

Invesco Investment Conference – June 2017

These are notes from an investment conference held by Invesco in June 2017. The conference focused on four investment strategies. These notes are a reflection of what the managers said, and do not necessarily reflect our views or a recommendation to use these strategies. If you are considering investing in these strategies then separate research would need to be carried out. It is also important to understand that past performance is not a guide to future performance and value of investments can fall as well as rise.

Enhanced Index Funds – Michael Fraikin

These are new strategies launched by Invesco.

Michael started by explaining that the market is split between passive and active investing. As he explained on one side you have something that feels and looks like the market, and on the other something that is trying to do something different to the market. Effectively with the market you know the risk, but with active management returns are based on the fund manager's conviction which might not always be right. Often Michael argues you are rewarded with small levels of outperformance (which doesn't reflect in the additional risk being taken).

These strategies aim to sit in between active and passive, using multi-factor investing. The argument being that whether you are a value, quality or momentum investor all of these have outperformed in the long run, but equally they underperform strongly in the short to medium term.

The managers are taking four concepts – earnings expectations (momentum), market sentiment (momentum), management and quality (quality) and value (value) – to reduce down the investable universe to, for example, 300 funds. No one stock will be more than 1% of the fund, and the fund will be a mix of all the styles.

Unlike a passive fund it does not hold all the stocks in the index; the global fund currently has about 25% of the index, the UK a bit more.

This fund provides a lower cost entry point which sits between passive and active. The strategy has a ten year track record as an institutional fund but the outperformance was marginal and therefore for the retail offering they have reduced the charges to enhance returns.

In summary, Michael explained that choosing one style exaggerates the risk. For example, value has underperformed for 15 years whereas momentum has outperformed since 1997. They both carry the same level of risk but past performance can mask the risks. Blending strategies and keeping costs down reduces these risks, and enhanced potential returns above a pure index fund.

European Opportunities Fund – Adrian Bignell and Nitesh Mistry

Adrian explained this is an active bottom up fund. They are 'style agnostic' taking ideas from anywhere. They aim to be long-term holders of stocks, but they are not afraid to take short term opportunities to capture the upside, but at the same time protecting on the downside. The fund focuses mainly on the small/mid-cap space.

They work from about 2,000 stocks to come up with 60 holdings. Ideas come from the team but also via meeting companies; they believe this is the best way to focus on the small/mid-cap areas which are under-researched.

Cancom IT is a good example of an old style company that is expanding into a new business area (cloud), and they believe that this element will dominate its earnings growth moving forward, which is being missed by the market.

Another example is Ocean Ship which buys and leases ships across different sectors. About 25% of cash flow goes back into the business, and the balance is paid as dividends. One last example, is Africa Oil which should be fully operational by 2021; they believe oil prices will rise which will make this a profitable business. As it stands the business is fully funded and awash with cash.

In summary, this is a high conviction portfolio which is style agnostic although has a growth bias. Its aim is to capture the upside but at the same time protecting on the downside.

Global Targeted Income Fund – Gwilym Satchell

This is a new strategy launched in November 2016, although the growth version was launched in September 2013. The aim is to target an income of Libor plus 3.5%, whilst protecting capital.

Typically, the fund invests in 20-30 ideas and research starts from four areas; **Thematic, Economic, Analytic, Managers**. These ideas are then combined to bring together the portfolio. To implement ideas, they use different asset types from currencies (FX forwards and options) to volatility instruments (options) and government bonds (futures, bonds, swaps and swaptions). In total, there are 9 asset types.

Currently there are 28 ideas, and 7 asset types, from which the fund produces a yield of 3.8% with 60% of the ideas generating an income for the portfolio. Four of the ideas do not generate an income; as an example a US Curve Steepener which looks to benefit from US Fed policy disappointment, but is a capital only investment. US High Yield on the other hand looks to generate income for the portfolio.

Their economic thesis remains pretty much unchanged; global growth remains subdued, bond yields capped, low inflation view being challenged, caution in risk assets supports opportunities elsewhere and removal of accommodative policy will cause increased volatility.

In summary, a relatively new strategy which targets a positive income stream may be attractive to income investors. I asked whether the target income was achievable and Gwilym believed that it is, but it will need a lot more work than perhaps a few years ago.

Global Opportunities Fund – Stephen Anness and Andrew Hall

This is a concentrated global fund taking the best ideas from across the world. It has a small team of three and believes that market inefficiencies create opportunities.

The fund is a mix of industry leaders and special situations. In all cases they are looking for significantly undervalued businesses, such as JPMorgan which they purchased a few years ago. They saw this as an industry leader, but was significantly undervalued by the market. VW would be classed as a special situation. It's a profitable business with plenty of cash and a number of good brands, but it is under a cloud of litigation.

Cheap valuations are important because this is where profit can be made. They are less exposed to the US as they believe valuations are as high as they were in 1929 with very few stocks trading cheaply.

Countries like Korea are interesting as they suffer from negative sentiment and negative corporate governance. A change in government should shift this. In terms of sectors – banks, energy and autos are all trading cheaply. They think oil prices will rise as they believe that although demand will slow in the western world, it will increase in the developing economies.

In summary, this is a high conviction portfolio of 38 stocks. It has a small team but has a feed from both the teams at Henley (where Invesco is based) and the wider Invesco group (with teams in Japan, US etc). It shuns popular stocks looking for pockets of undervalued opportunities.