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Investments

# Finding excess return in a low growth world

With a growing number of economists, investment banks and professional investment houses conceding that the next five or even 10 years will see in a new normal of lower than historical average interest rates, and with that lower than average returns, the question of how to generate a satisfactory return to meet investors' needs is becoming tougher and tougher to answer.

One thing is for sure in this environment of depressed returns, bonds and term deposits yielding nearly nothing are simply not going to cut it.

The academic consensus is that investors of all ages must maintain a sizeable allocation to growth assets if they are to fund their ever-longer retirements. One type of investment strategy which most commentators agree is likely to generate returns in excess of top heavy benchmarks is concentrated, high conviction portfolios. The Zurich Investments Concentrated Global Growth Fund aims to be just that.

"The most important thing about the fund is that it is one of conviction," says Zurich Investments senior investment strategist Patrick Noble.

## High conviction

The Zurich Investments Concentrated Global Growth Fund invests in a portfolio of between 30 and 50 global companies where the manager, US-based American Century, has the highest conviction in the investment ideas.

To source these best ideas the manager differentiates itself by focusing on the rate of change or the acceleration in the revenue and earnings profile of companies rather than their absolute level of growth. That means a company is more likely to deliver share price out-performance over the longer term.

When American Century is looking to source these investment ideas it has a framework of four key criteria where they're looking to identify companies that fit the mould. It all begins with identifying an inflection point – a change in management, a restructure or a new product development cycle – that is improving the growth cycle of a company.

Once that change is identified, the next step for the fund manager is to assess whether it is sustainable. The idea is to ensure that the investment thesis can be exploited for at least two or three years.

The third factor is to find ideas which are not widely recognised by the market.

"We want to have an exploitable earnings gap or something that is exploitable relative to market consensus. Finally, as with other investments, you want to make sure that you have a reasonable valuation given the risk-reward trade off of each opportunity," said Noble.

## Is growth still achievable?

One question that investors are understandably asking themselves today amid low interest rates, looming macroeconomic fears and earnings downgrades is whether growth can still be realistically sought.

Noble says investors should understand that the performance of the economy and the performance of the market are not the same thing and well-managed companies with a unique product or service offering will continue to drive profits.

He adds that when returns are hard to come by eking out an excess return is going to be even more beneficial.

"The key distinction for us is to identify when a company is poised to become a growth stock rather than having a narrow definition of what a growth stock is," he says. "That gives you the opportunity set to find companies that are going through a positive change."

He adds that there are a few drivers of growth out there in the market place today despite the poor or modest macro expansion we find ourselves in. One such driver is consumers' broad long-term shift to online channels, especially within retail.

"It's very important for people to recognise the challenges to traditional bricks and mortar and most importantly find investment opportunities that are either more immune to that change or are themselves growing in that online space."

As a consequence of this move online, the Zurich Concentrated Global Share Fund is positioned to benefit from a secular trend for advertisers to focus their spending on online channels.

"We're seeing companies like Facebook and



## The quote

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Google doing very well in this space and we expect them to continue to do well. Obviously that impacts some traditional media channels as well," Noble explains.

On a different bent, Noble says pharmaceutical remains an interesting sector for investors.

"We're seeing some acceleration in drug innovation. The leaders in that space are finding very interesting treatments for rare diseases and cancers and we think that's a very valuable investment opportunity going forward."

## Risk profile

Noble notes that an investor considering the Zurich Concentrated Global Share Fund must first consider their risk appetite as it's not for everyone.

"If they are the kind of investor who's looking for a long-term investment in global equities in a portfolio that's constructed away from the benchmark and is more aligned with the portfolio manager's best ideas then I think this does suit them quite nicely," he says.

He says the strategy can be quite complementary to a more passive core and can be used as a satellite for a higher excess return target. Also if there are other managers that the investor likes that are looking to exploit other market inefficiencies, this type of strategy will blend very well with them as well.

"Ultimately it will boil down to their long-term return expectations, their willingness to take a little bit of additional risk over short-term fluctuations but the process has delivered nicely since its inception for investors," Noble says.

It may also appeal to investors with ethical considerations or those who would like to see their investments make a difference in the world. This is because around 40% of American Century is owned by the Stowers Institute for Medical Research, which means a large amount of the firm's dividends go towards finding cures for unmet medical conditions, rare diseases and cancer. Since 2000 over \$1.2 billion in dividends has been paid to Stowers. **FS**