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Paul Moore
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Exploiting investment anomalies to build long-term wealth

The PM Capital Global Companies Fund invests against the grain, actively pursuing anomalies in the marketplace that many investors overlook.

Short-term thinking can often be the catalyst for significant share market movements, steering companies away from their correct market value. Investors, and advisers alike, often perceive danger in acting when company valuations are greatly misunderstood by the market. Many either don't allocate the time and resources needed to understand what the fundamental market value is, or even if they do, are caught up in the reputation risk of going against the market view.

The PM Capital Global Companies Fund is a fund that doesn't act on the latest investment whim. Its fundamental, bottom-up, and research-intensive approach underpins the focus of chief investment officer and founder Paul Moore. He says building long-term capital growth involves a focused, patient and considered process.

Moore, who has some 30 years' experience in investment markets, says while global markets are largely efficient there are times when they can misprice companies. This mispricing can arise from fear; distraction such as regulatory change; the misunderstanding of what is a temporary development or event; too much focus on macroeconomics; conflict; or because the company is operating in a sector purely "out of favour" with investors. But this alone is not enough to warrant the portfolio manager's investment.

Analysing anomalies

As Moore explains, the PM Capital Global Companies Fund takes a further step to look for and identify what are known as investment anomalies. It then works on how to best extract value from those anomalies.

"We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time," he says.

When you invest in the fund, you invest alongside Moore and his management team which all have significant investments in the fund. The co-investor model also means you're exposed to unique investment strategies which would be difficult to access elsewhere.

The fund's unrestricted approach means it's not tied closely to its index benchmark and nor will it look like more traditional global equity funds. Moore adds investors joining the fund should be comfortable with investing in the fund over the long-term – more than seven years – with some short term volatility.

"The most important question any client can ask of their fund manager is what percentage of their net worth is invested in the fund you are managing for your client," Moore says.

Generally the fund will hold a concentrated portfolio of between 25 and 45 global stocks. It allows Moore and his team of experienced investment analysts to find companies trading at different prices to their intrinsic values. It also allows the fund to work towards its investment objective: to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods.

As its name suggests, the Global Companies Fund might be suitable for investors wanting to increase exposure to global equities, either within an investment portfolio or self-managed superannuation fund.

The active manager's flagship fund has returned 376.5% net of fees since inception in October 1998 versus 108.9% from the MSCI World Net Total Return Index (AUD) as at 31 August 2017. It equates to an annualised return of 8.6%.

Moneyball and Bondnado

To add value in the longer-term, the fund aims to take advantage of others' short-term thinking as well as the factors that produce genuine long-term anomalies. Moore believes if you want to be a successful investor, "you have to be doing something that others are not" – similar to the concepts presented in the film Moneyball.

"The interesting thing is that in practice the industry has become the absolute antitheses of that statement as shown by the domination of passive investing," Moore says.

He says the best investment opportunities will find few who are interested, many who are dismissive and some who will even ridicule.

"Many people may think they are taking extra risks if they are investing differently. But in our opinion, the real risk is you are not doing anything different. Never let the opinion of the crowd stop you from acting on what you know to be right," he says.

He reiterates anomalies can arise because other investors are afraid of underperforming their peer group; lazy research occurs; or people rely on perceptions rather than facts.

One market anomaly Moore sees still playing out for active managers and investors is 'Bond-

nado' – a reference to the chaotic horror film Sharknado.

Bondnado is a term the chief investment officer uses to describe how the likely hikes in interest rates could be harmful for investors in government bonds. In Sharknado, a freak cyclone causes Los Angeles to be hit by a watery tornado of man-eating sharks.

Moore says 'Bondnado' is how he describes the carnage investors may see in long-term government bonds.

"In 1989 the standard variable rate in Australia was 17%. We now have interest rates in the low single digits when debt is at record levels and in Europe some variable mortgage interest rates are actually negative. It's all driven by central bank flows and investors may be underestimating how far from normality we really are," Moore says.

Past and present

There are still several strategies Moore and his team are seeing play out in the marketplace. Most of the fund's current investments have been made over the last seven or eight years – being anywhere from halfway through their investment cycle to three quarters complete.

In the fund's August update it notes the credit-related investment theme has largely played out and Irish assets added value as the country's economic recovery takes hold.

"We believe the dislocation in credit markets has largely played out. The background to this theme was that the GFC gave rise to a major dislocation in credit markets and what we thought was a once in a lifetime opportunity to invest in credit securities," the update says.

"Looking at credit markets today, we believe the opportunity has now passed and our remaining small exposures are in run off."

Global Domestic Banking stocks hold more than one-third of fund's portfolio, in line with Moore's long success in holding financials. He still also holds breweries – a sector that has been in his portfolio for more than 14 years.

"We're looking for the best opportunities in which to invest our co-investors' capital, wherever they are," Moore says.

"The fund aims to create long term wealth for our co-investors by finding and exploiting investment anomalies around the world. We find opportunities where others may only see risks." **FS**



The quote

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