paradigm

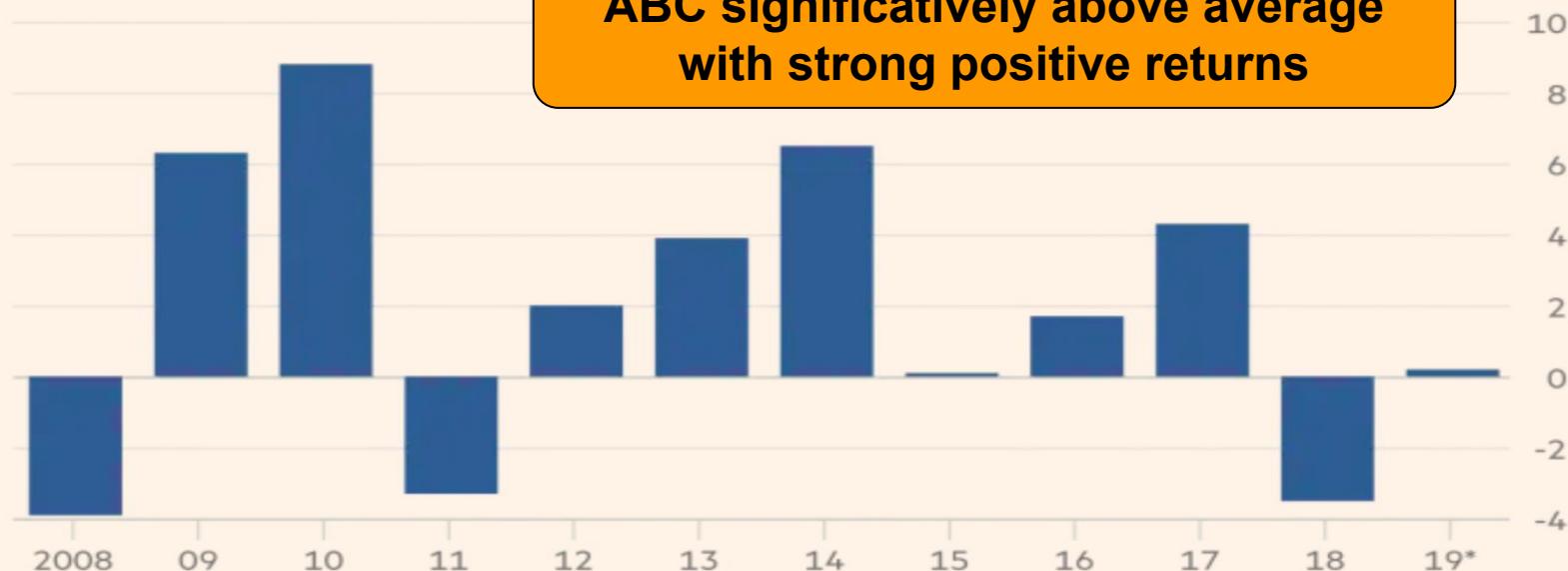
## Central Banks and Geopolitics Era

- Still very low Volatility for  $\frac{2}{3}$  of the 2018 year...
- ...probably the same on 2019.
- Consistent profits on 2018...
- ...especially on the 4th quarter volat. standardization
- Significant decrease on Corporate Action since 2015
- Significant decrease on M&A (Second H2017 + Y2018)

## Quants suffer worst year in a decade

Annual performance (%)

ABC significantly above average  
with strong positive returns



\* To Jan 31

Source: HFR

© FT

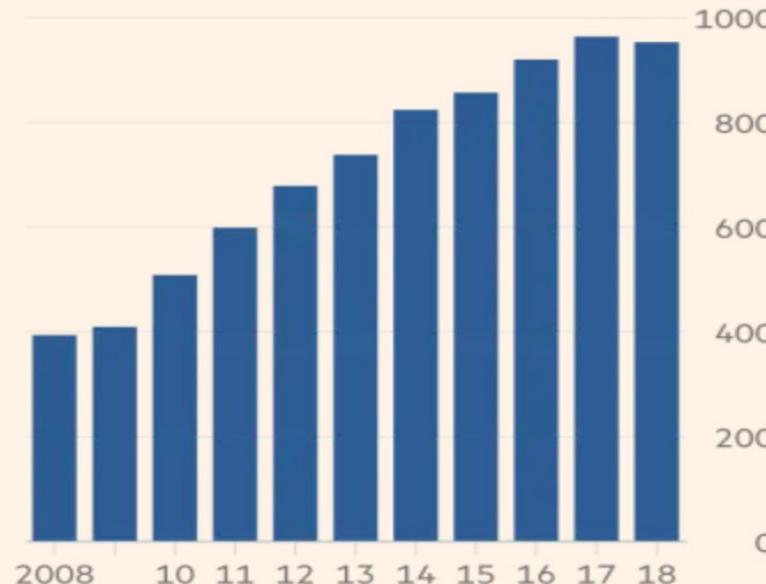


ABC arbitrage

**ABC**  
increase of capacity of +300€ AUM...  
...with same return target

## Industry contracts for first time

Total estimated assets in quant funds (\$bn)



Estimated flows into quant funds (\$bn)



Source: HFR

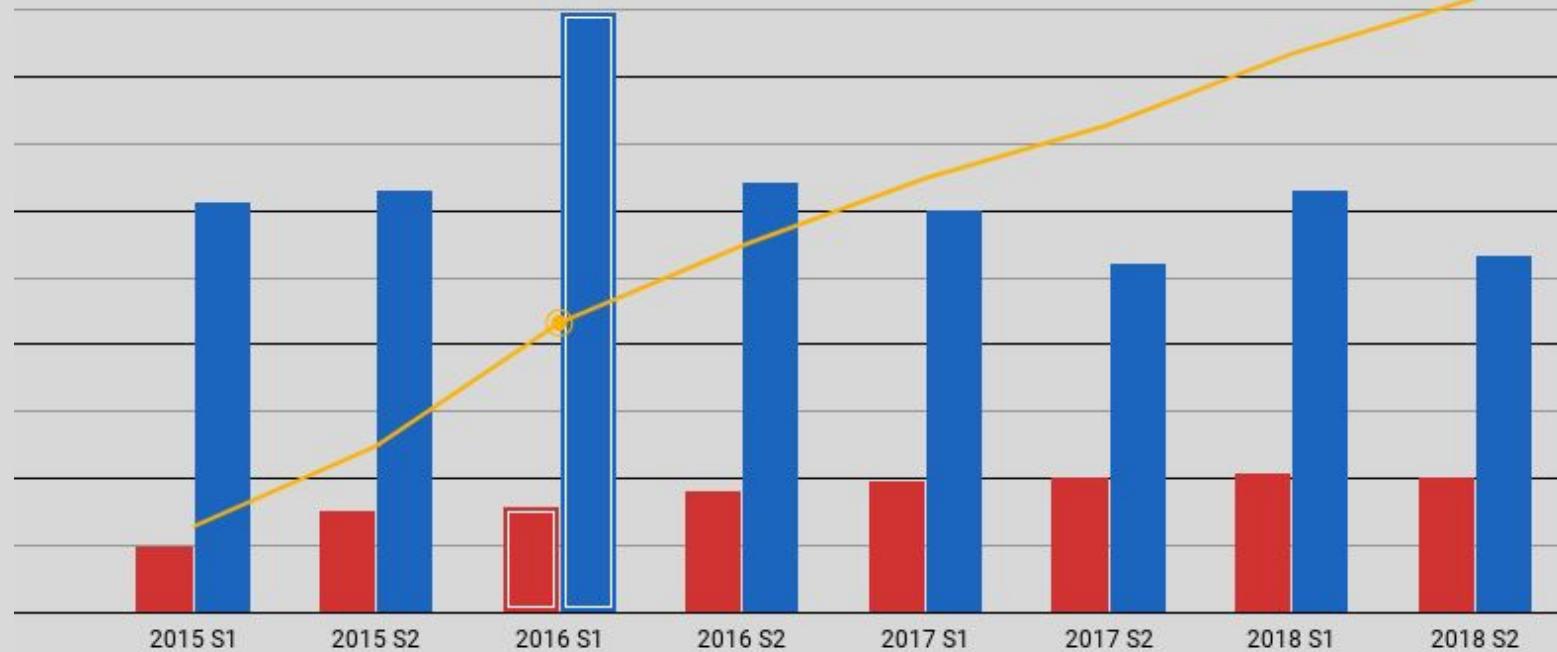
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ABC arbitrage

Coûts      Gains bruts      Gains Nets

## Objective 1 Investing in our historical strategies



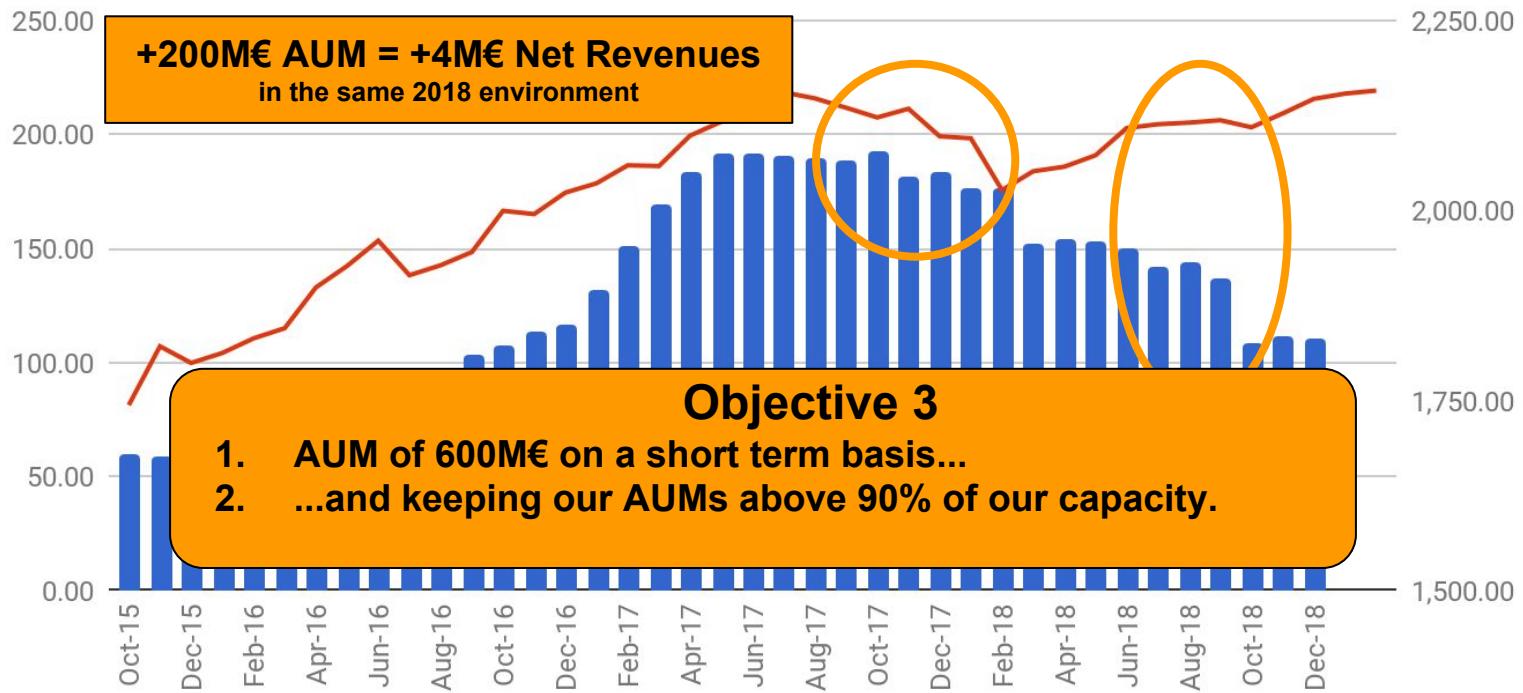
Coûts      Gains bruts      Gains Nets

## Objective 2

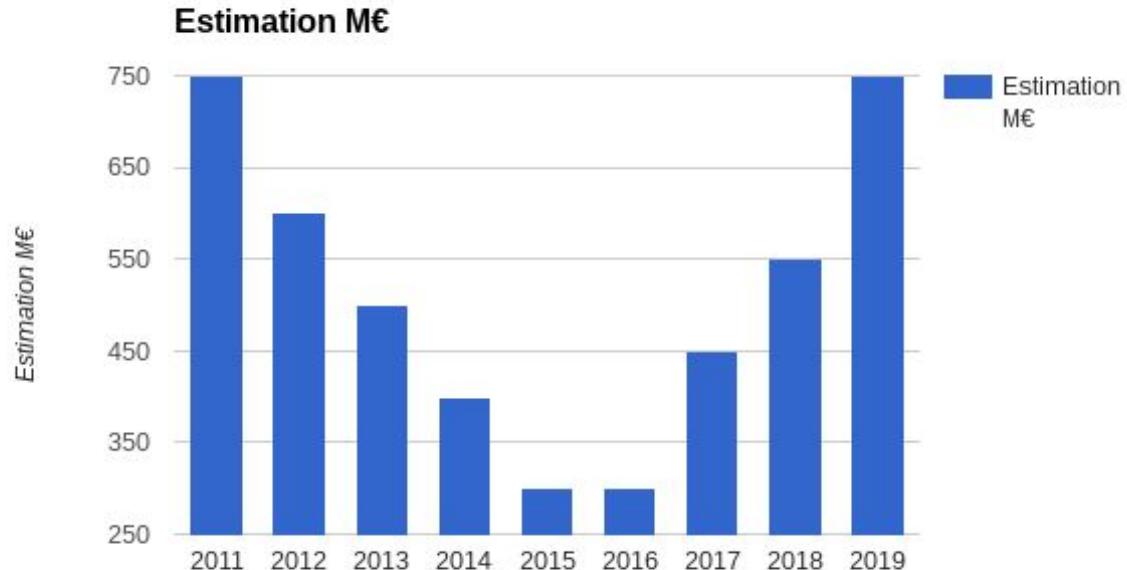
### Promoting development of mutualizing strategies



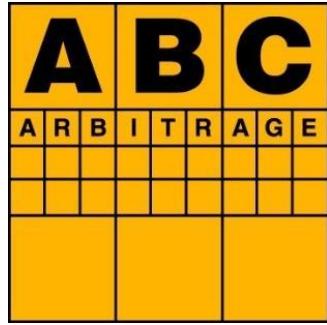
## ABCA Opportunities AUM (Blue) vs Performance NAV (Red- Right axis)



**Still building a “winter is here” business model...**



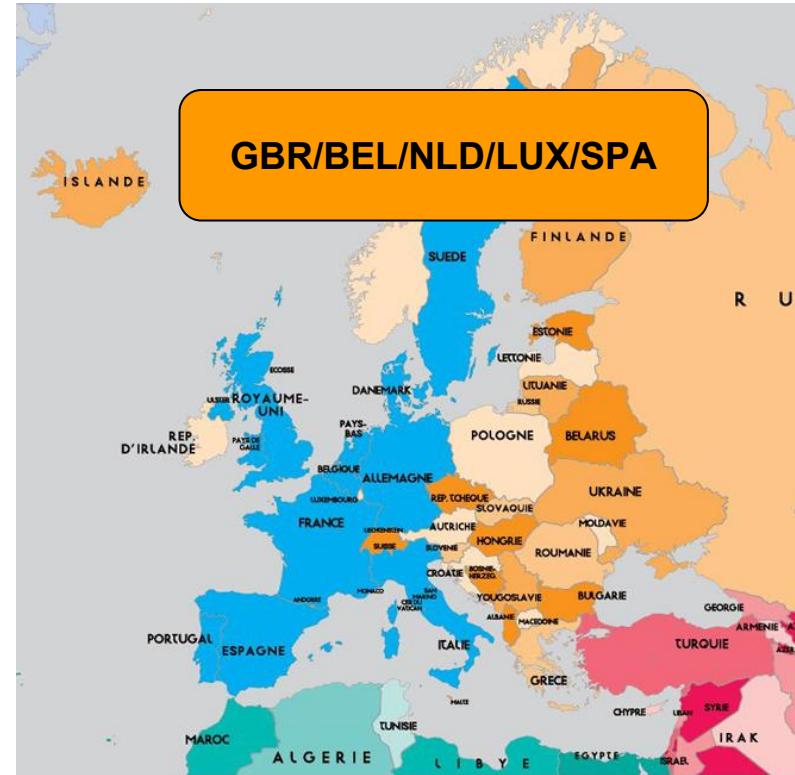
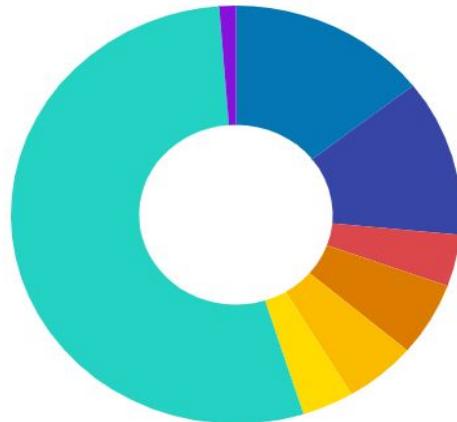
**Objective 4**  
Mid/Long term development of high capacity funds (> Billion €)



**Objective 5**  
**External Expertise Integration - Speed up our evolution**



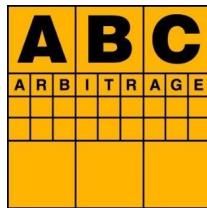
# ABC arbitrage Shareholding - “Tailored” European Development



# Distributions and Share Buyback Program

## New Quarter Distribution Program

Distributions

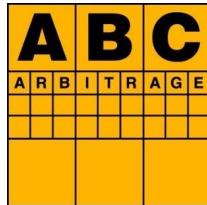


0,43€

0,23€ 1st week Jul. 2019\*  
0,10€ 1st week Oct. 2019\*  
0,10€ 1st week Dec. 2019\*  
0,10€ last week Mar. 2020\*



Buyback 2018



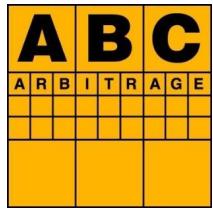
€€€ for 3M€

ABC Shares (around 500K if Average Price 6.1€)

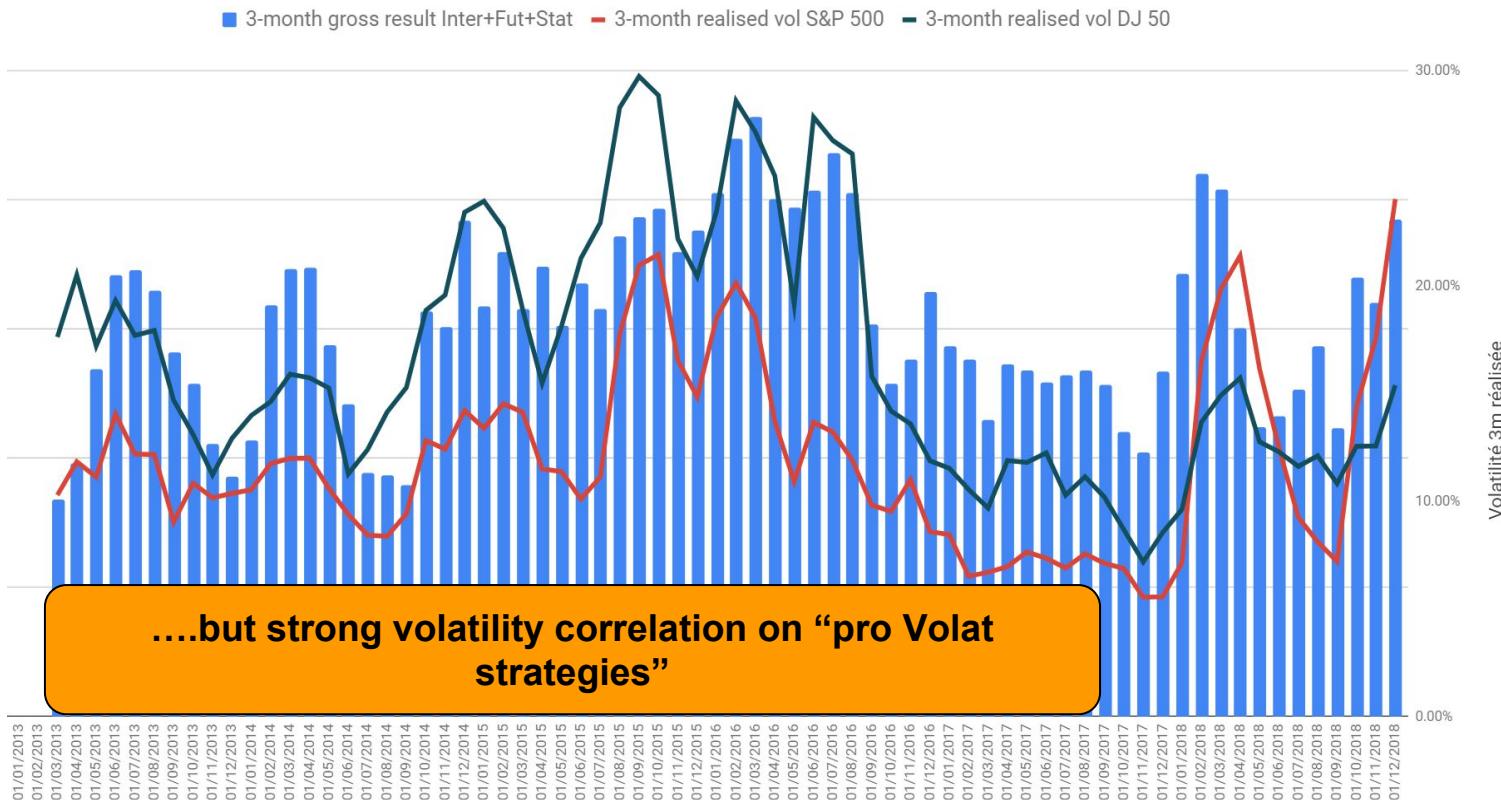


\*submitted to General Meeting authorization in june 2019 and confirmation by the board of ABC arbitrage in march 2020

ABC arbitrage



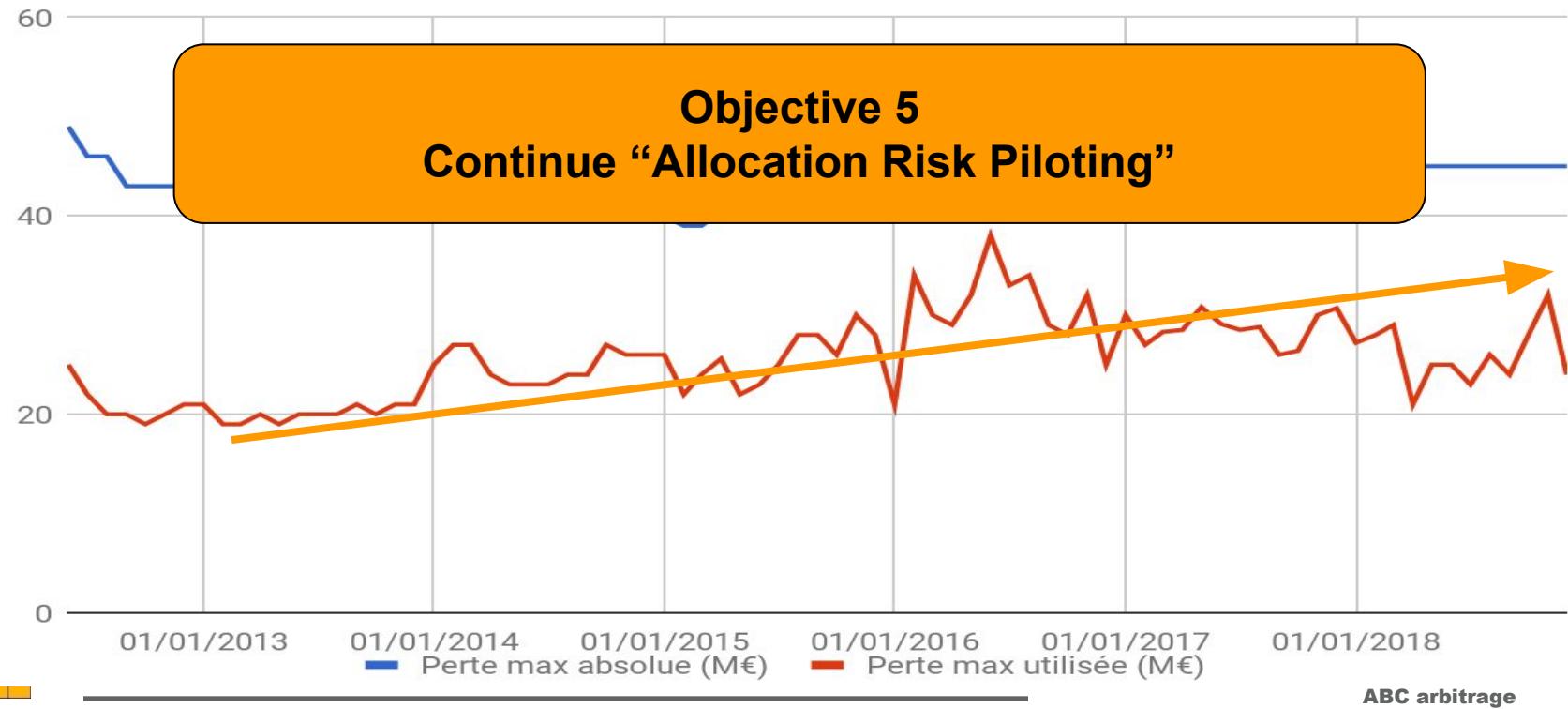
## Q&A



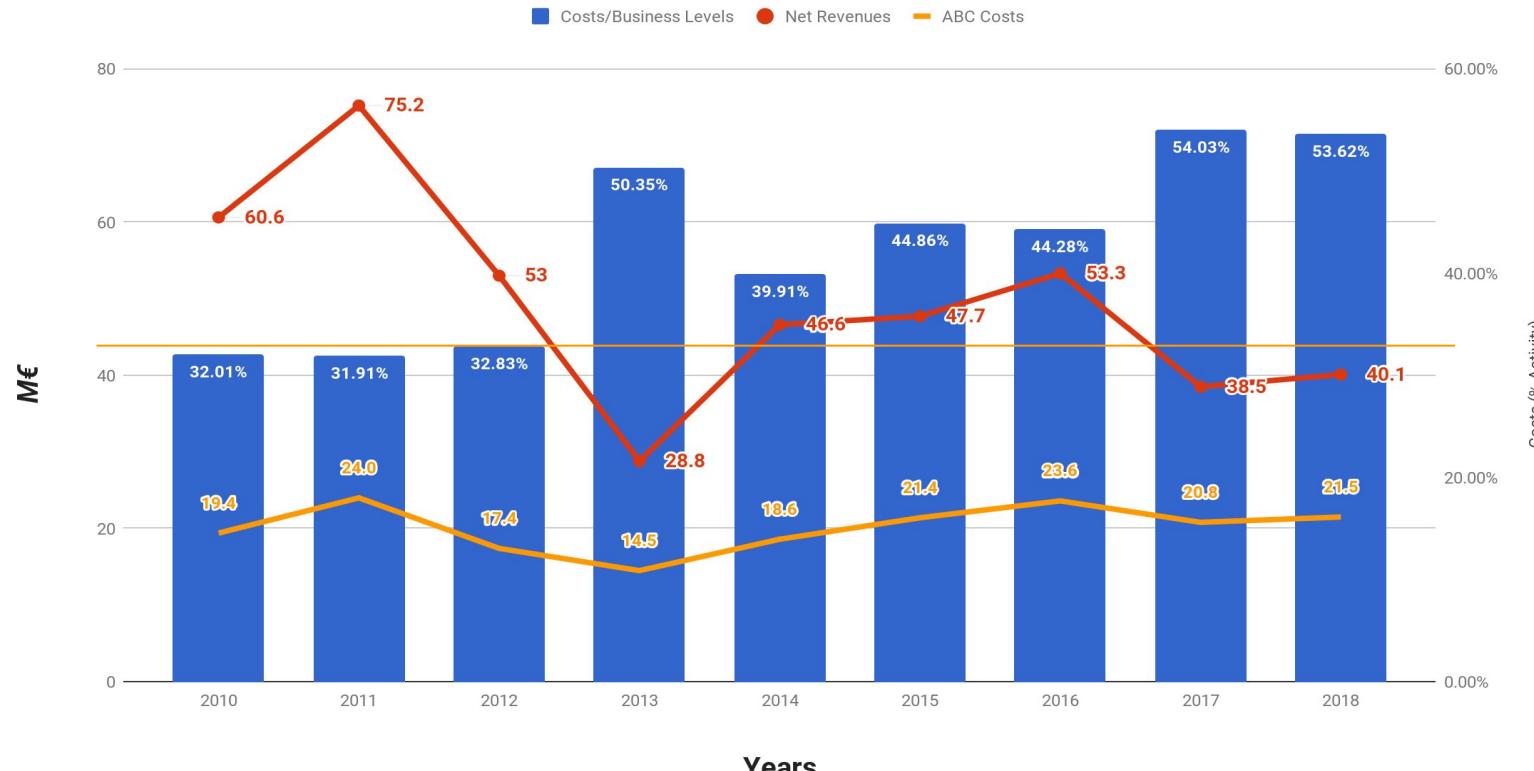
# Évolution du risque ABCA par semestre

(perte max en M€ et perte max utilisée en M€)

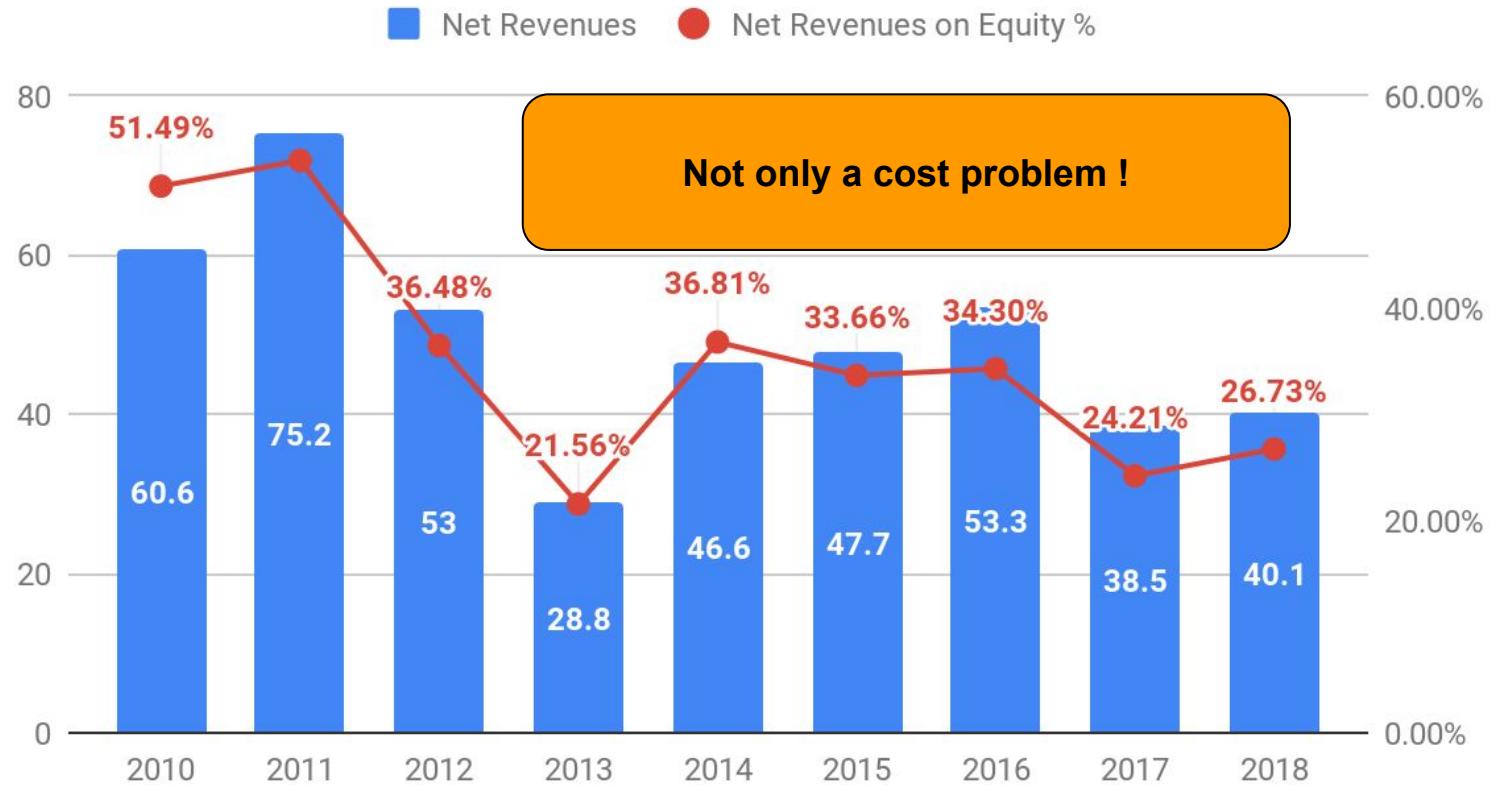
## Evolution perte max ABCA



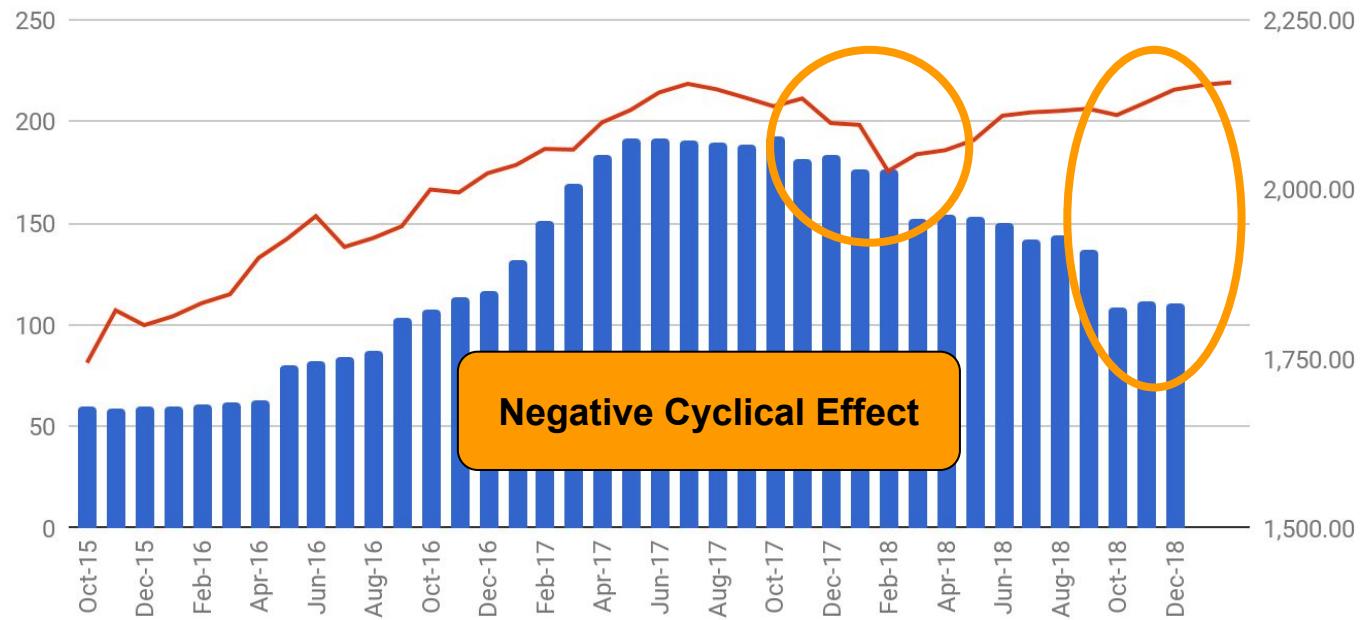
# Business Levels & Costs



## Net Revenues and Gross Returns

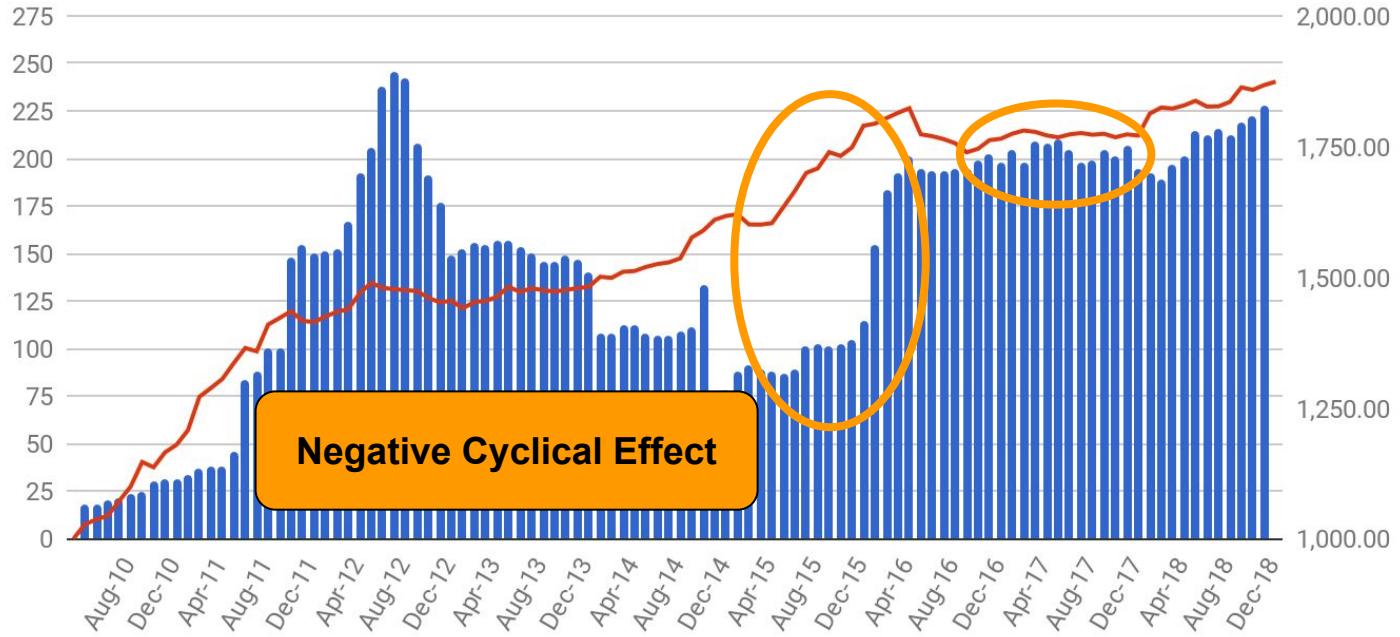


## ABCA Opportunities AUM (Blue) vs Performance NAV (Red- Right axis)



Negative Cyclical Effect

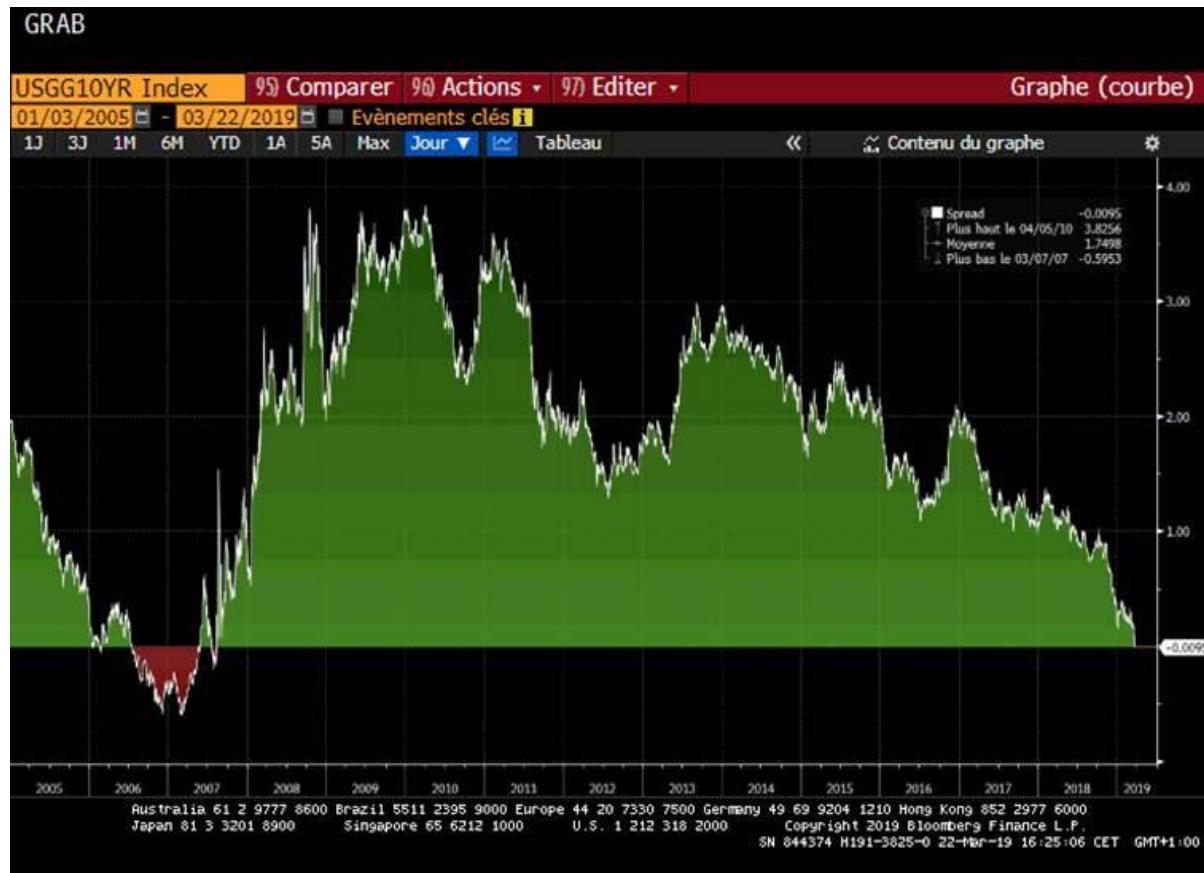
## ABCA Reversion AUM (Blue) vs Performance NAV (Red - Right axis)



# Paradigme ABC 2019

- 2nd consecutive under performing year...
- ...but much better than some competitors.
- End of Central Banks Era not so sure...
- ...but numerous “tail distribution” risks.
- Good non HR Costs Management
- HR costs + hiring process under GAFA and Brexit Pressure
- Too many failures on new projects

GRAB



ABC arbitrage

## Treasury yields tumble as Fed's U-turn fuels fixed income rally

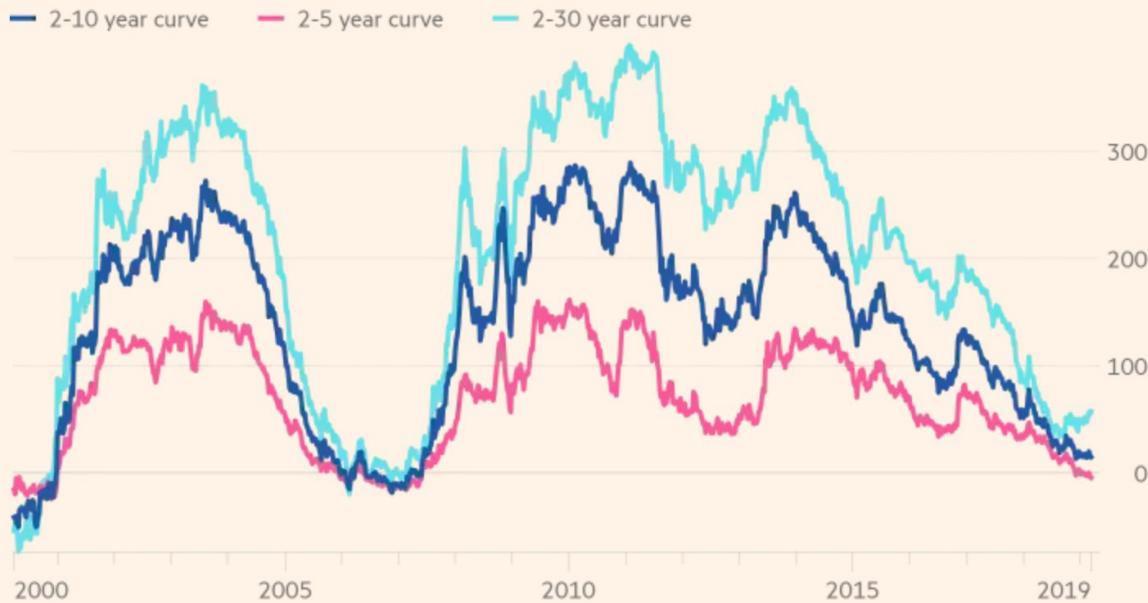
Ten-year US Treasury yield (%).



Source: Bloomberg  
© FT

## US yield curve flattens as Fed lifts rates and economic optimism fades

The spread between various Treasury yields (in basis points).

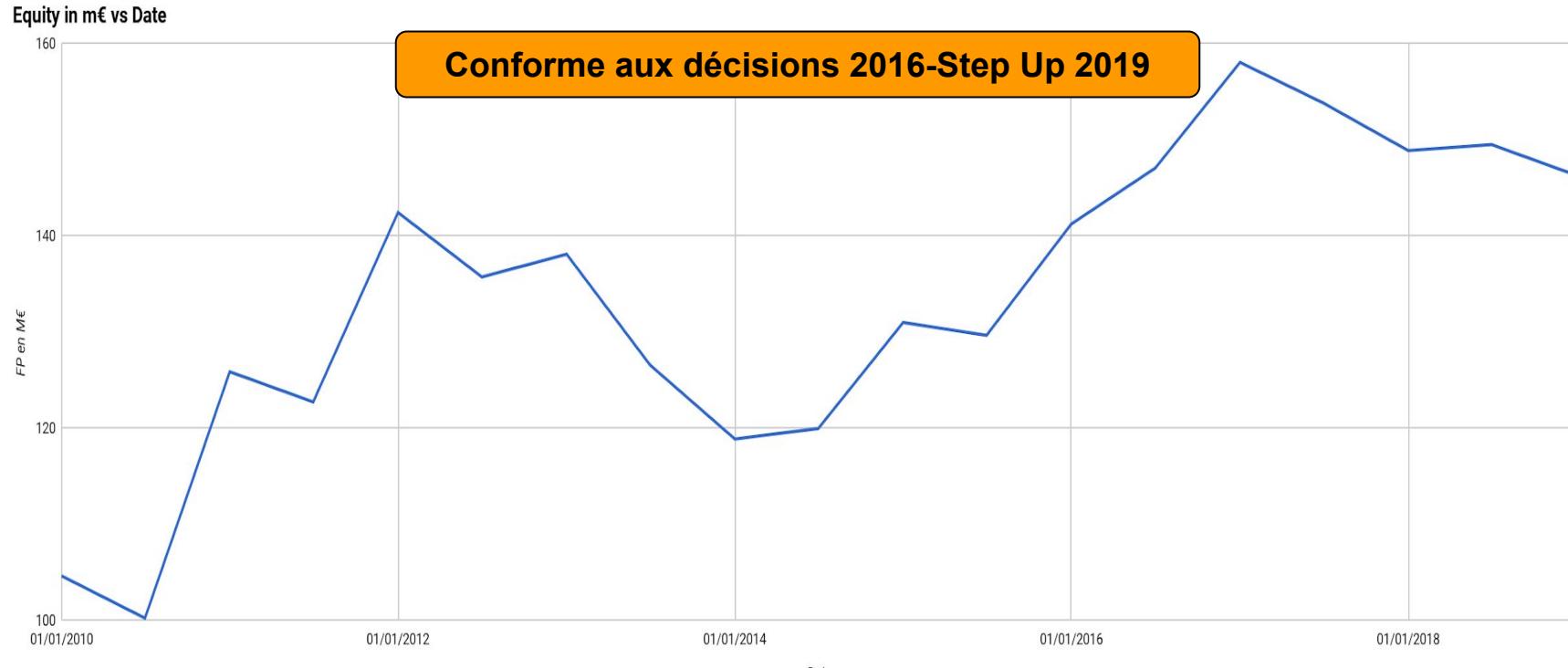


Source: Bloomberg  
© FT



# Montant des fonds propres

## *Evolution semestrielle (à compter du 01/01/2010)*

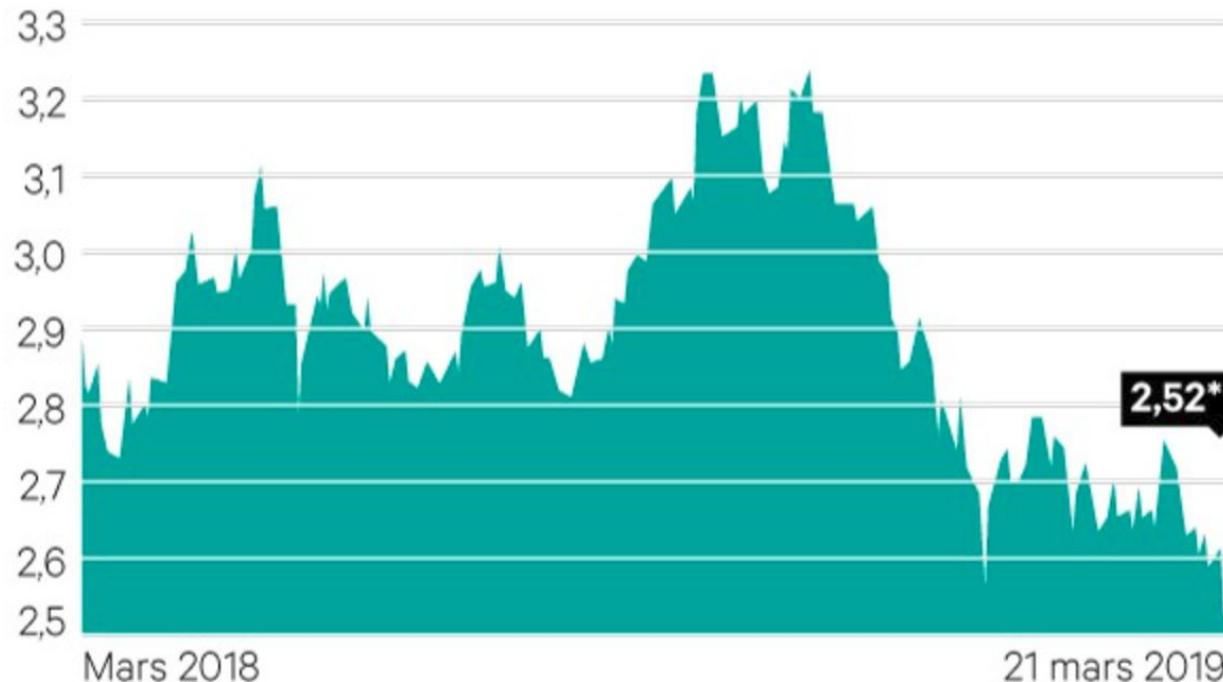


# Asia Volatility vs US/EUR



## La baisse du taux américain à 10 ans

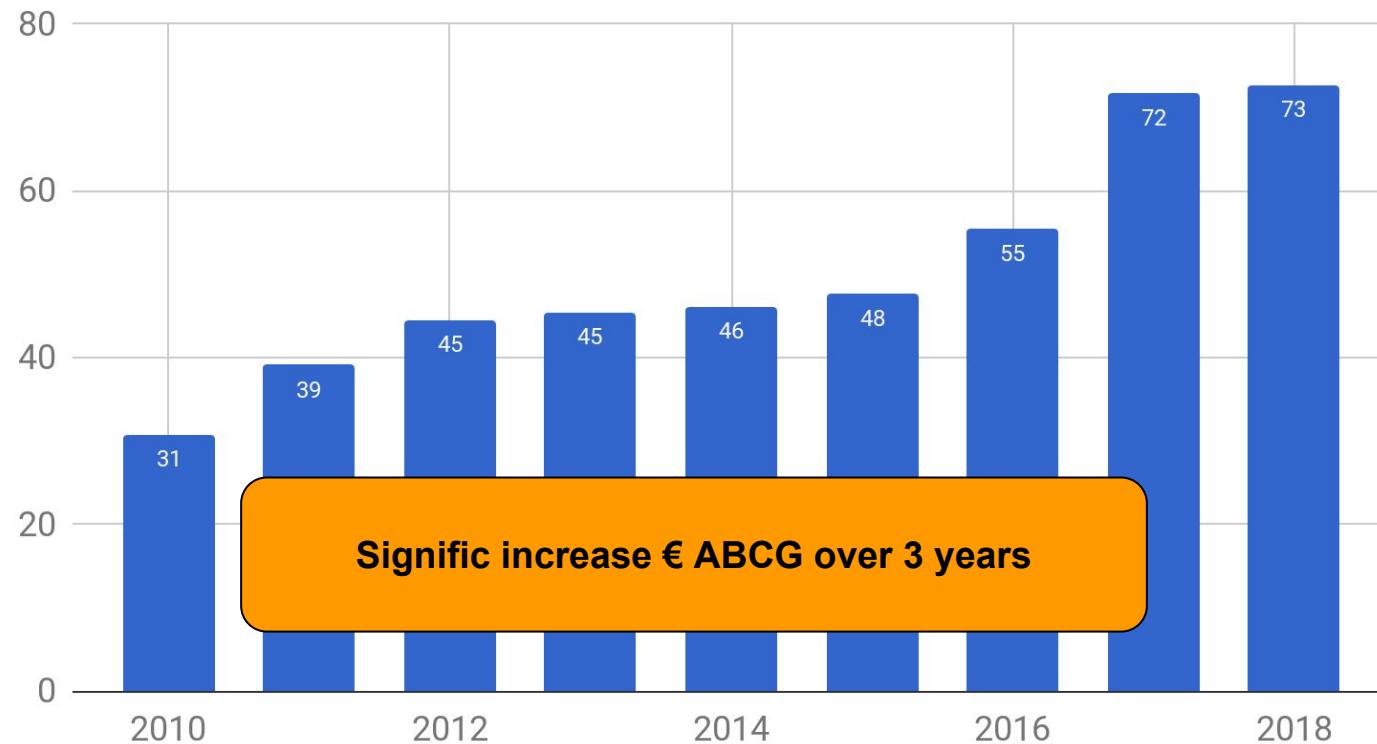
En %



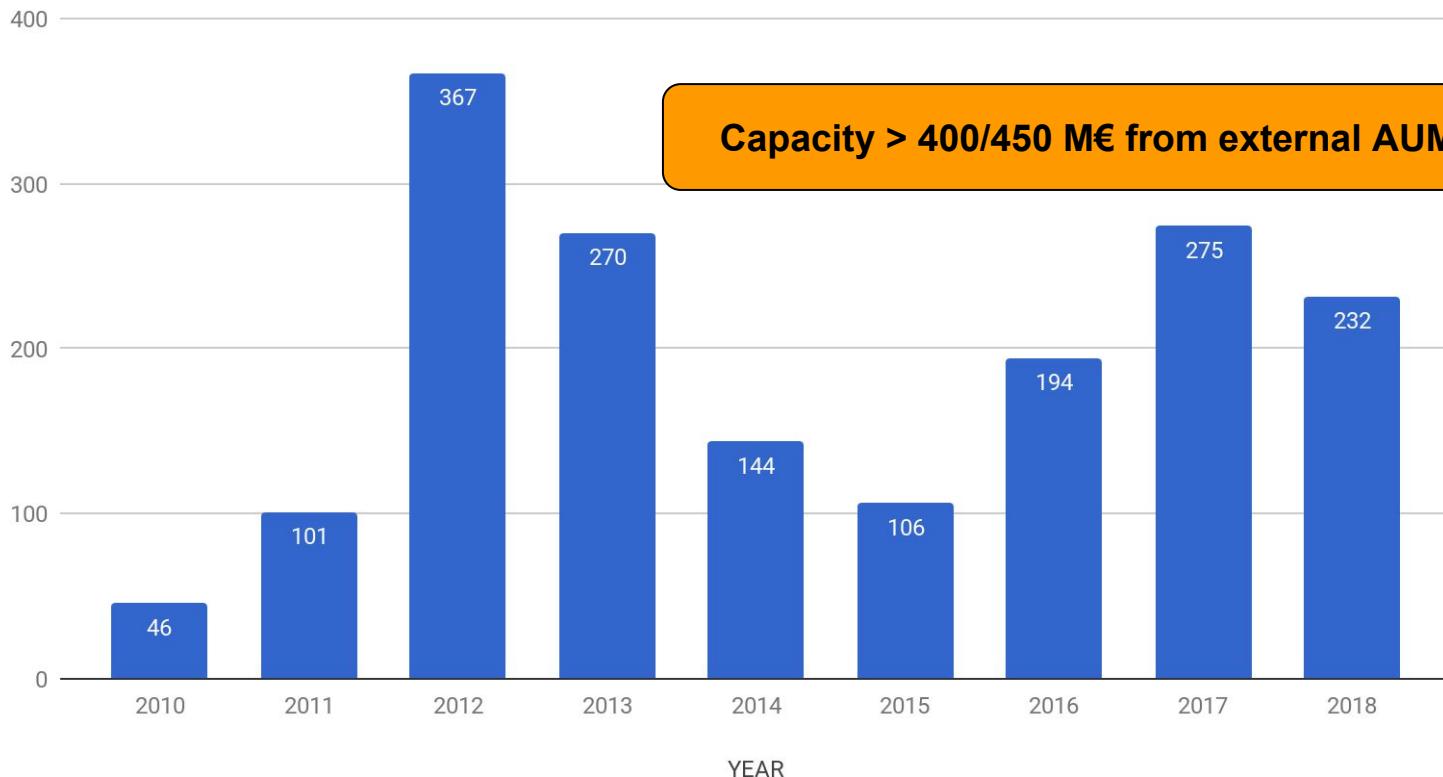
## End of Year Total AUM ABCA Funds Ireland + Quartys (mEUR)



## ABCA Group investments in ABCA Funds Ireland (mEUR)

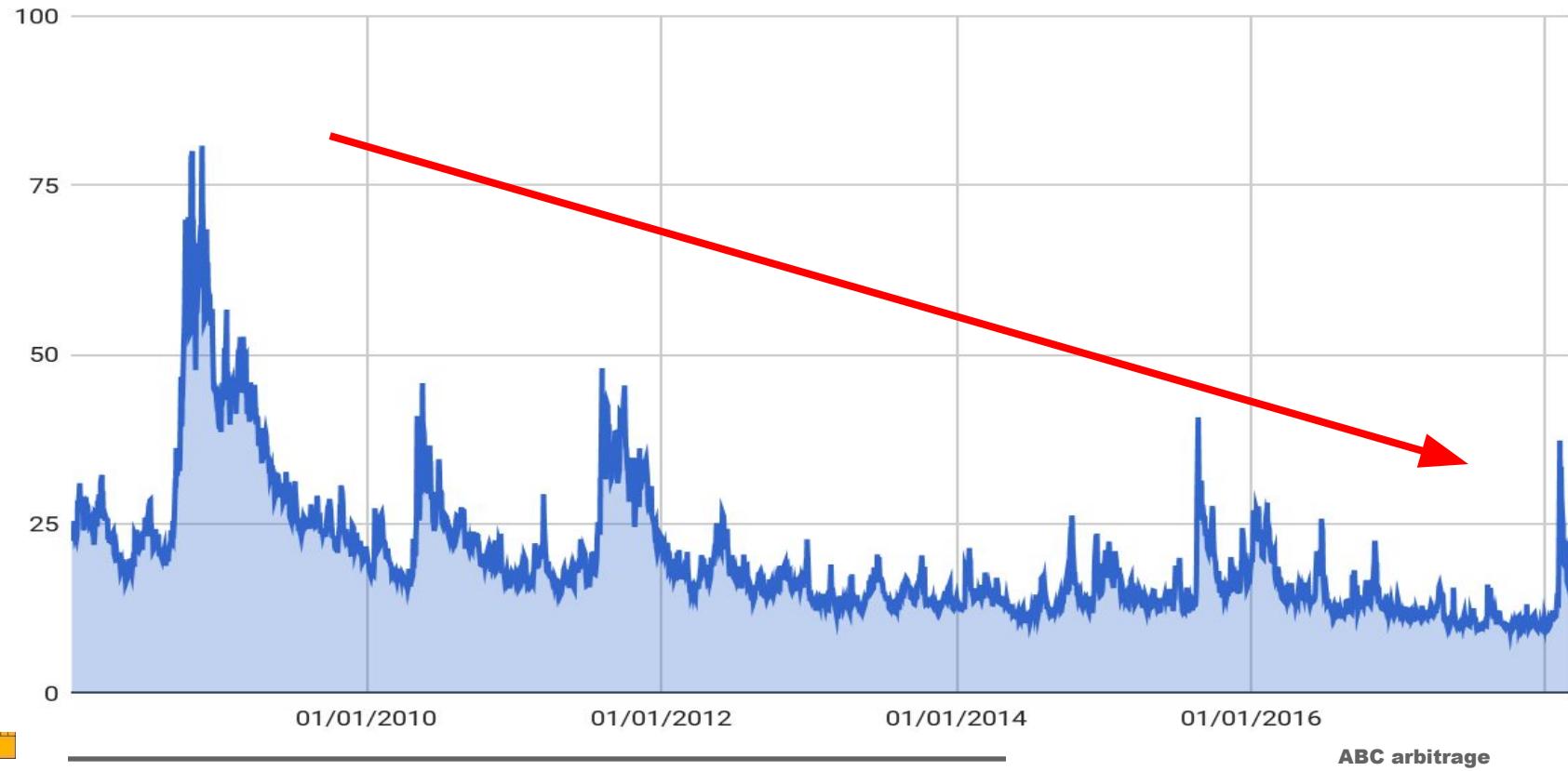


## Average External AUM EXTERNE (mEUR)



# VIX (from 2008)

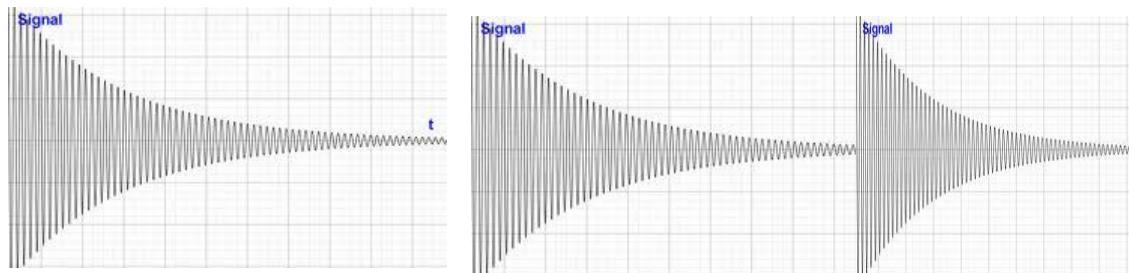
VIX index



# 2012/2017: Central Banks Era

2012-2017  
Central Banks Era

Before Central Banks



# 2012-2017 - New Volatility Era !

Before Central Banks



Central Banks Era

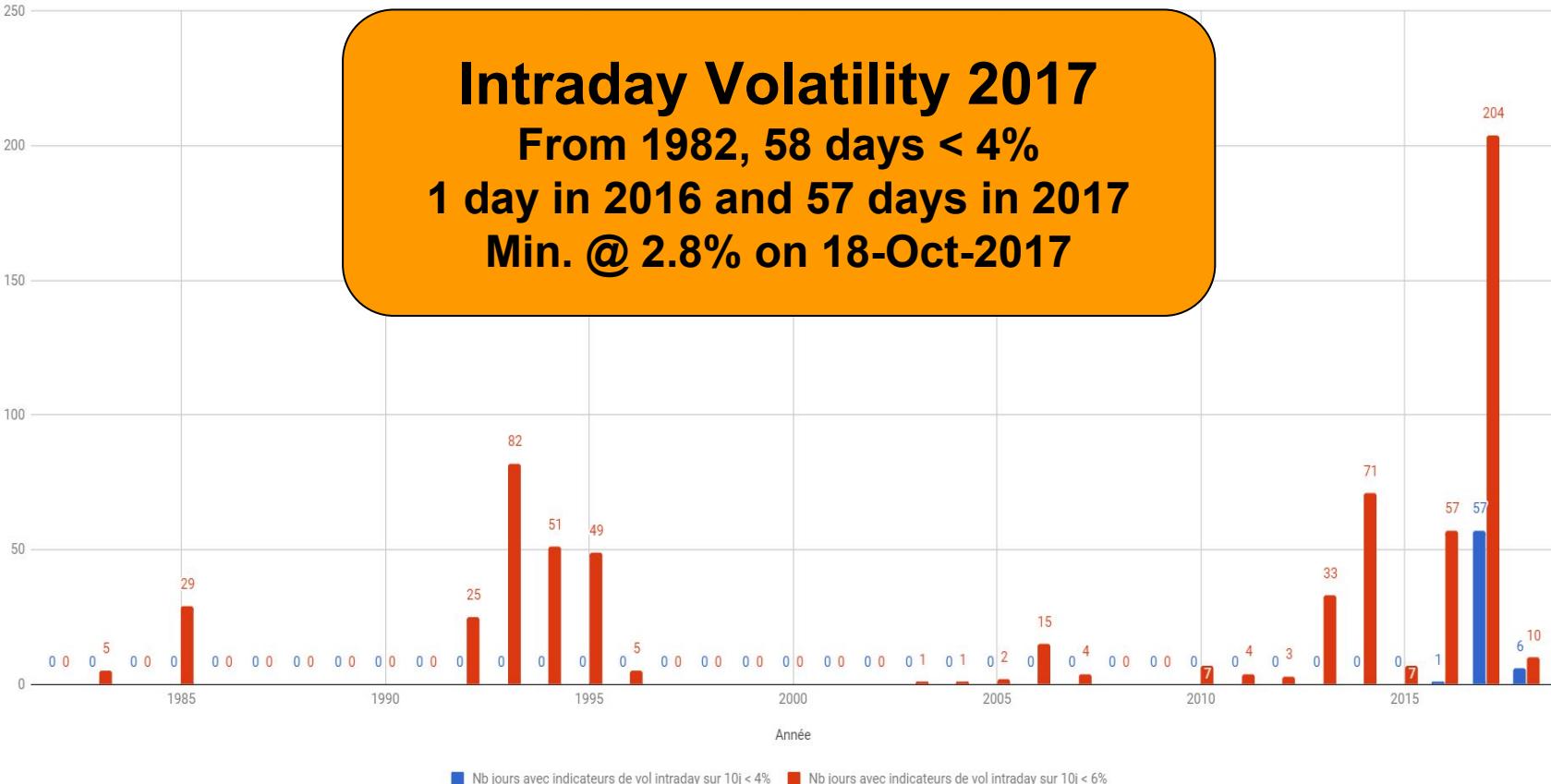


# Intraday Volatility 2017

From 1982, 58 days < 4%

1 day in 2016 and 57 days in 2017

Min. @ 2.8% on 18-Oct-2017



# ABC arbitrage Net Profits H1 H2 FY

40

These figures are not strictly audited

H2 does not exist from an accounting point of view

30

H2 Statiscally < H1  
H2 2017 Decrease is coherent

20

10

0

16.4

14.1

30.5

12

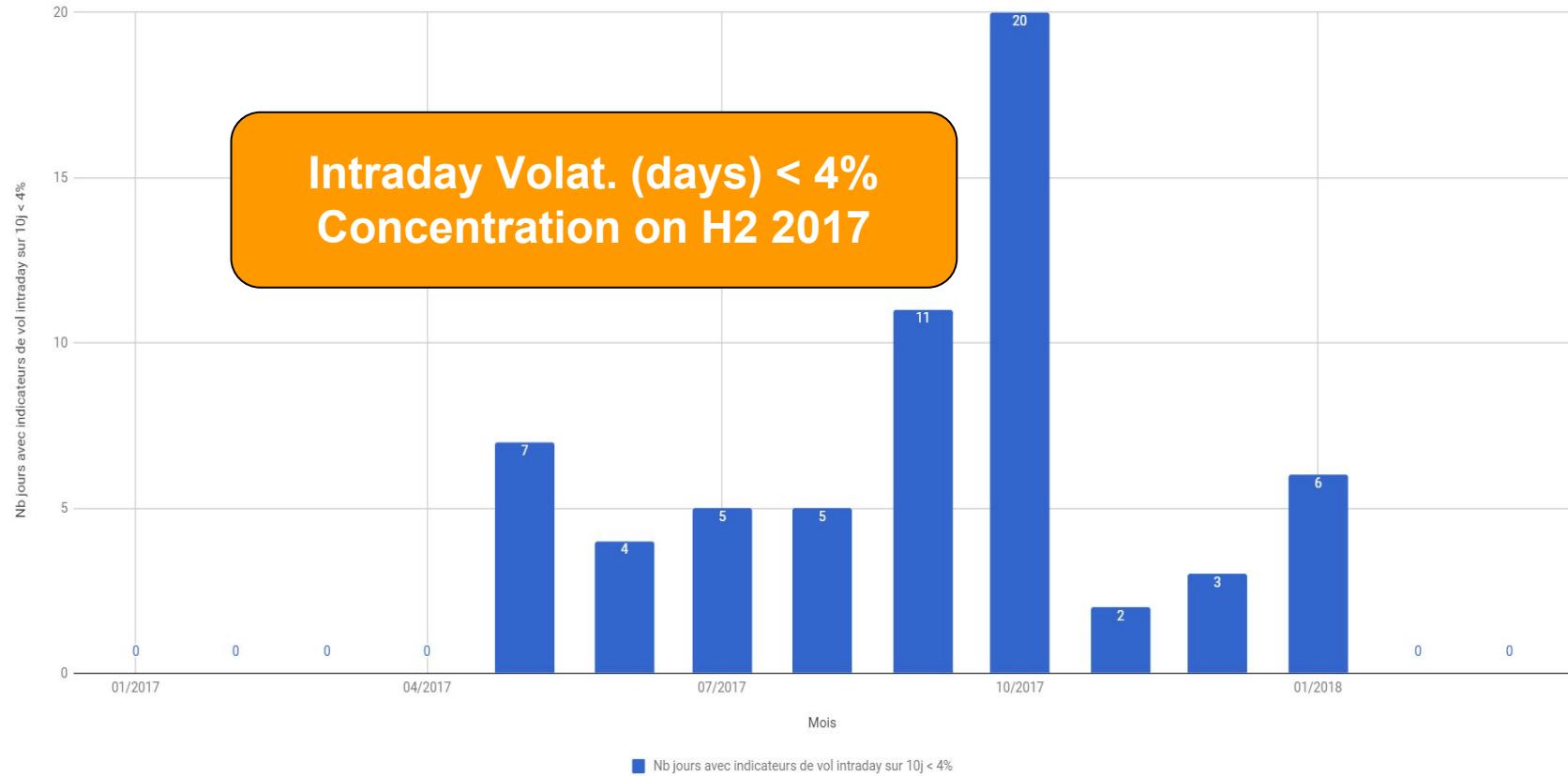
6.3

18.3

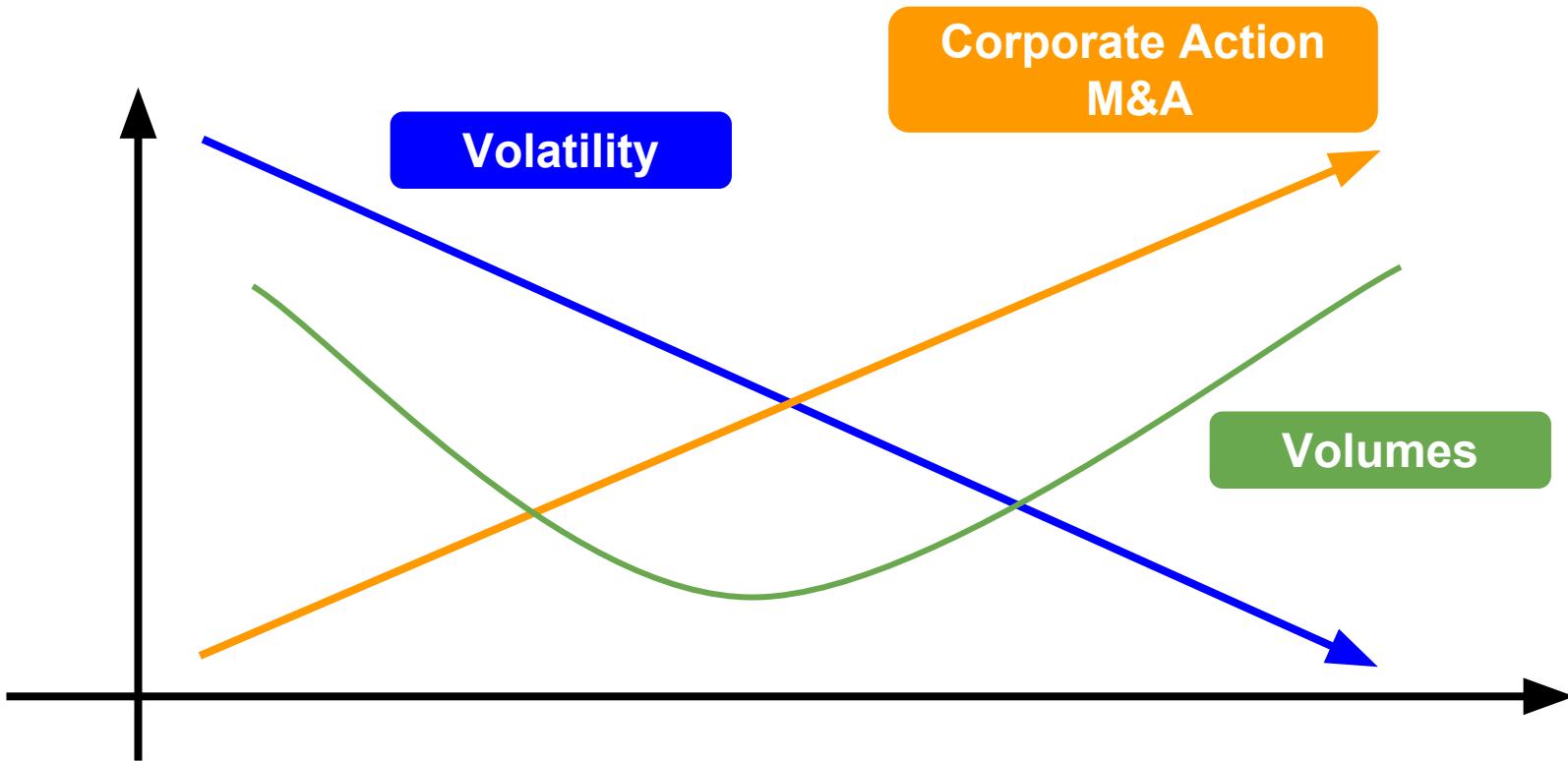
2016

2017

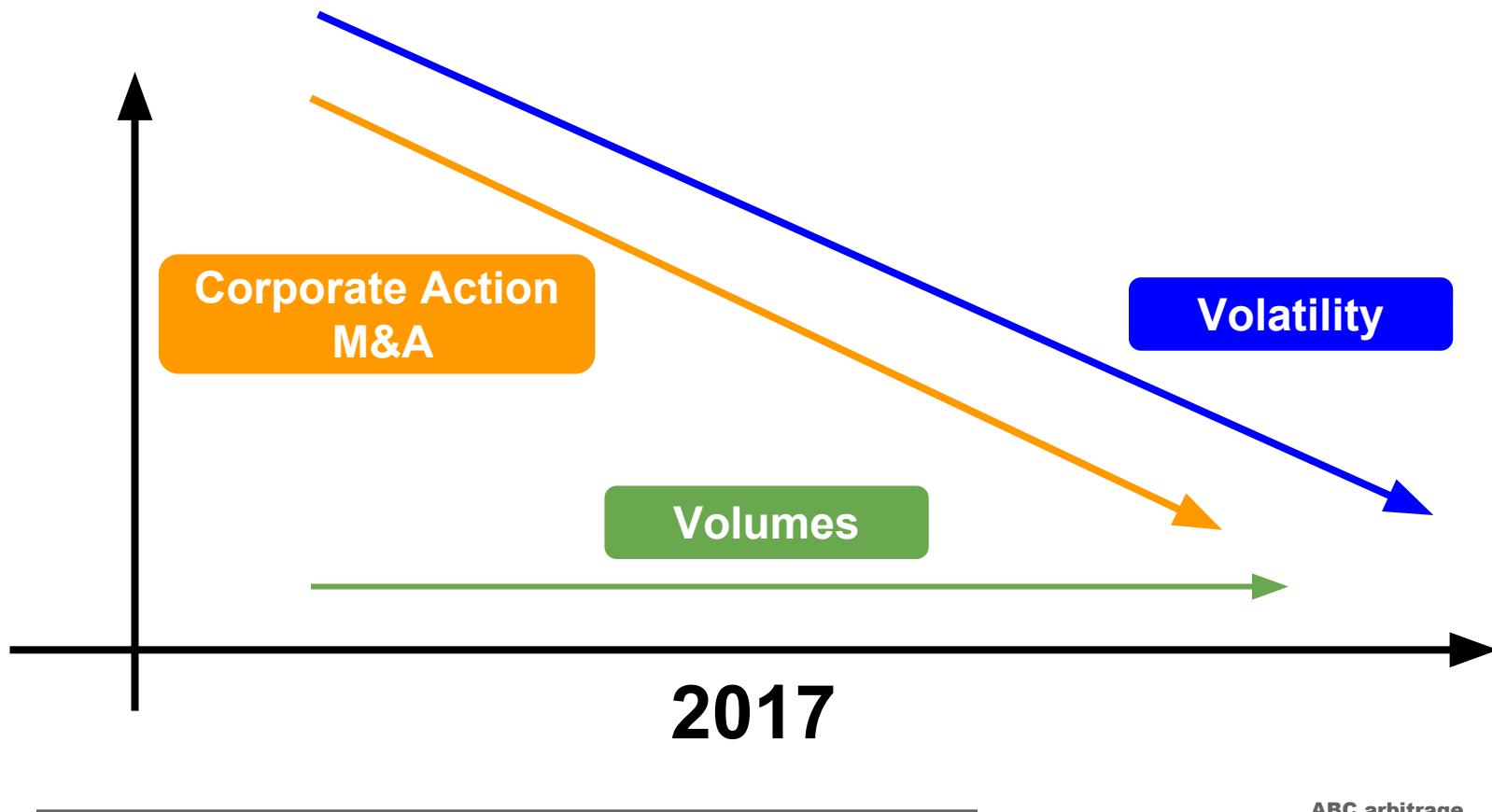




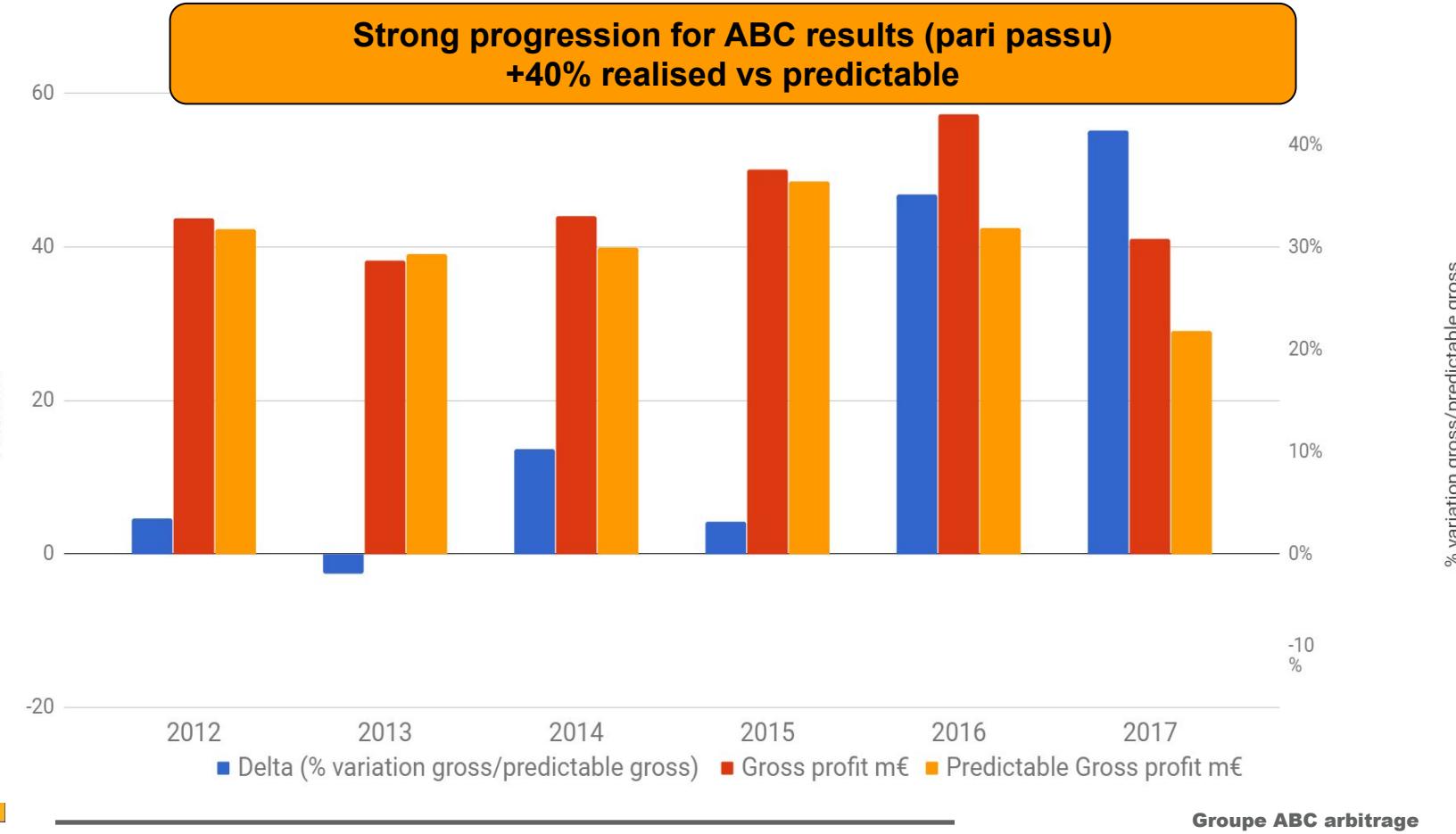
# Expected Situation...



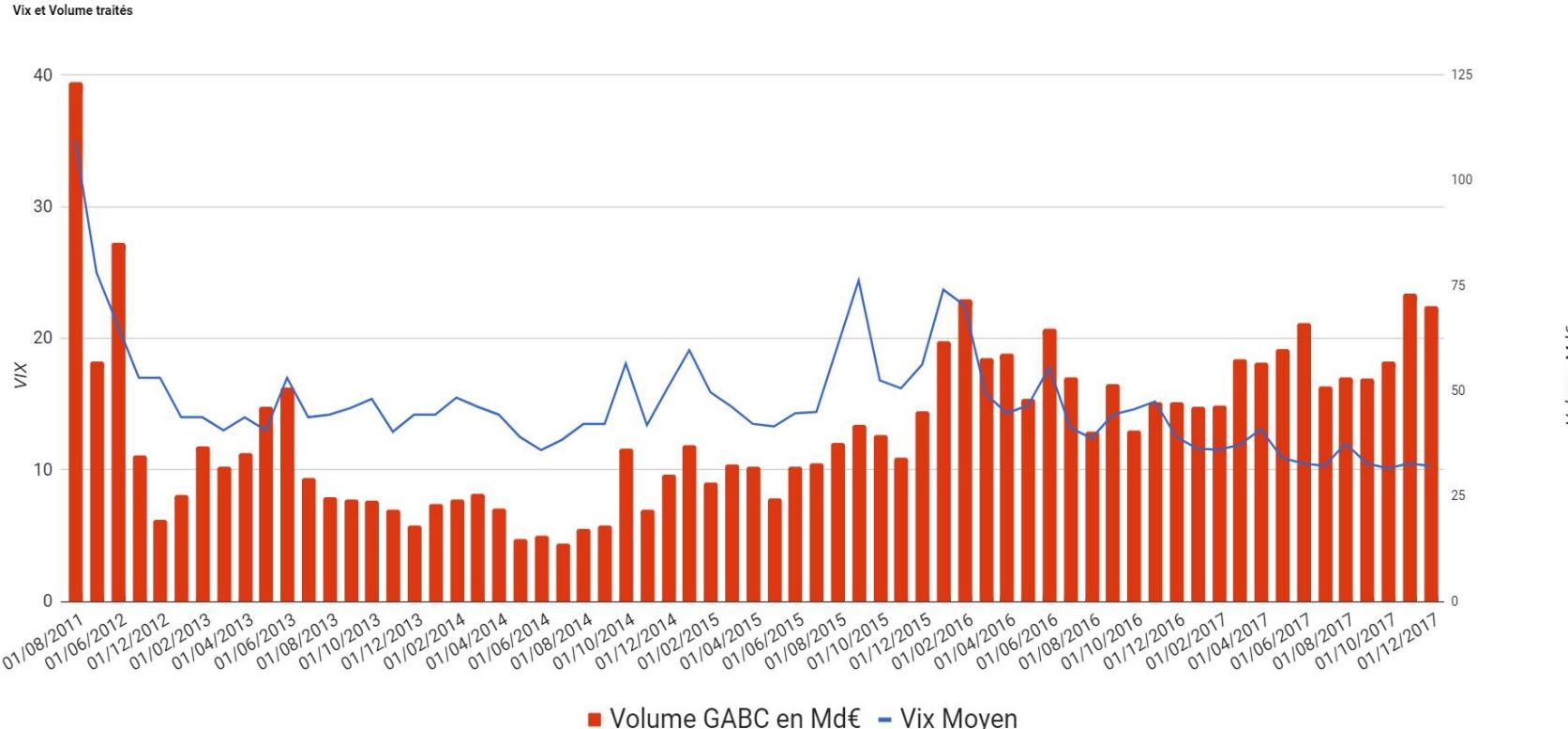
# 2017 Situation



# If correlation to volatility was the same as 2007-2012, the results would be...

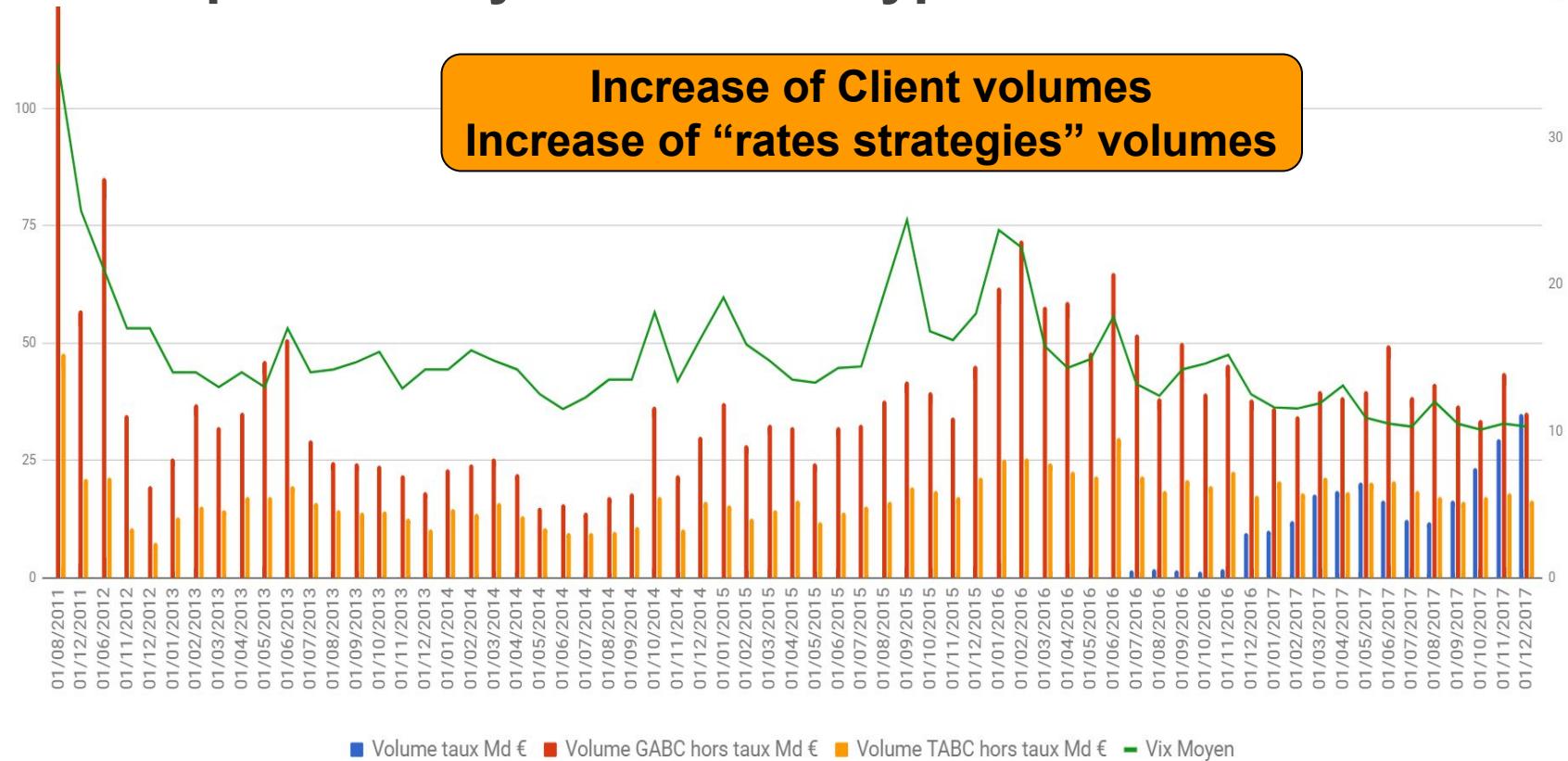


# Correlation between VIX and Group Traded Volumes



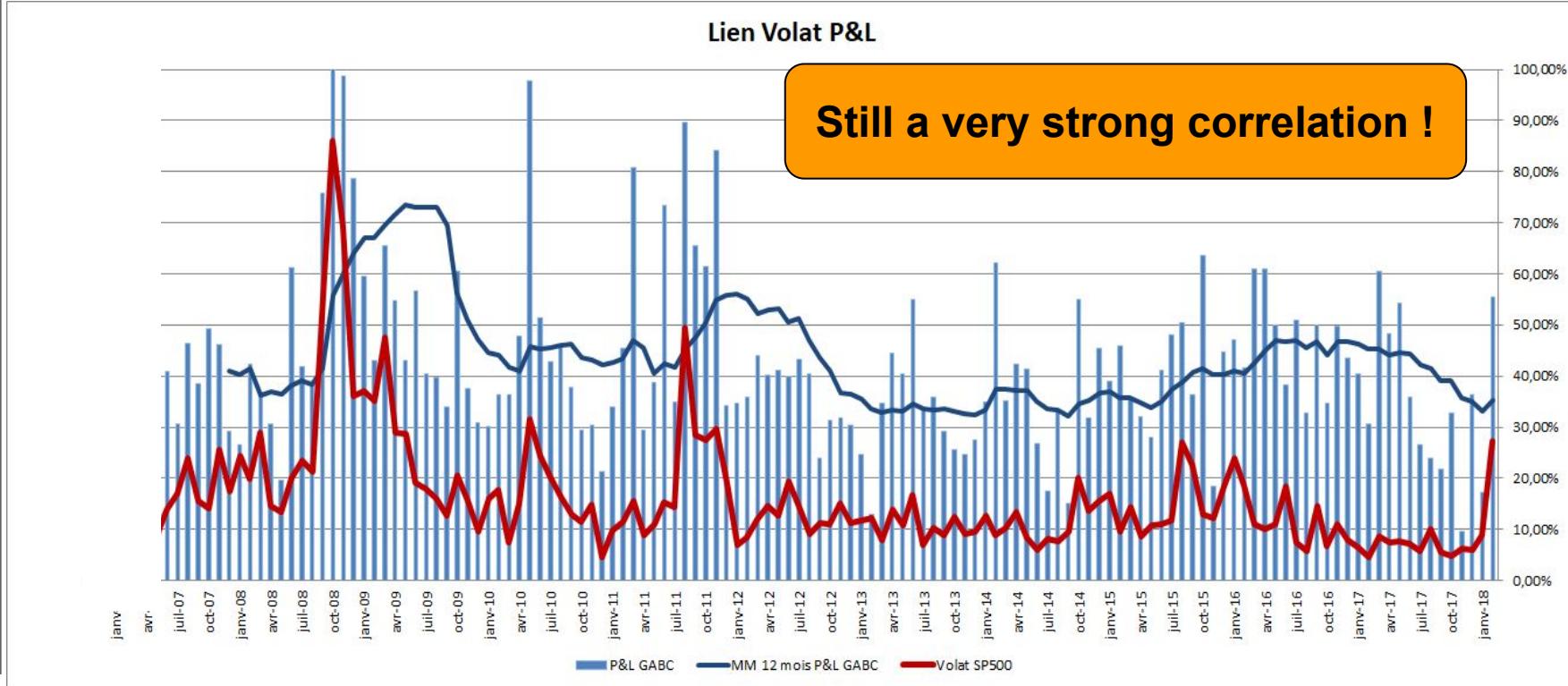
# Decomposition by assets and type of clients

40

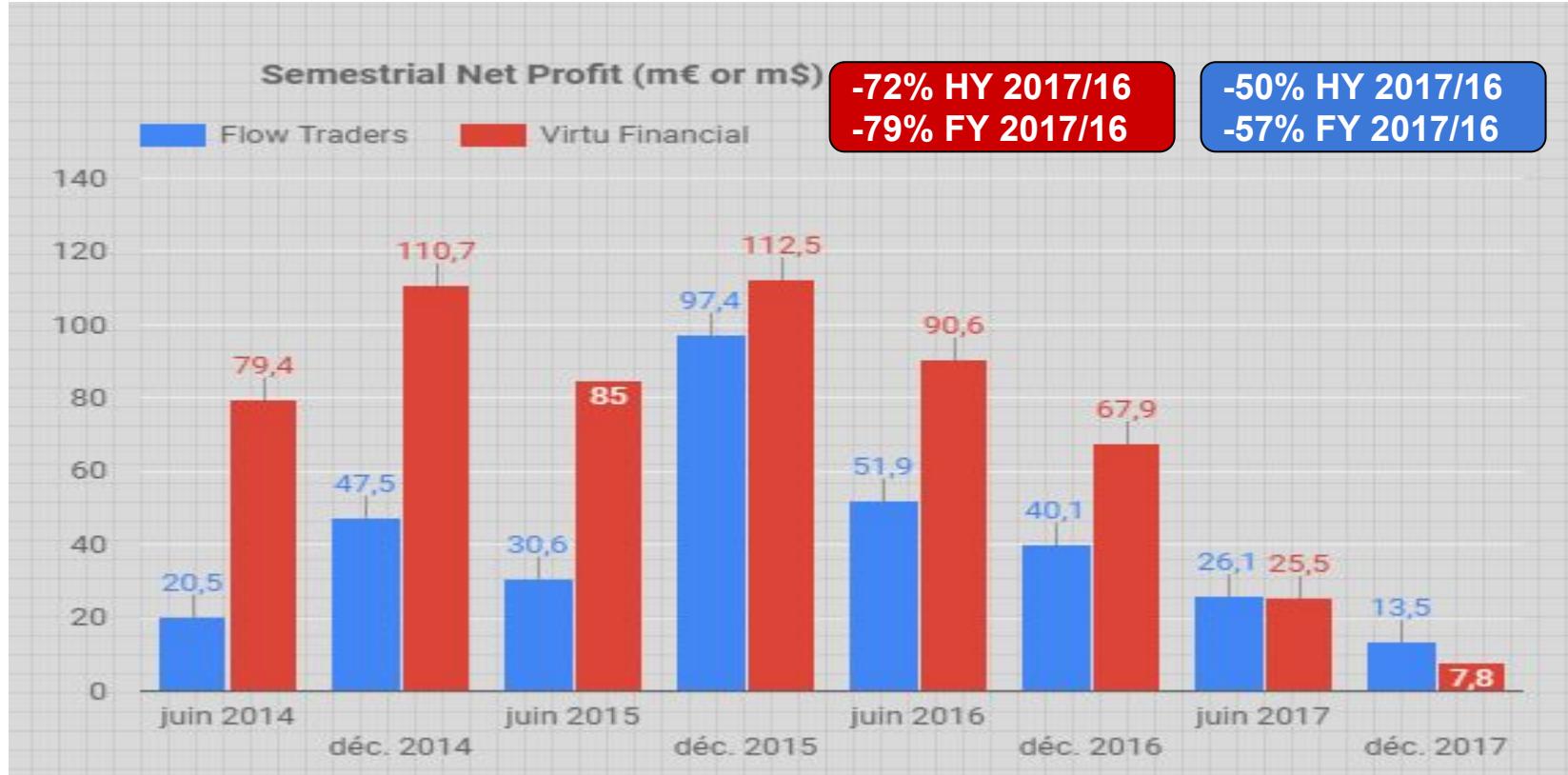


# Correlation between volatility (20d) SP500 and P&L ABC

## *From 2007*



# UHFT Players - Winter is coming ?

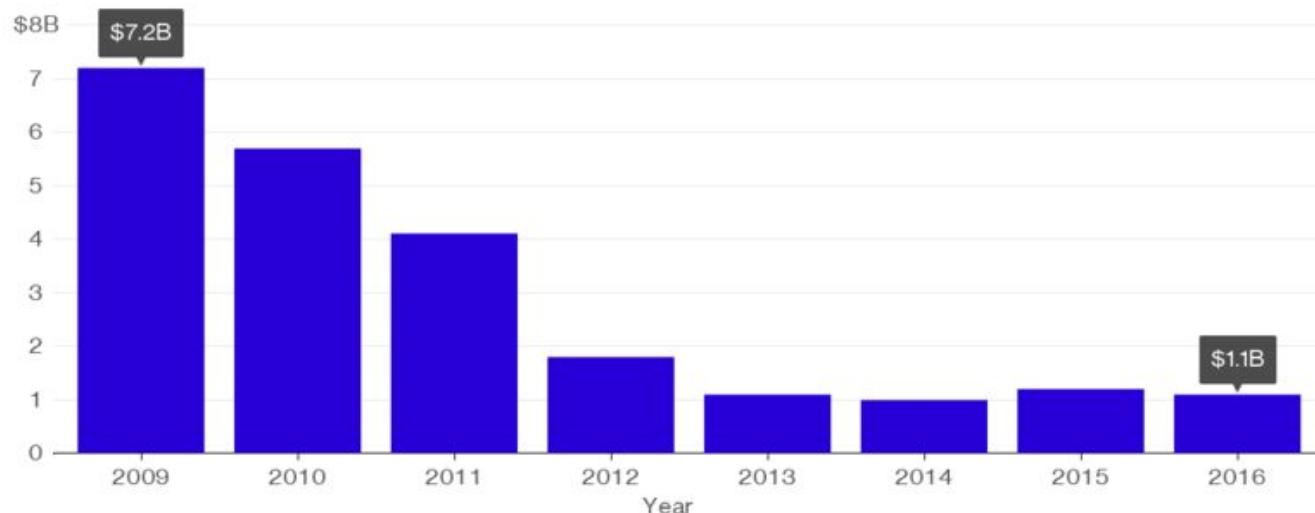


# 2009-2016 - HFT Industry Revenues

## High-Speed Traders See Earnings Squeeze

Fastest traders in U.S. stocks forced into new lines of business, amid increased competition

■ Market-maker revenue, U.S. equities (USD)



Source: Tabb Group estimate

Bloomberg

# 2014-2017

-30 “support”

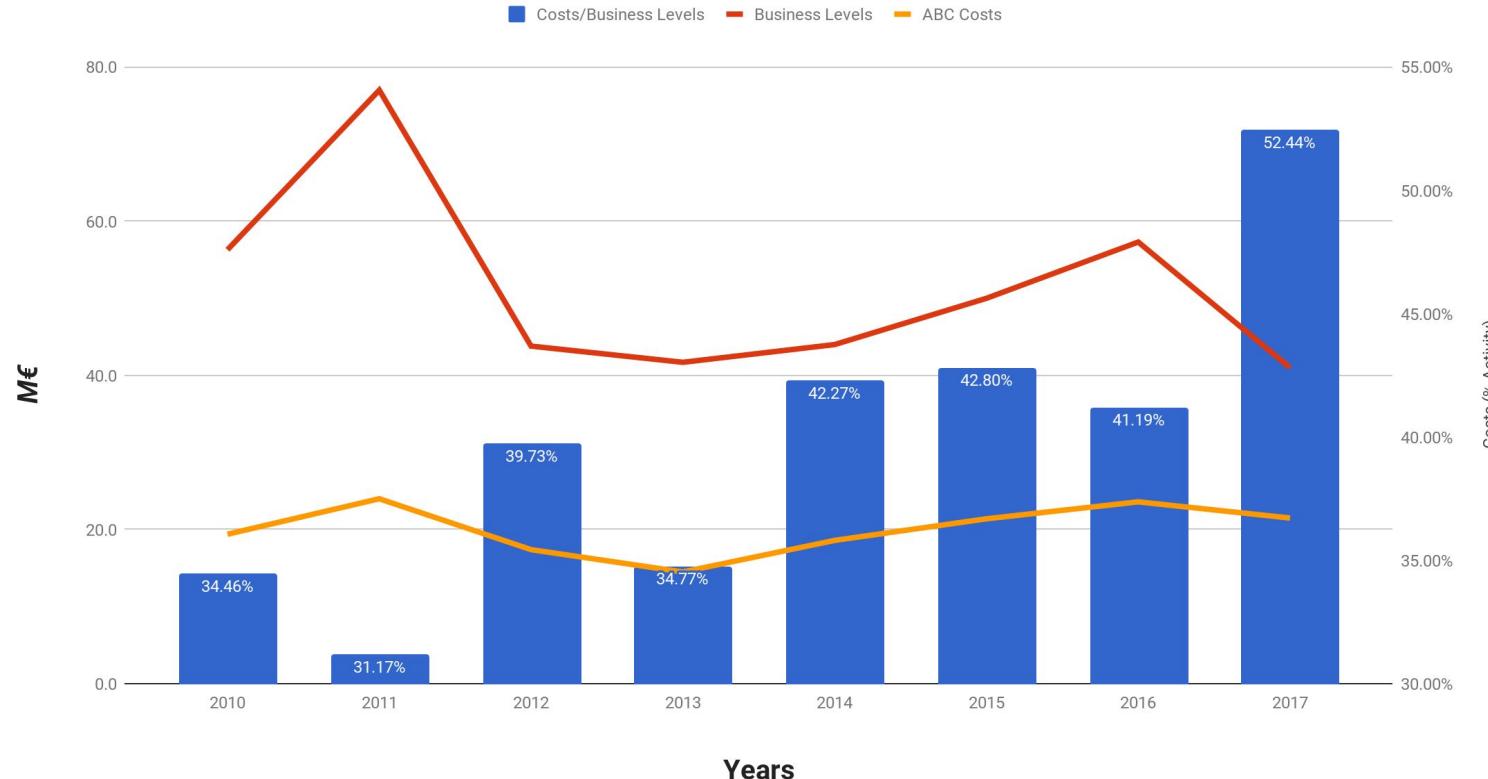
+30 “R&D”



Groupe : environ 90 collaborateurs  
31-dec-2017

Costs are adjusted to take into account IFRS 10 - “Business Levels” are close to, but not equal to “Revenues” (audited accounts)

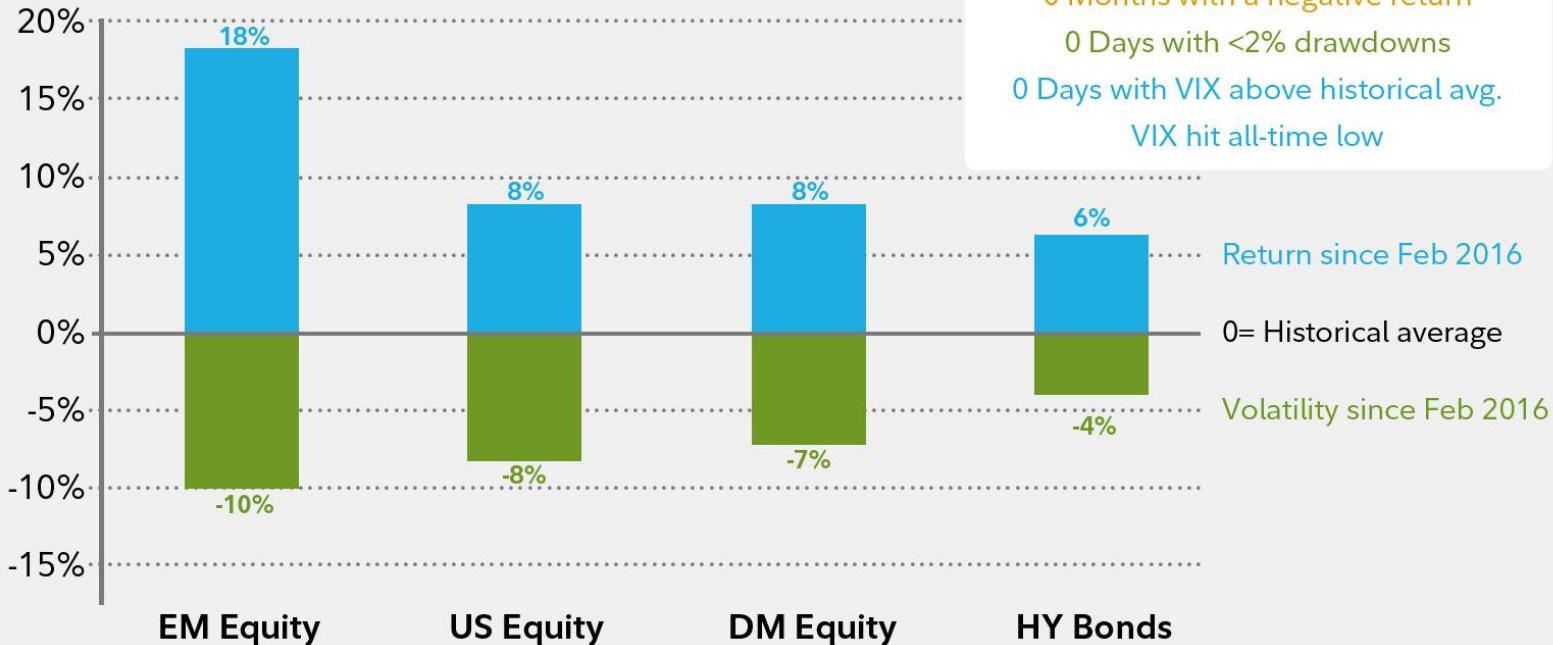
## Business Levels & Costs



# 2016-2017 vs LT average (1950)

Returns and volatility (since February 2016 relative to long term)

Relative to historical average (annualized)



source: FIDELITY - for EM Equity vs LT average (1988)

ABC arbitrage

# Gross Performances ABC arbitrage Group - From 2010 to 2017



**S&P 500 (^GSPC)**

SNP - SNP Real Time Price. Currency in USD

**2,588.26** -55.43 (-2.10%)

At close: March 23 4:47PM EDT

[Indicators](#)[Comparison](#)[Date Range](#)

1D

5D

1M

3M

6M

YTD

**1Y**

2Y

5Y

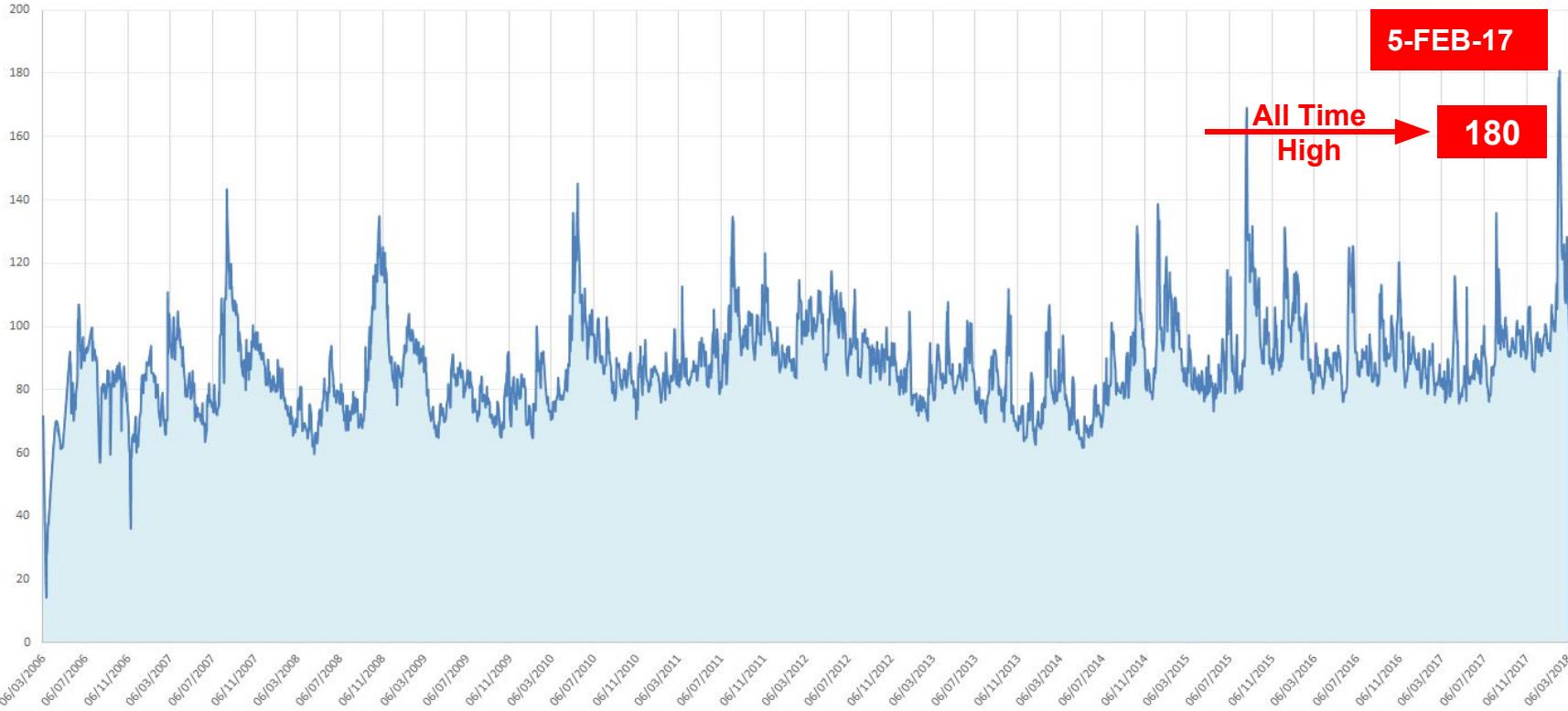
Max

[Interval](#) [1D](#)[Line](#)[Draw](#)YAHOO!  
FINANCE[^GSPC 2440.350](#) **2018 = New paradigm ?**ay  
Jul  
Aug  
Sep  
Oct  
Nov  
Dec  
2018  
Feb  
Mar  
Apr  
May

source : Banque Mondiale

**Groupe ABC arbitrage**

# Volatility of volatility



## VelocityShares Daily Inverse VIX Short-Term ETN (XIV)

MAULDIN  
ECONOMICS



© Mauldin Economics

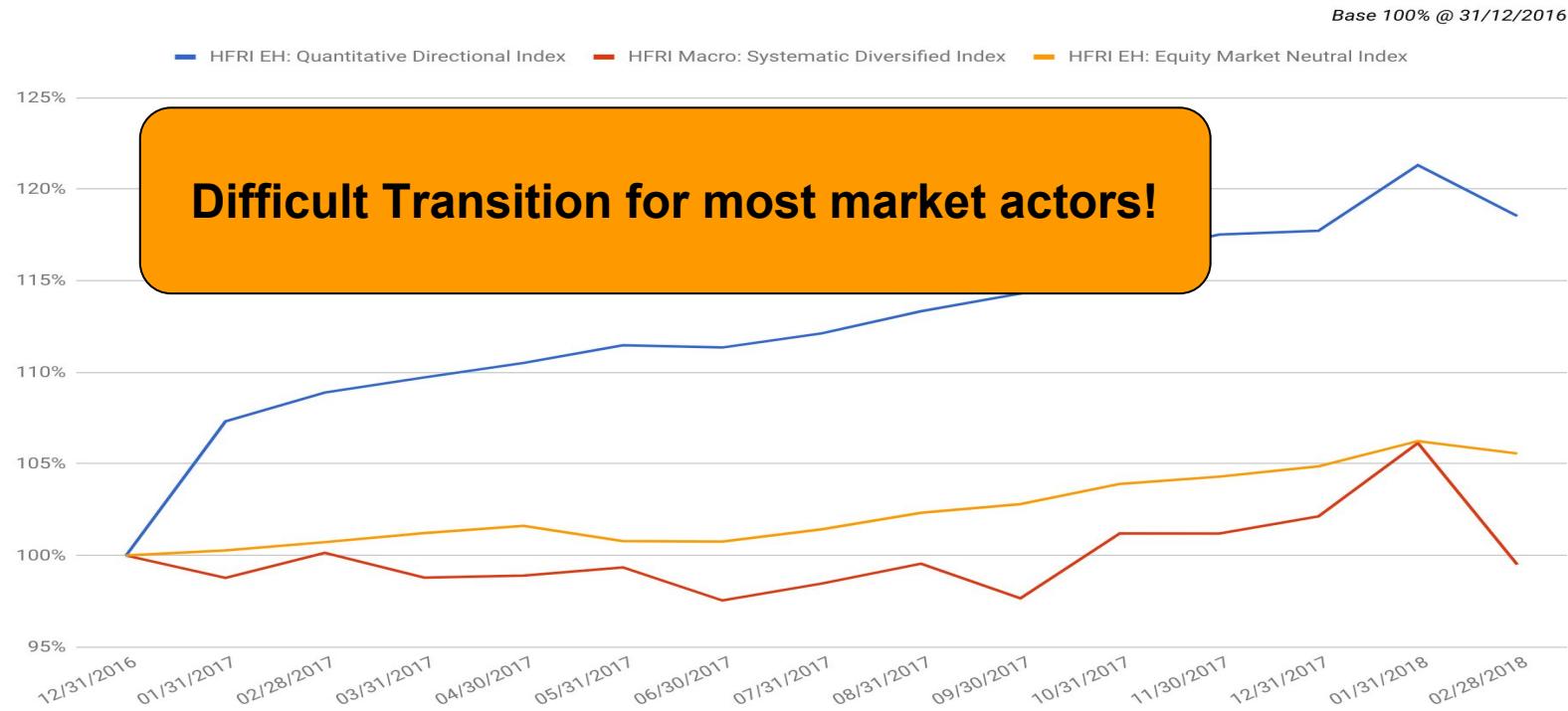
Source: Thomson Reuters



source : Banque Mondiale

Groupe ABC arbitrage

# 2017-2018 - Quant indexes



source : HFRI

## Fed, ECB, BOJ, BOE Balance Sheets and Asset Flows

G4 Central Bank Assets EME, EMD & HY Fund Flows

Billions (12-Month Change)



Billions (12-Month Cumulative, 12-Month Lag)



Fund Flows: Mutual funds and ETFs. EME: Emerging Market Equity. EMD: Emerging Market Debt, HY: High Yield. Dotted line estimates future central bank assets: Fed to roll-off balance sheet assets by lesser of stated caps or total bonds maturing each month. ECB to begin tapering in January 2018 to EUR30B of monthly purchases for 9 months. BOJ to purchase at annualized rate of JPY 60T going forward. BOE to keep balance sheet constant. Source: Federal Reserve, Bank of England (BOE), European Central Bank (ECB), Bank of Japan (BOJ), EPFR, Haver Analytics, Fidelity Investments (AART), as of 11/30/17.



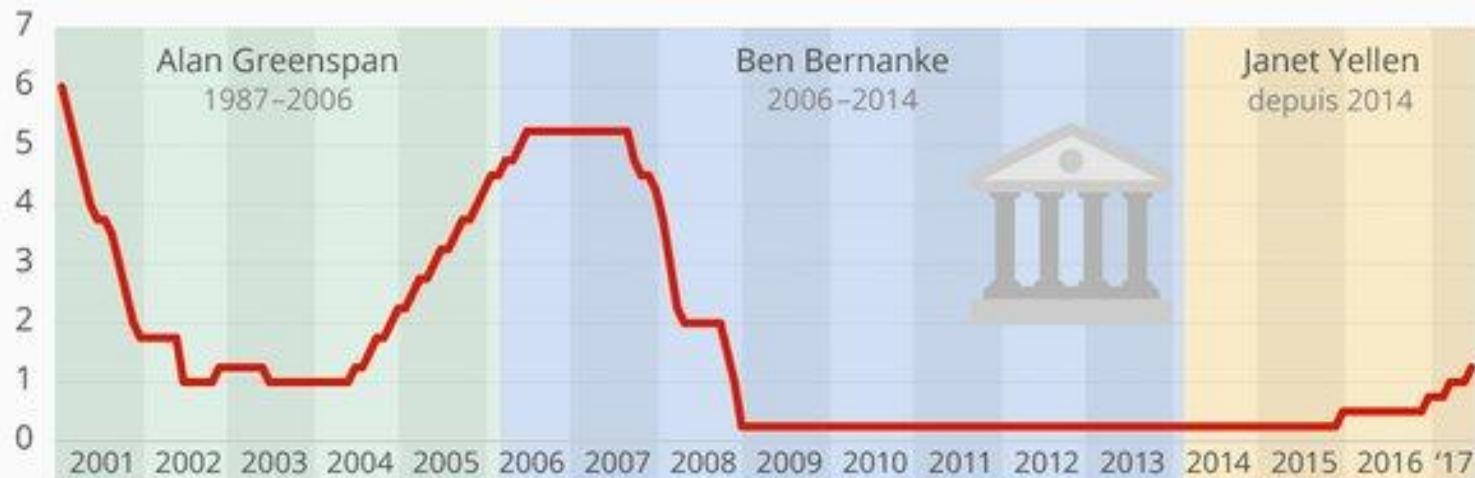
source : Banque Mondiale

Groupe ABC arbitrage

# 2018 - End of free lunch ?

## La Fed relève à nouveau son taux d'intérêt

Taux directeur de la Federal Reserve Bank, en % et président respectif de la Fed



En date du 14 juin 2017.

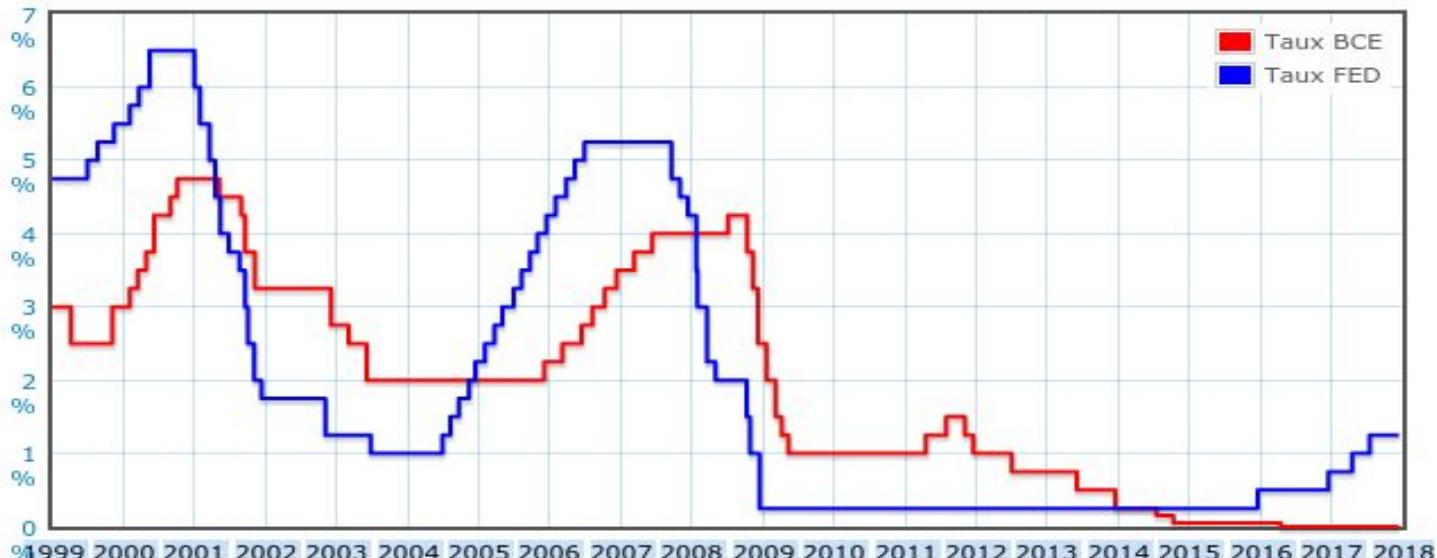
@Statista\_FR

Sources : Federal Reserve, deltastock

LA TRIBUNE statista

...Not yet for ECB...

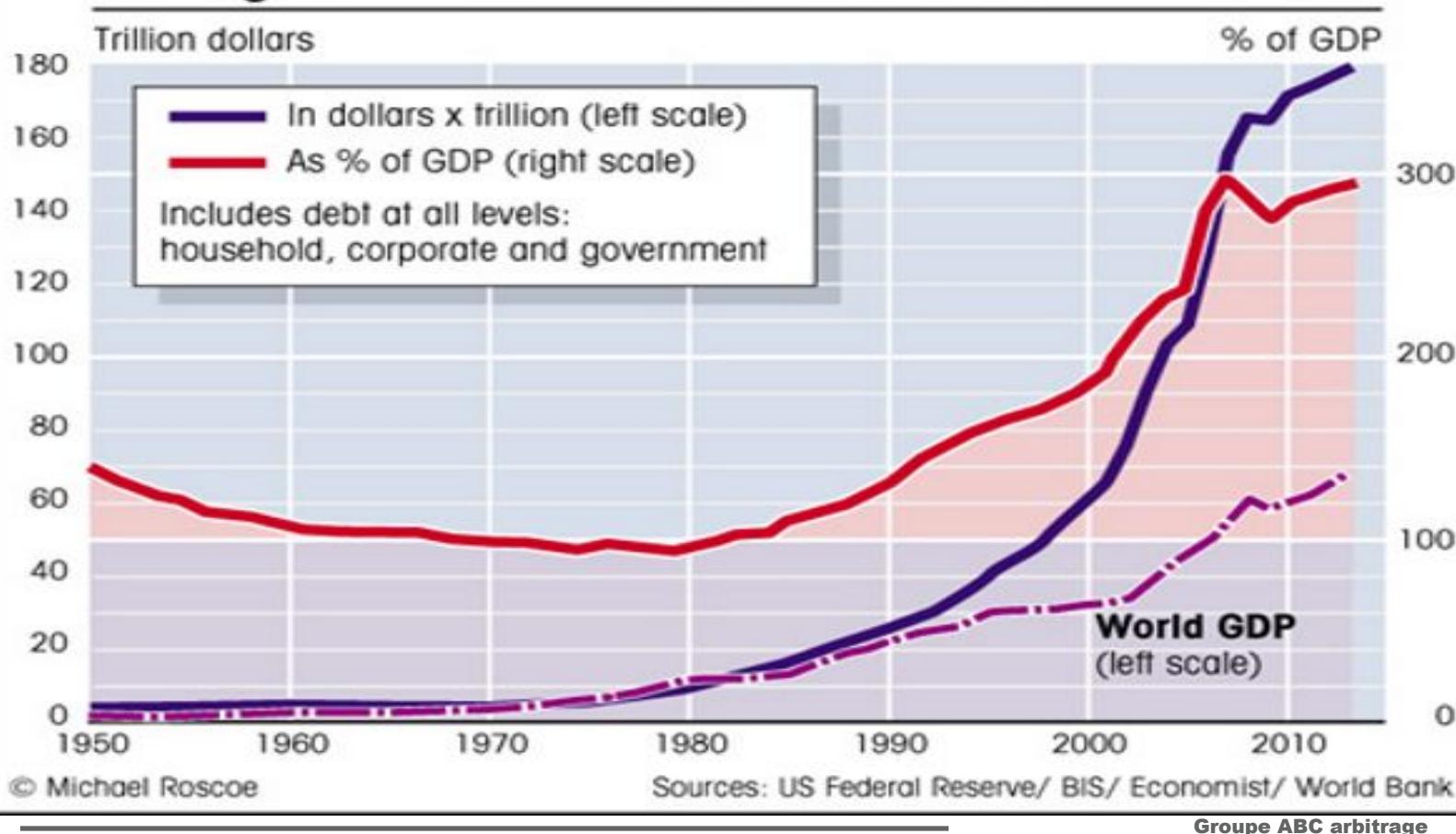
GRAPHIQUE EVOLUTION TAUX DIRECTEURS BCE ET FED depuis Janvier 1999



Dernier changement de taux directeur de la BCE : 2016-03-16 taux 0%

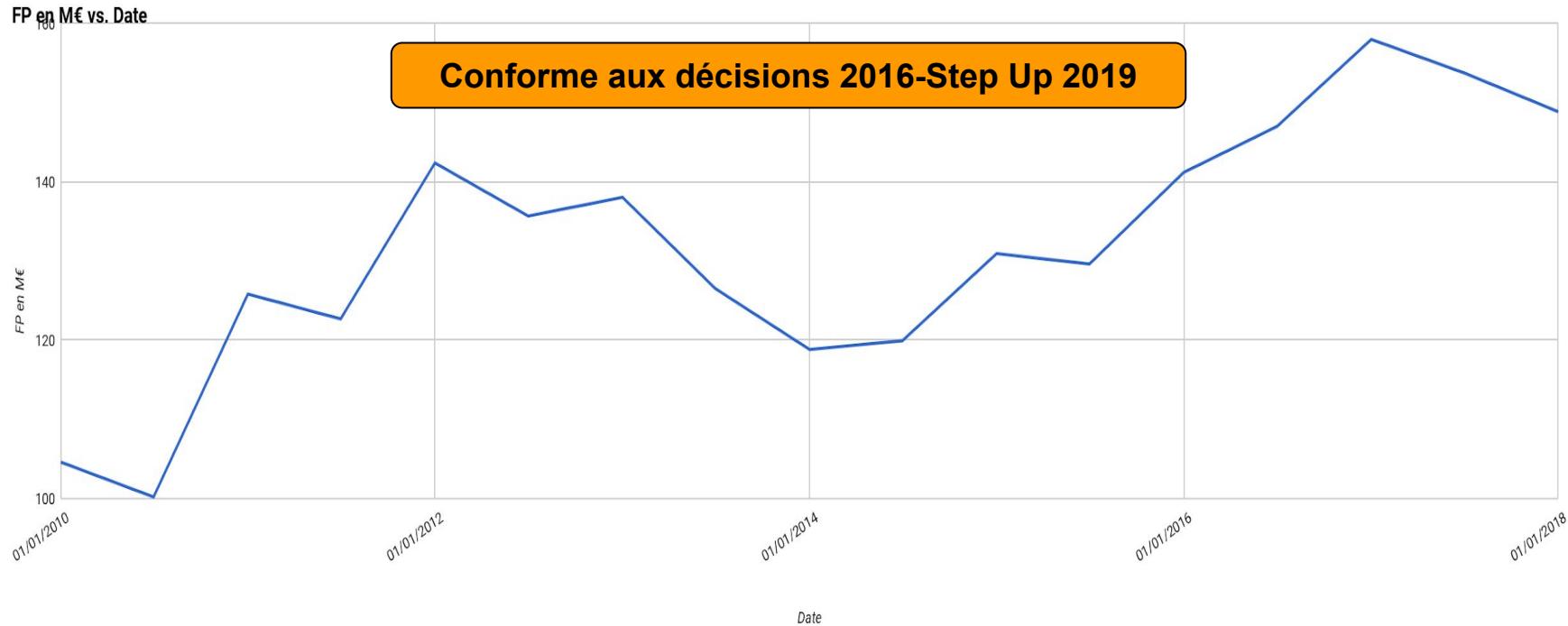
Dernier changement de taux directeur de la FED : 2017-12-14 taux 1.5%

## Total global credit-market debt owed

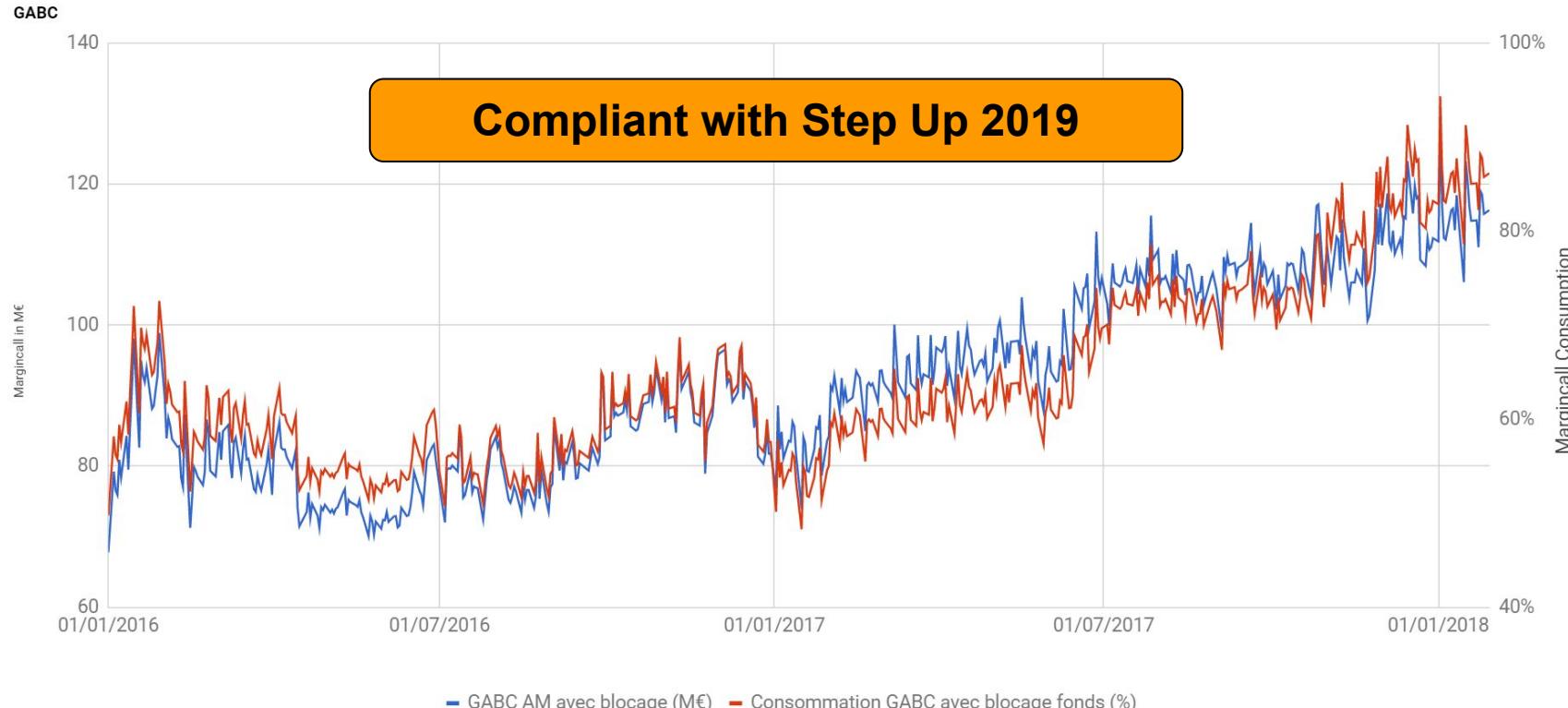


# Montant des fonds propres

## *Evolution semestrielle (à compter du 01/01/2010)*



# Shareholder's Equity Ratio



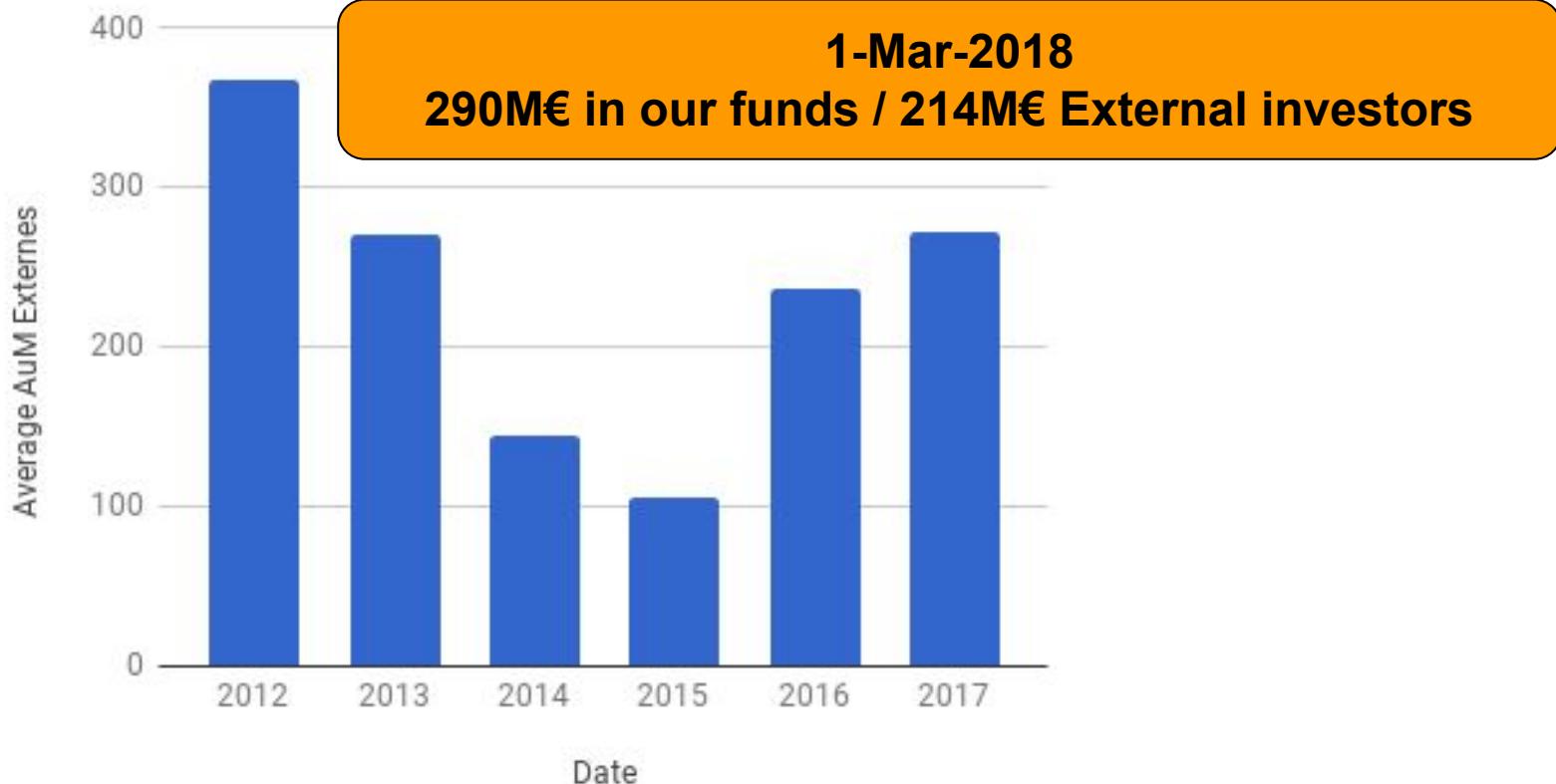
# VaR ABC arbitrage Group 10 day - 99%



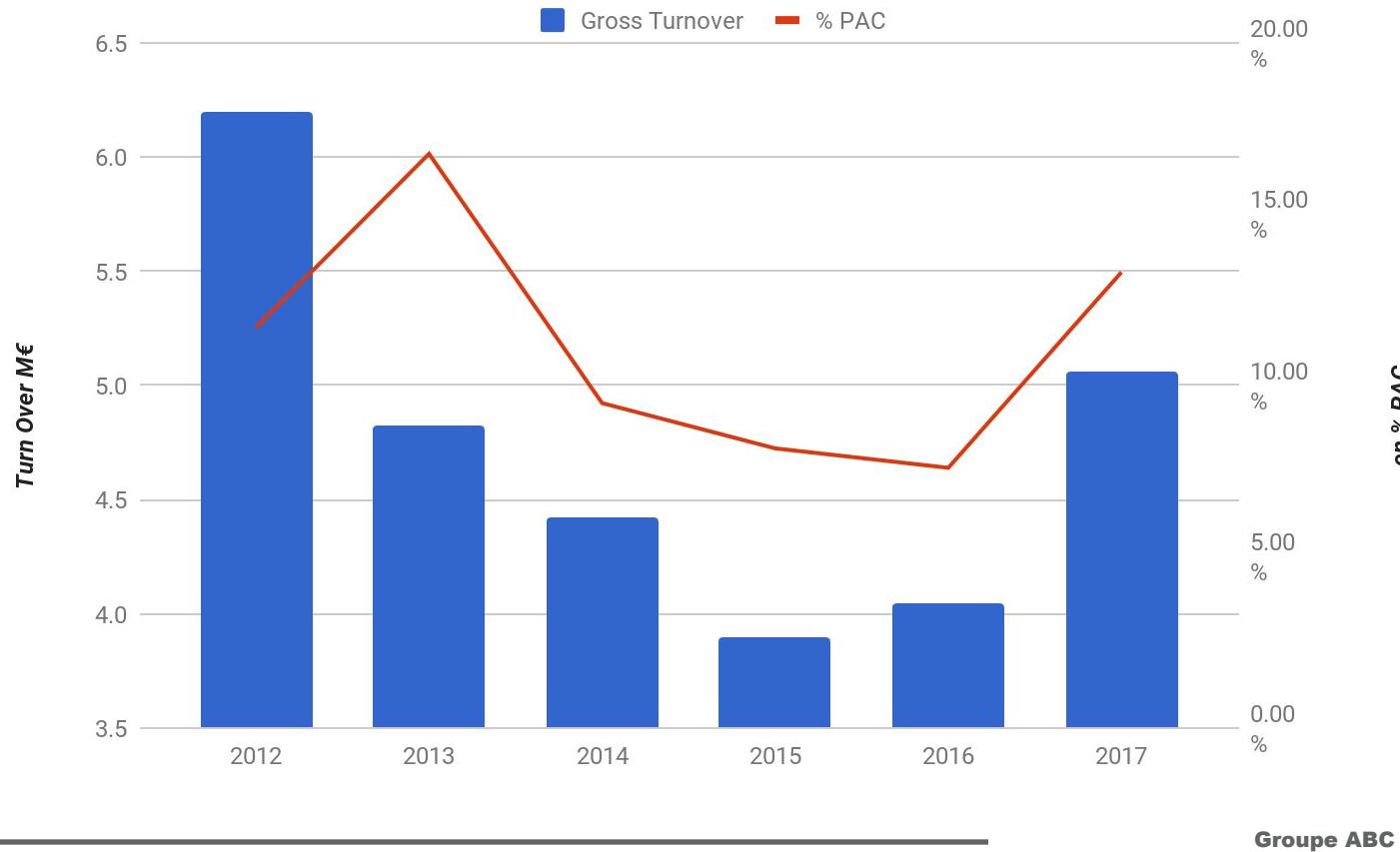
## ABC Group investments in ABCA Fund Plc



## Average AuM Externes vs Date

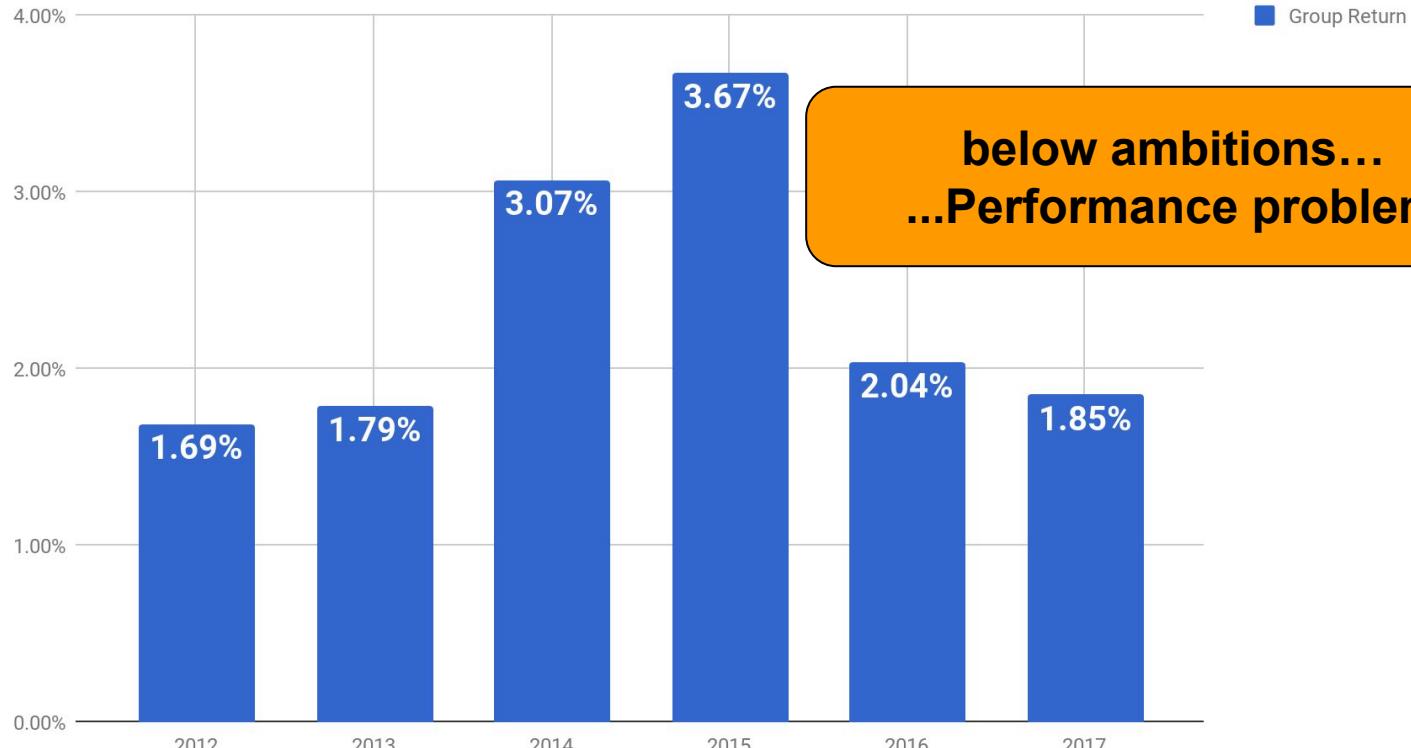


# External Client Revenues (Funds Only)



# Return on AUM for ABCA Fund Plc

ABCG Return on External AUM



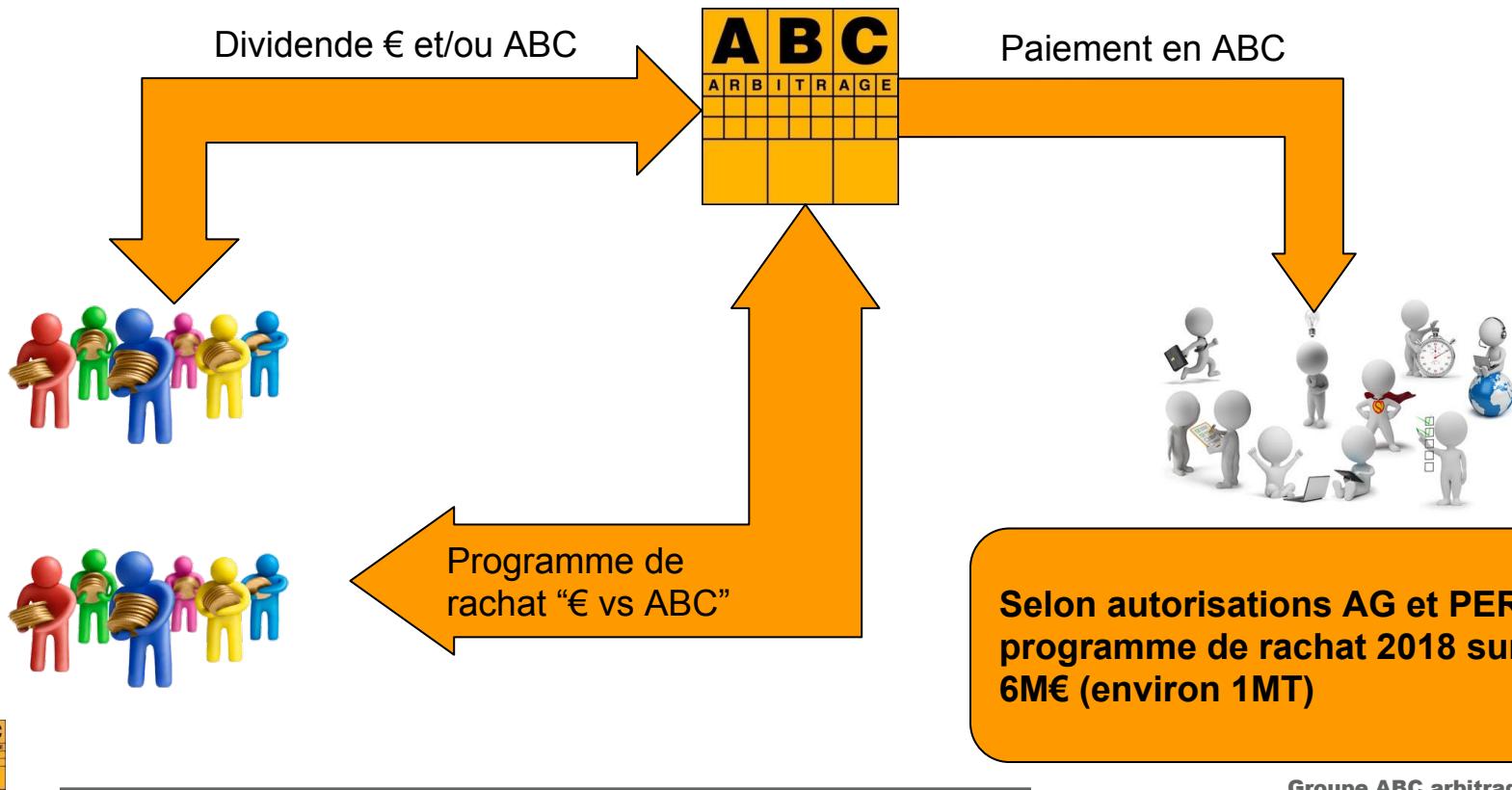
below ambitions...  
...Performance problem

# Q1 2018 - Living Markets = Living Results !

Low volat. for  
January 18  
Q1 2018 ABC  
≡  
Q1 2017 ABC

1 week = 2 months  
5th to 9th of Feb.  
=  
almost 85%  
of Oct+Nov 2017

# Limiter la dilution au service du BNPA



# ABC arbitrage



**David HOEY**

- Joined ABC arbitrage in 1996
- Becomes Deputy CEO of ABC arbitrage AM
- Becomes Deputy CEO of ABC arbitrage



**Gaëtan FOURNIER**

- Joined ABC arbitrage AM in 2012
- Becomes Compliance Officer / RCCI of ABC arbitrage AM

# ABC arbitrage AM



**Alexandre OSPITAL**

Joined ABC arbitrage in 1999

Becomes COO of ABC arbitrage AM



**Yves-Oleg ZAJTELBACH**

Joined ABC arbitrage in 1999

Becomes Head of Trading of ABC arbitrage AM



**Franck BONNEAU**

Joined ABC arbitrage in 1999

Becomes CTO of ABC arbitrage AM



**Vincent GIGOT**

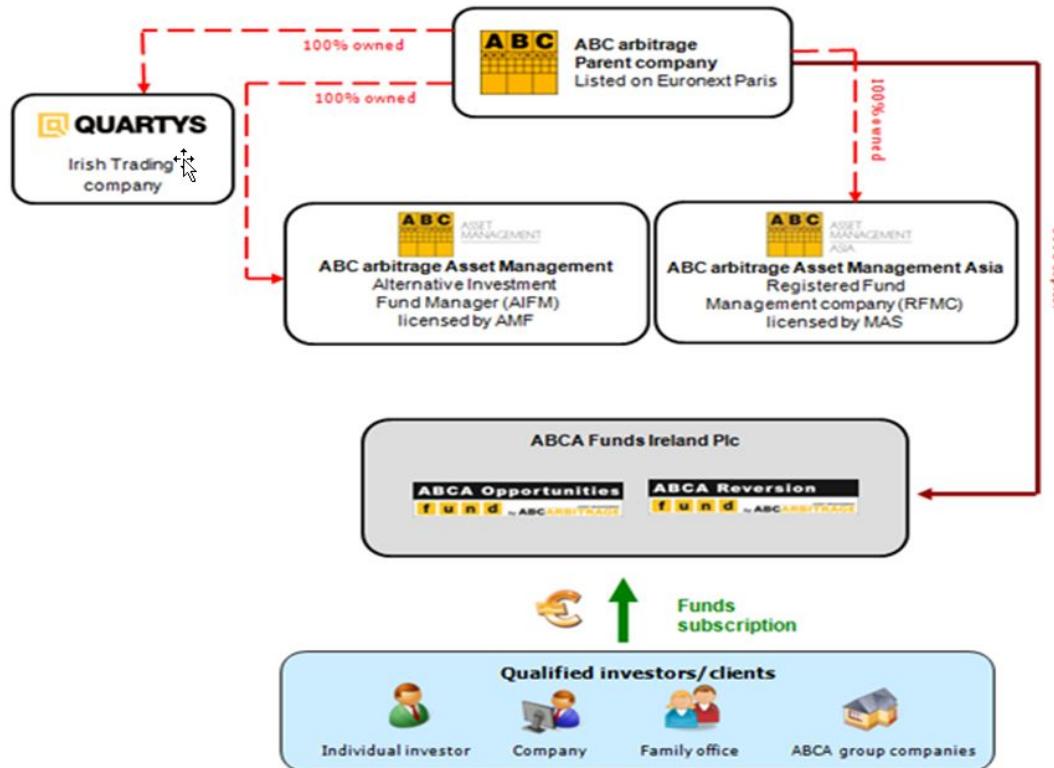
Joined ABC arbitrage AM in 2005

Becomes Head of Research of ABC arbitrage AM

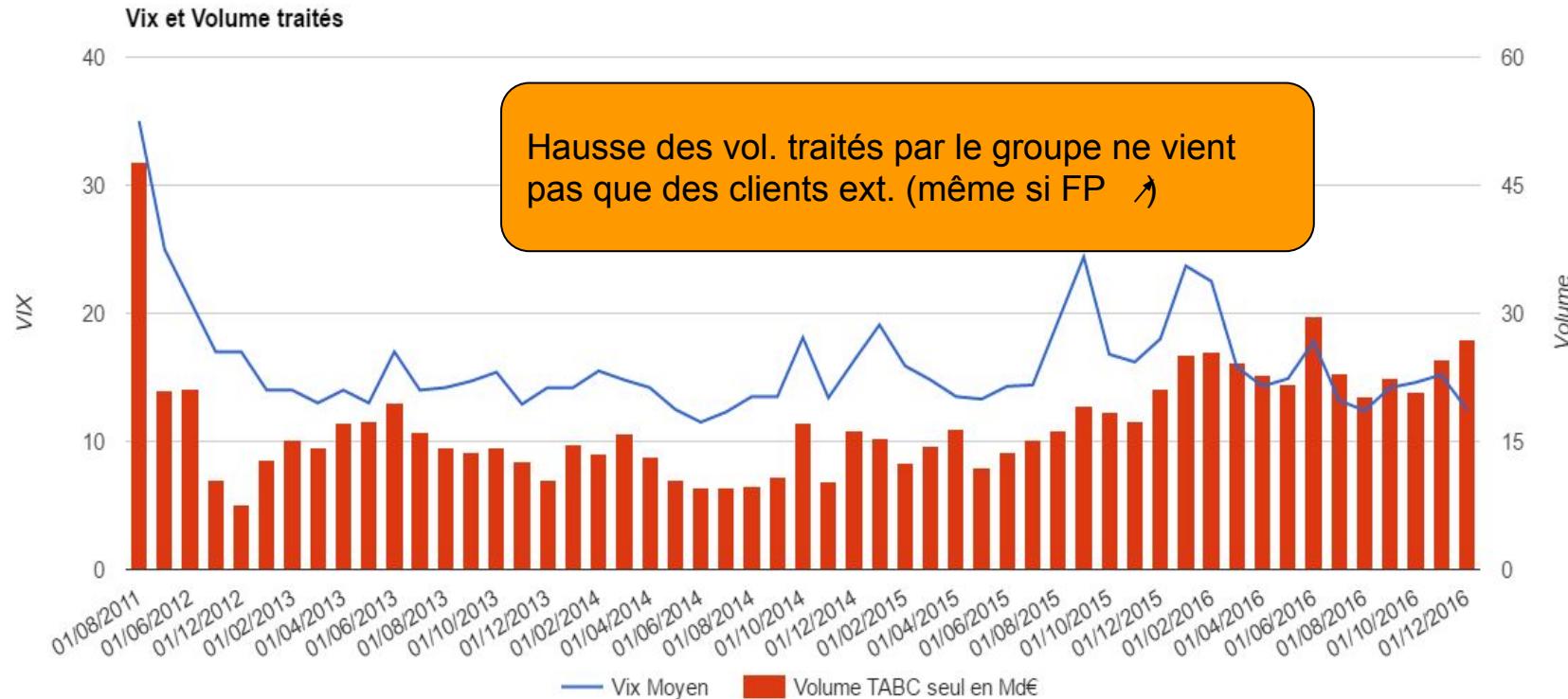
**Winter is not over but ambitions are still there...  
...and still reasonable !**



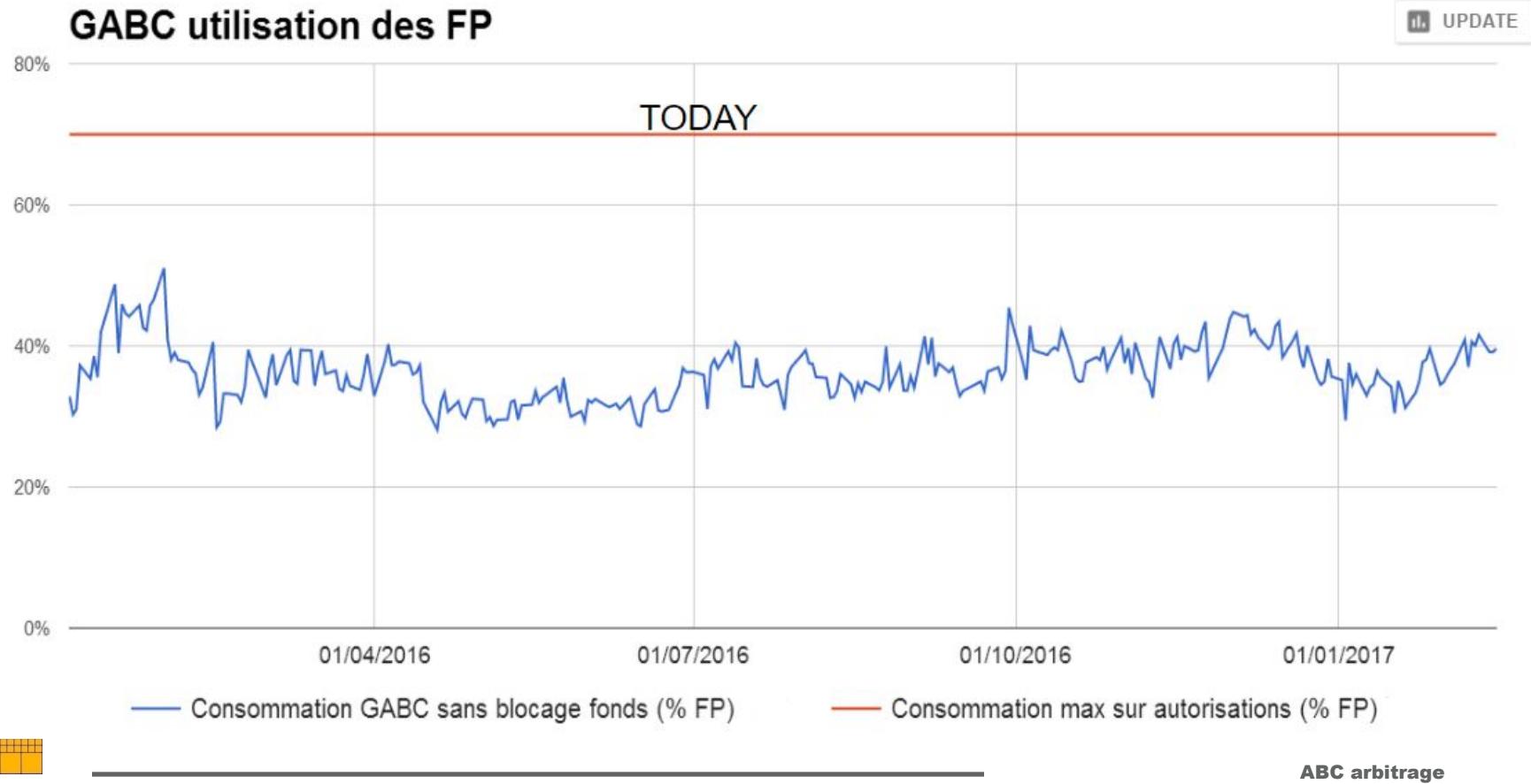
# Group Structure - september 2017



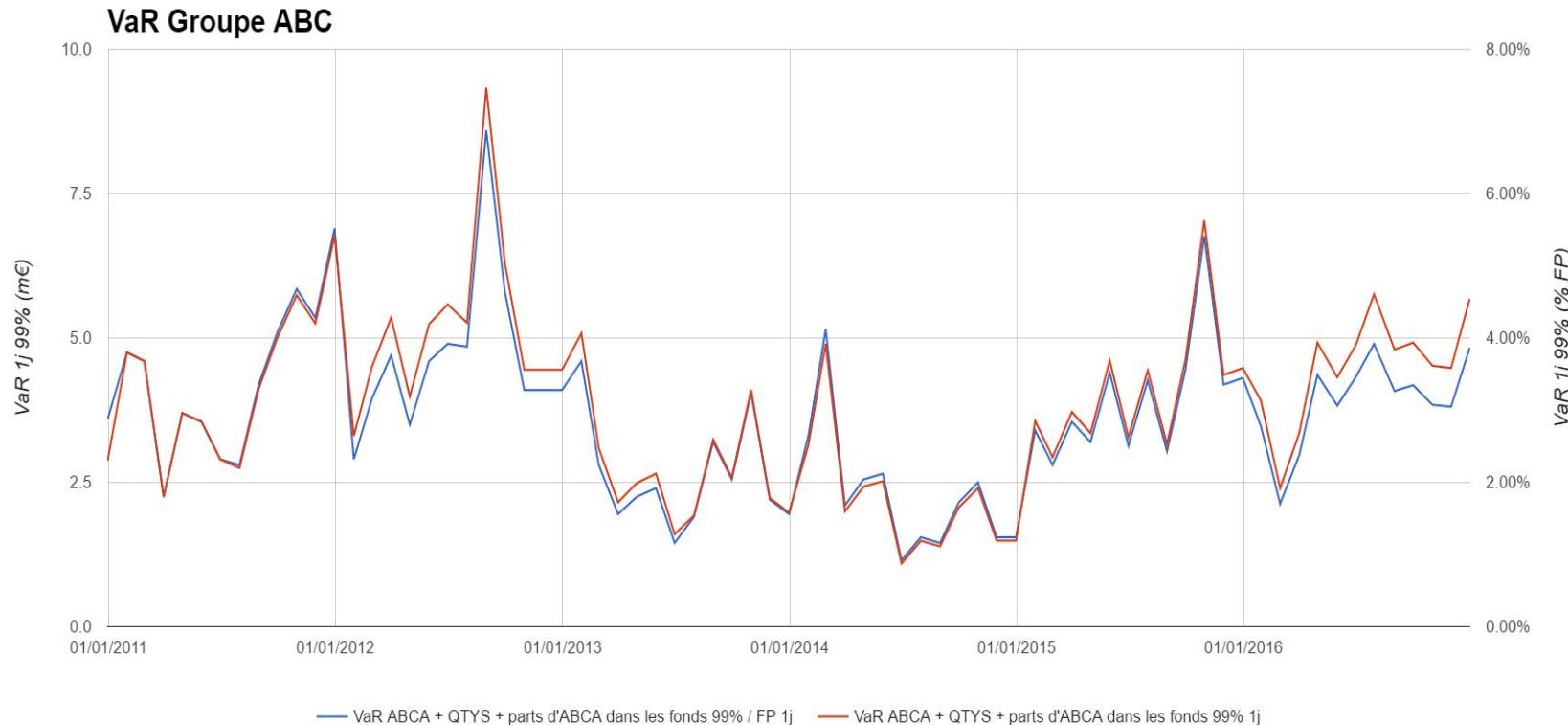
# Corrélation VIX et Volumes traités part du Groupe

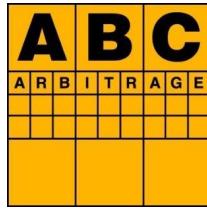


# Indicateur d'utilisation des fonds propres MAJ



# Evolution des VaR parts ABC



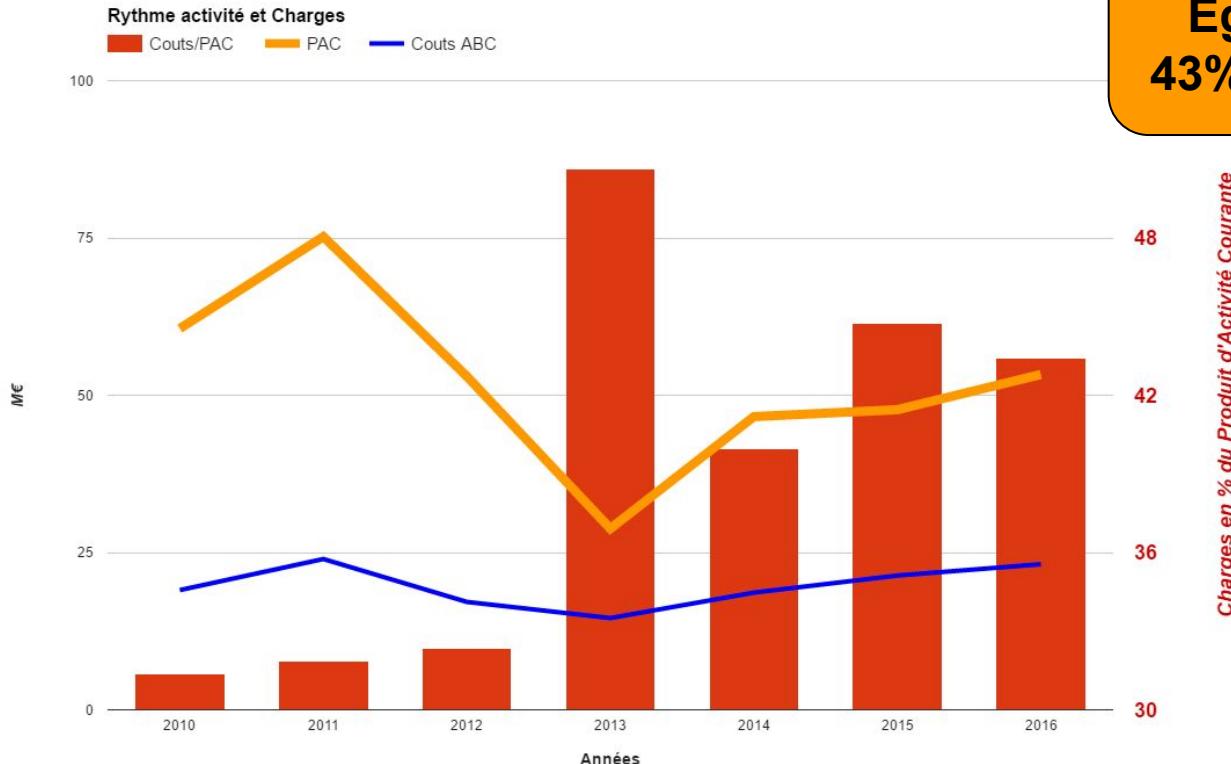


# ABC arbitrage

## Les charges

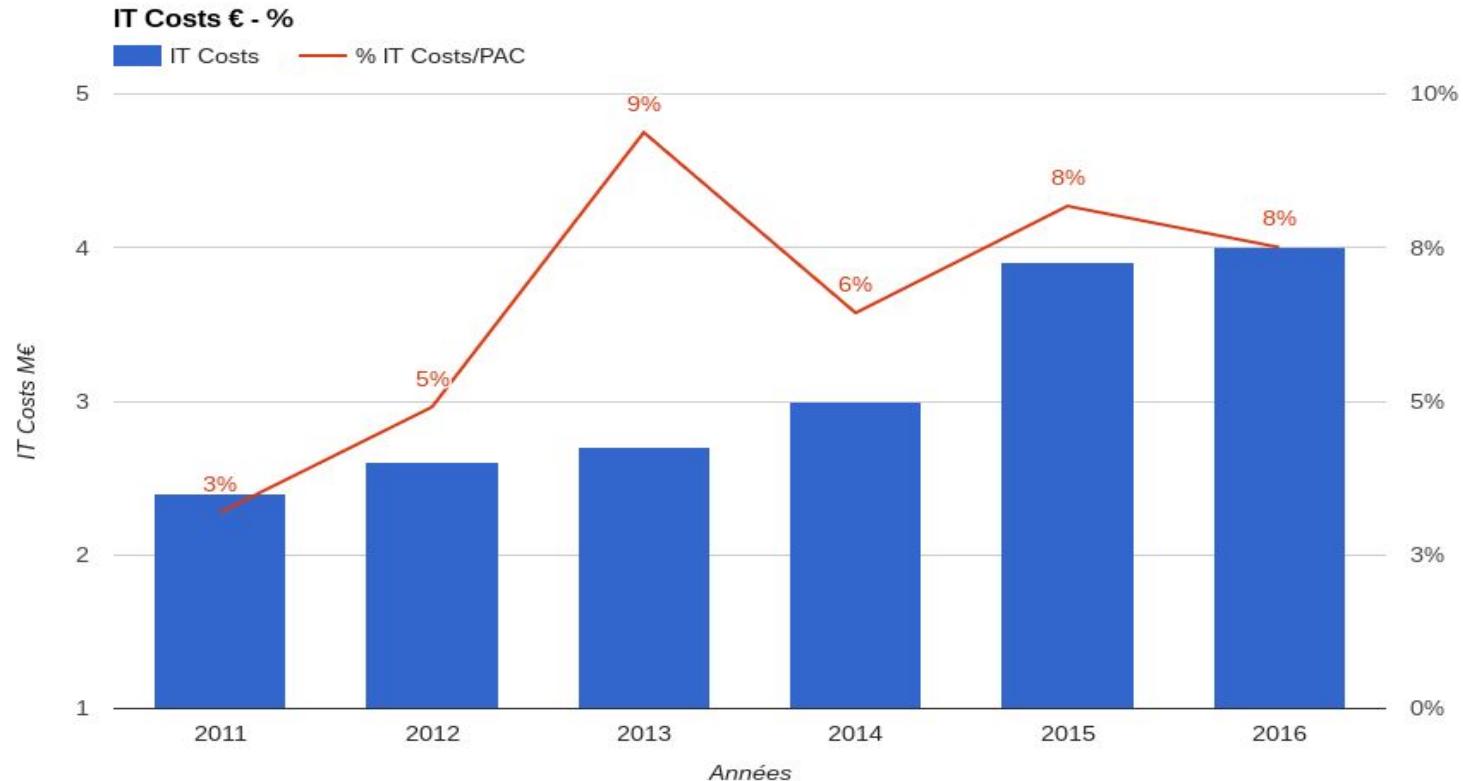


# Des charges en hausse sensible en %

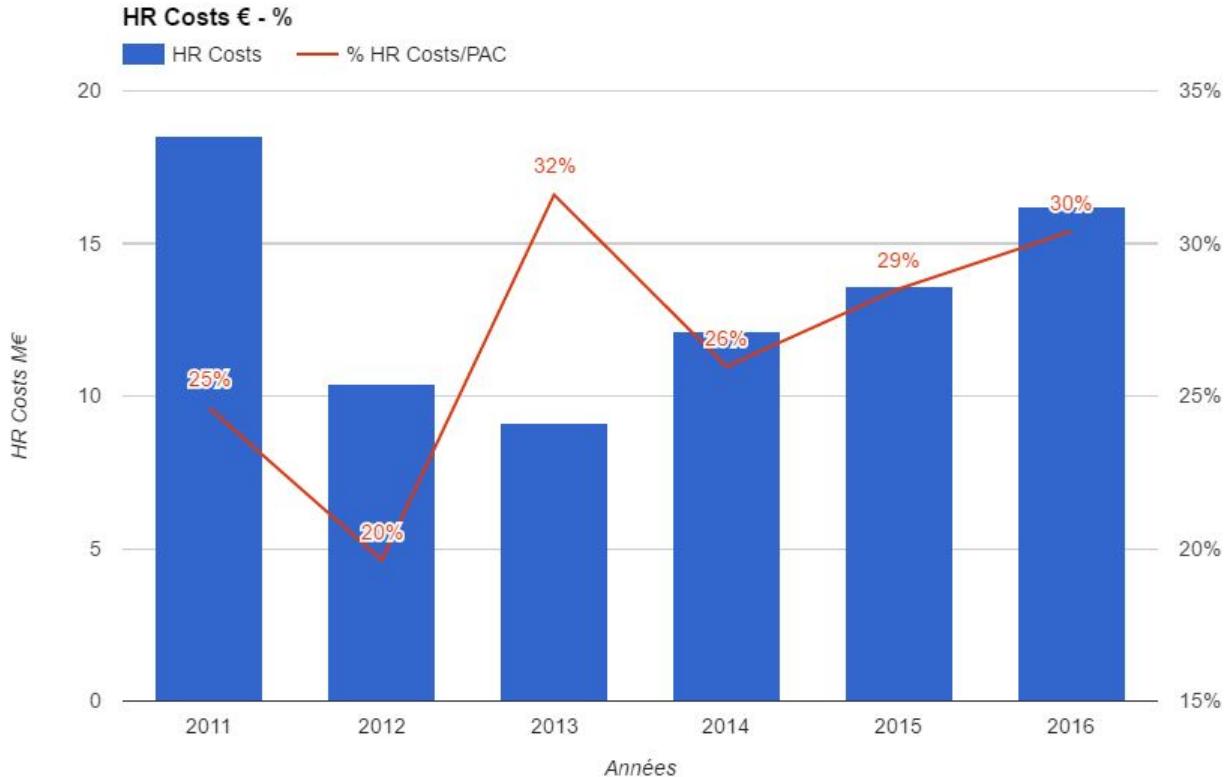


2016 vs 2011  
Egalité €  
43% vs 32%

# Charges IT en hausse sensible pour le Groupe ABC

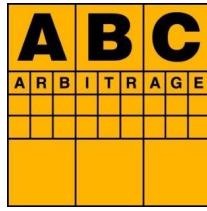


# Charges HR en % du Rythme d'Activité



# Ambition 2016

- *Innovations*
- *Recrutements*
- *Extensions Géographiques*  
*Marchés*
- *Extensions Géographiques*  
*“Régulations”*
- *Asset Management*



# ABC arbitrage

## Step up 2019



# Evaluation - Paradigme Marchés au 01/01/2017

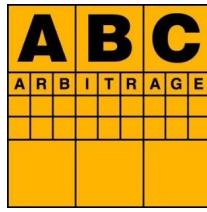
1. Volatilité structurellement entre 10/15 vs 15/20
2. Chocs marchés locaux et violents - “3j/3H/3mn”
3. Vie “autonome” du continent “Asie”
4. Volumes des produits listés en baisse sensible
5. Baisse des OST vs Hausse “récente” sur les M&A
6. “Déséquilibre” des Banques Centrales
7. Concurrence UHFT en (très) forte progression
8. “Rising Costs”

# Evaluation - Paradigme ABC 2017

1. Corrélation à la volatilité
2. Sous utilisation “chronique” des FP
3. Hausse encadrée du risque ABC
4. Capacités des Fonds encore limitées
5. Marge unitaire “stable”
6. Hausse sensible des investissements IT
7. Structure de rémunération sous pression des UHFT & GAFA

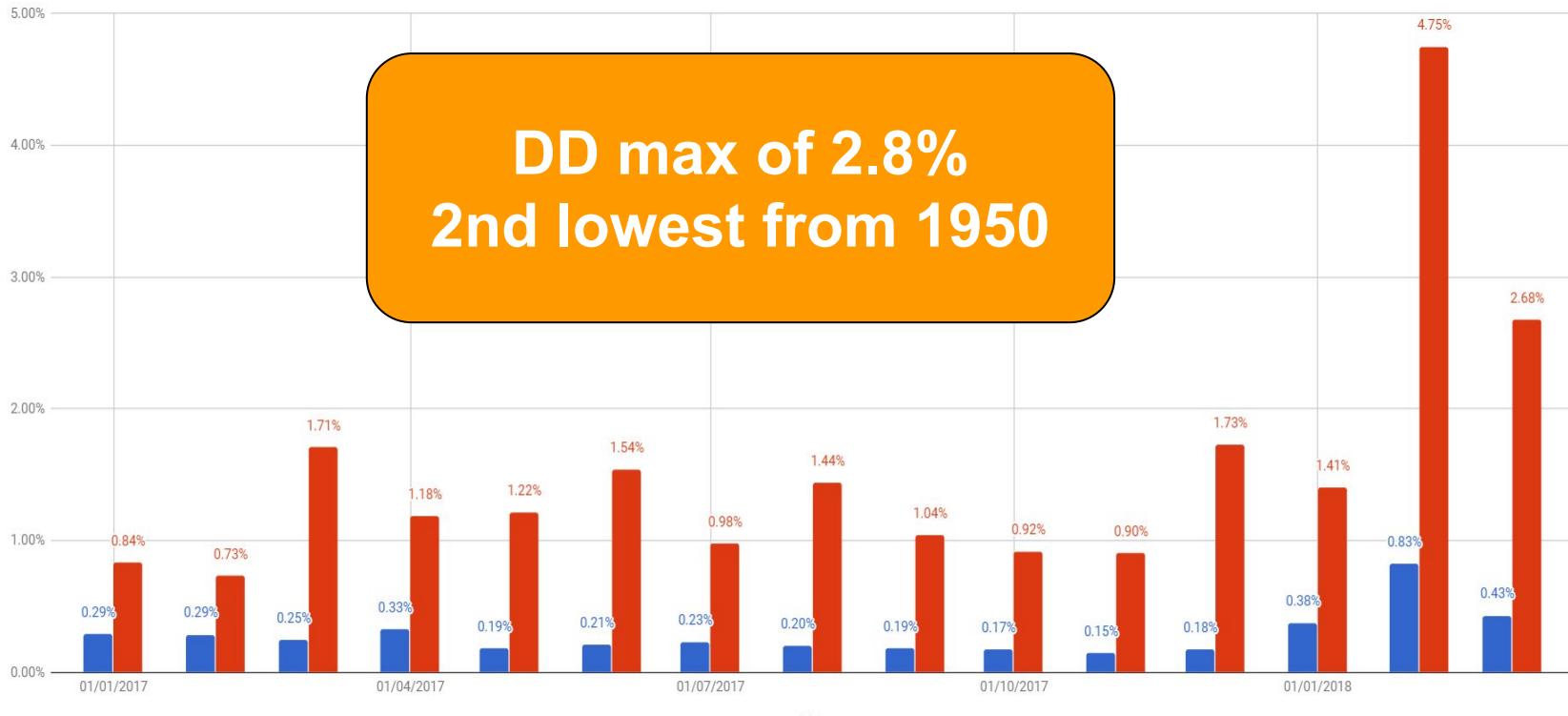
## Préparer la prochaine décennie

- A. Poursuite “Added Value” avec recrutements et évolution de l’organisation.**
- B. Hausse sensible des investissements**
  - a. Au moins +2M€ en 2017
  - b. Au moins +4M€ en 2018
- C. Installer les 90M€ cumulés sur 3 ans dans “presque” tous les contextes de marché.**



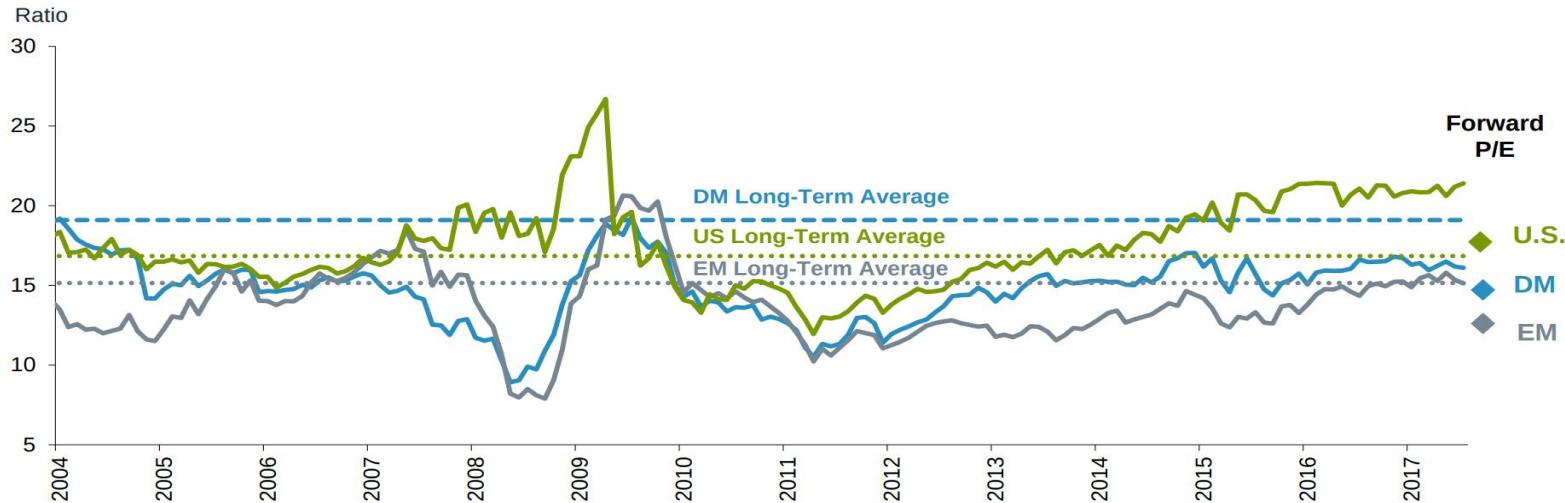
# Quel avenir pour la gestion quantitative ?





## International Market P/E Ratios

— DM Trailing      ◆ Forward  
— EM Trailing      — U.S. Trailing



DM: Developed Markets. EM: Emerging Markets. Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Price-to-earnings ratio (P/E) = Stock price divided by earnings per share. Also known as the multiple, P/E gives investors an idea of how much they are paying for a company's earnings power. Long-term average P/E for Emerging Markets includes data for 1988–2017. Long-term average P/E for Developed Markets includes data for 1973–2016, U.S. 1926–2017. Foreign Developed – MSCI EAFE Index, Emerging Markets – MSCI EM Index. Source: FactSet, Fidelity Investments (AART) as of 12/31/17.



source : Banque Mondiale

Groupe ABC arbitrage