Momentum Global Investment Mgt

Asset allocator

Getting the ball rolling

A new player in the UK retail space, Momentum uses a modern, risk-rated and outcomes-focused range of funds By Gary Shepherd

Unveiled in November 2012, Momentum Global Investment Management's Factor suite of portfolios is among the newest fund-of-funds propositions available to retail investors, the launch of which was very much driven by RDR.

Both risk-rated by Distribution Technology and outcomes based, the three low, medium and higher-risk options – targeting inflation plus 3%, 4% and 5% – work as "best of breed" multi-asset funds that fit snugly within the IMA mixed investment sectors.

Portfolio manager James Klempster speaks of building Momentum's UK business by combining "that certain desire for outcome while providing a solution in a robust risk framework".

"If you have a good idea of volatility and returns then you are in a real sweet spot," he says.

"We could have just targeted a certain level of volatility but without any real aspiration in terms of returns which would look after themselves. That gives certainty in terms of risk but no frame of reference for return."

The random factor

The philosophy is to see volatility as just one of a number of ways of looking at risk.

"It assumes normality, but life isn't very normal; investment markets are not very normal with all sorts of skews and asymmetries with returns and fat tails and thin tails and everything else," adds Klempster.

"First and foremost, as investors the pre-eminent risk that we have to avoid is losing money in such a way that you can't ever get it back. When your head is so far underwater that you can't come back, that's a problem and that comes from bad due diligence; buying things you don't understand; buying over-complexity; buying assumptions; and buying funds that are contingent on a certain tax regime always being in place."

The long view

Klempster and his team follow a formal asset allocation process – with monthly meetings of an Investment Strategy Group and a quarterly discussion by a broader global committee – building a five-year view on assets.

Still, he says he prefers to keep things simple in terms of buying into asset classes that have a long history of generating returns. The team strives to understand what each asset class is likely to do in various parts of the cycle, which helps with identifying valuation opportunities.

"Asset allocation can be very hard today and it is much more of an alpha than a beta game, particularly in the fixed income markets," he explains.

"The easy money has been made in fixed income over the past five years, arguably over the past 30 years. We are at a point today where it is very unlikely that the methodologies of investment that paid off in fixed interest over the past 30 years will do so going forward. There's been a trend of buy and hold of interest rate risk as rates slumped gradually over 30 years and the value of assets went up in a straight line. We think those days are numbered in fixed income."

A fresh approach

With this in mind, Klempster sees the strategic bond space as offering a sensible approach going forward. He uses Old Mutual Global Strategic Bond Fund, managed by Stewart Cowley, as well as Jupiter Dynam-

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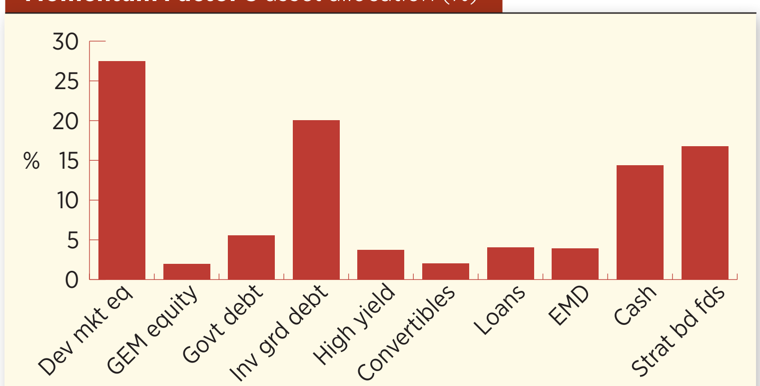
James Klempster, portfolio manager, Momentum Global Investment Management

Momentum Factor 3 asset allocation (%)



Source: Momentum Global Investment Management ic Bond, which is headed by Ariel Bezalel. These are described as funds which "pull different levers" with a combination that is greater than the sum of the parts.

Also within fixed income, the team is not afraid to use passive strategies in markets where it believes active management is not being rewarded, for example government bonds and investment grade.

While he says he was more bullish on equity markets 12 months ago than he is today, Klempster is still broadly constructive on risk assets.

"We're a valuation-driven firm and we've seen a multiple expansion over the past year which means the price has gone up faster than your earnings have gone up," he says.

"To that end developed equity markets have got more expensive. But they are not expensive on an absolute sense and definitely not expensive relative to other asset classes."

He believes the US is looking the most expensive with much of the good news already priced in. The flip side of that is Europe still has bad news priced in and looks fairly attractive. Likewise, he says Japan has some headroom for further rises despite having come a long way in 2013.

Sterling effort

The team is looking to add Europe and Japan equity to the Factor series presently, and this will likely be carried out on a currency hedged basis given the belief that there is still scope for sterling to do well against the yen and the euro.

Closer to home, Klempster picks out Lindsell Train UK Equity, RWC UK Income Opportunities, Schroder UK Recovery and Heronbridge UK Equity as key funds.

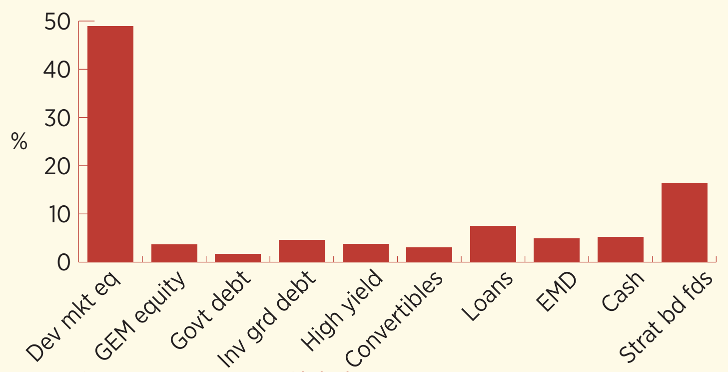
However, he warns: "We need managers that can tell the difference between a value trap and a really good opportunity because there are firms that will take a very long time to get back to the same kind of levels as we saw pre-2007 in terms of profitability."

Another area where the team has taken steps to add to is emerging market equities, an asset class out of favour for many investors today. JP Morgan Emerging Markets Dividend and Singapore-based Firth Asian Value fund have both been added to in recent months as a play on the developing markets growth story.

Adds Klempster: "Emerging markets suffered last year as people worried about a number of risks, from growth to the impact of the tapering of quantitative easing. We think that's a bit over done now and, relative to developed markets, they are reasonably cheap. We have taken steps in but they are reasonably tentative.

"There will be a time when something other than quality is rewarded in emerging markets. It has been pretty imbalanced that way for a number of years."

Momentum Factor 4 asset allocation (%)



Source: Momentum Global Investment Management

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Momentum Factor 5 asset allocation (%)

Developed market equity	**64.75%**
CF Lindsell Train UK Equity Fund	15.61%
First State Global Listed Infrastructure £	6.21%
Heronbridge Jersey UK Equity	13.91%
iShares Gold Producers Ucits ETF £	2.13%
Morgan Stanley Global Brands Fund	6.28%
RWC UK Income Opportunities	18.56%
Schroder UK Recovery	2.04%
GEM equity	**7.28%**
Hereford Funds - Firth Asian Value Fund	4.79%
JP Morgan Emerging Markets Dividend	2.49%
Convertibles	**3.7%**
Rwc Asia Convertibles Bond £	3.7%
Loans	**4.07%**
Ing Flex Senior Loans Id Hgd £	4.07%
EMD	**4.14%**
iShares JP Morgan $ Emerging Markets Bond (£)	4.14%
Cash	**4.19%**
Strategic bond funds	**11.87%**
Jupiter Dynamic Bond Fund £	6.41%
Old Mutual Global Strat Bond	5.46%

Source: Momentum Global Investment Management

Summary

- Factor 3, 4 and 5 aim to beat UK CPI plus 3-5%, with expected volatility between 5-12% dependent on the strategy.
- The funds were launched in late 2012 designed specifically for the post-RDR UK regulatory landscape.
- The wider South Africa-based Momentum Group manages total assets in excess of £24bn and is listed on the Johannesburg Stock Exchange.

Off the beaten track

Alternatives exposure is relatively limited within the Factor funds at present though looking forward in a world where equity markets are becoming reasonably fairly valued, Klempster believes more esoteric asset classes have the potential to become interesting investment opportunities.

Again the story is about "finding managers that genuinely add alpha rather than repackaged beta," and a modern approach to asset allocation where fund managers are scrutinised in terms of their TERs to determine if they really can justify their expense.

Klempster concludes: "Not all equities are created equal and we will look across the world to find the best opportunities.

"We can look at different sectors to find opportunities and we can look at different styles to find opportunities. That's the beauty of a fund-of-funds approach because we can identify first and foremost what is the best asset allocation for our funds and then go and find the pre-eminent manager in that particular niche and see if we can build them into the fund." ●