think-tank

Leading global investment managers bridge the gap...

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Momentum Investments
2015 international Think-Tank South Africa

a world divided

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A world divided: Leading global investment managers bridge the gap

Glyn Owen
Investment Director: Momentum Global Investment Management

The Momentum international Think-Tank was held on 27 March 2015 at the Sandton Convention Centre in Johannesburg and showcased the benefits of appropriately diversified portfolios in today's increasingly divergent global economy.

Glyn Owen, Investment Director at Momentum Global Investment Management, commenced the day's proceedings by explaining that current unprecedented global policy has necessitated the development of world-class solutions aimed at protecting and growing capital. Disinflation and low developed market interest rates persist, despite aggressive central bank intervention; China is rebalancing toward a consumption-led economy, Geopolitical hot spots around the world are worrying and the sustainability of the current equity bull market remains a concern.

The ability to identify opportunities across global funds and managers has therefore become an essential component of one's investment strategy; however, this need not be more complicated than investing in the local South African market. Platforms such as Momentum Wealth and Momentum Wealth International provide a simple point of access to a diverse range of international investment opportunities.

The salient points in each presentation included:

Value investing: The Schroders Recovery Approach

Nick Kirrage from Schroders explained that, although companies frequently fall on hard times (especially in the current economic climate); many boast robust business models and are well poised for an imminent recovery. Investors driven primarily by sentiment frequently overlook this, missing the positive returns that can result from recovery investments.

Recovery investors need to be cognisant of three issues:

- The past (learn from history in order to identify future opportunities). Companies trading at low price/earnings (P/E) valuations (which are often the result of a business/industry being 'out of favour') have empirically generated higher annualised returns. The lower the price paid, the greater the recovery return potential.
- People (investments change, but human nature remains constant). Although markets (investors) are varied and tend to track stocks that are in favour, valuations are constant, objective and applicable globally.
- Potential (companies are dynamic). Quality businesses are often able to recover from market-related destabilising event(s).

The risk/reward dynamic associated with value investing, however, necessitates taking a long-term view of investment businesses prospects. It is also important to remember that what is paid for an investment, not its growth, is likely to be the biggest driver of future returns.

Fixed income: Continuing to provide investment opportunities

David Zahn from Franklin Templeton highlighted that that perpetual central bank liquidity will continue to drive global asset prices and create opportunities for fixed-income investors. The European Central Bank (ECB) is the latest central bank to embark on a programme of quantitative easing (QE), with accommodative monetary policy likely to continue across the globe for some time to come.

International reserves (external government bond purchases) in emerging markets have been increasing, with reserves in Sub-Saharan Africa, for example, rising from 5.3% in 1991 to 15.4% in 2011. Economies around the world are growing, albeit at a slow pace, with a metered recovery now also evident in the Eurozone (which will be underpinned by the ECB's recent introduction of QE).

Global real estate: Still generating income

Paul Duncan from Catalyst discussed the global listed real estate sector and how shares in major property companies continue to generate solid returns, driven by lower bond yields and strong property market fundamentals, which continue to persist in a subdued inflation and rate environment.

Global listed real estate returns have consistently beaten inflation and outperformed other asset class (equities, bonds and cash) returns, over the five year period ending 30 June 2014. Drivers of growth include market rental growth, vacancy reduction, cost of debt (in-place debt above pricing of new debt), continuing cost-attractive developments and accretive acquisitions.

The Catalyst Global Real Estate UCITS Fund has returned an annualised 9.55% since its inception in 2008 (one year: 20.81%, three year: 13.39% and five year: 11.23%), compared to a peer group average return of 5.22%.

Broken BRICS: Fixing the emerging market asset class

Michael Power from Investec presented an interesting discussion on the 'matrix' and 'moons' which should inform the development of a BRICS portfolio.

Matrix: Global markets are divided into South East, South West, North East and North West quadrants (in accordance with export strength, export character and current account deficit/surplus), with the South East quadrant (China, East Asia, Bangladesh and German supply chain in Eastern Europe) set to be less affected by an ebb in US liquidity due to lower currency risk and current account surpluses. The South East quadrant is therefore positioned to enjoy GDP growth that is correlated with that of the US.

Two moons: The American moon, which drives the liquidity tide, and the Chinese moon, which controls the lesser commodity tide (as China is the world's largest importer of energy, mineral and agricultural products). Emerging markets which operate manufacturing exporting and commodity importing surplus accounts tend to fare better during market downturns than up cycles.

With China now exporting its foreign investment surplus and investing in projects around the globe, areas of focus for BRICS investors should include Central Asia and the Indian Ocean basin (including Africa).

The art of portfolio construction: A successful solution

Michael Allen from Momentum outlined the framework for building an appropriate global investment portfolio, which considers a client's unique investment objective, optimal asset class mix/allocation and the combination of investment managers and styles.

Optimal asset allocation necessitates a mix of investment management styles (value, momentum and growth). Deciding on an investment manager is thus key and consideration should be given to whether the manager has a solid record of outperformance through different market cycles, a sound (and demonstrable) investment strategy and partnership/incentivisation agreements that form an integral part of the company's strategic thinking.

The current uncertain market environment necessitates an openness to new ideas and investment options. Having a global network of fund managers will facilitate investment insights from around the world and allow for insightful evaluation of portfolio ideas, enhanced asset allocation models and access to niche components within different asset classes.

The real difference between being rich and wealthy in South Africa

Jeffrey Wiseman from Momentum explained the difference between being rich (viewing money as something which provides for one's own needs) and being wealthy (wanting money to extend beyond one's lifetime and benefit future generations).

South African investors are increasingly looking to invest offshore. Although the vast majority of local investors now enjoy the unconstrained movement of assets offshore, tax planning opportunities for the 'rich' have all but disappeared. Opportunities for the 'wealthy', however, do exist as the funding link between the taxpayer and beneficiary is severed on death.
In the National Budget 2015, the personal offshore

allowance was increased from R4 million to R10 million per year, with the annual discretionary R1 million-without-a-tax-certificate transfer amount falling away. It must be noted, however, that South Africa is at the forefront of the international exchange of information and offshore monies accumulated for future generations should be distributed within the context of global dialogue.

Glyn concluded the day's discussions by highlighting that loose monetary policy and the current 'extraordinary times' in global markets are set to continue for years to come. Sound valuations and portfolio diversification are thus essential to protecting savings and achieving desired investment outcomes. ■