

FIGHT OR FLIGHT? HOW THE TOP GROWTH PMs DEALT WITH DECEMBER'S DANGER



Portfolio managers in Global Multi-Cap Growth are split over the right response to December's market rout

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Nobody's perfect. Even the portfolio managers with the best risk-adjusted records in the Global Multi-Cap Growth category struggled in the storm that was last year's fourth quarter, succumbing to double-digit losses that also left their one-year numbers in the red.

'We have been spending a fair amount of time thinking about volatility,' said Citywire AA-rated Alexander Umansky, who boasts this category's best personal information ratio over the past three years on the Baron Global Advantage fund.

'Many investors we speak to seem to equate volatility to risk, which makes sense for short-term investors where timing the entry and exit points well can be the difference between a successful

investment and a failed one,' Umansky said.

'These investors tell us that volatility management techniques, such as raising significant levels of cash in times of increased uncertainty or tactically rotating into "safer" sectors – such as staples or gold – or safer geographies would reduce the "riskiness" of this fund and make it a more attractive investment for them. We get it. However, we cannot oblige.'

Umansky explained that both his long-term approach and his bottom-up process preclude such attempts to manage short-term volatility. Indeed, he rejected the conflation of volatility and risk, insisting that the latter was better understood as the possibility and probability of a permanent loss of capital. To try to prevent this, he focuses on valuations, his investments' competitive advantages and the ability to reinvest capital at high rates of return.

A SMOOTHER RIDE

AAA-rated David Eiswert of the T. Rowe Price Global Stock fund holds this category's second-best information ratio over the past three years, with a lower total return for the period than Umansky but less volatility, as exemplified by his stronger performance over the past 12 months.

Eiswert has concluded that the economic and earnings cycles have now passed 'peak growth,' creating a weaker macro environment that may disquiet many investors.

'The deceleration is marking a shift in regime, moving away from the stimulus-driven period that has benefited investors so much,' he said. 'As expectations adjust, this naturally creates uncertainty and volatility but also a refreshed ability to acquire stocks that are misunderstood.'

In Eiswert's opinion, the present era is defined by low economic growth in dollar terms, excess debt, surplus oil and low inflation underpinned by technology and automation.

'Importantly, a world of relatively low growth and inflation does not imply a world absent of positive change, progress or opportunity,' he said. 'If anything, it implies a broad dispersion of stock returns and the need to position portfolios actively on the right side of change as it evolves.'

In this sense, stock picking can be defensive, insulating portfolios against macro weakness, but Eiswert has also been trimming some favored holdings on strength through the earnings season as a risk management strategy.

DON'T WASTE A CRISIS

Meanwhile, AAA-rated Tom Slater of the Baillie Gifford Long Term Global Growth Equity fund turned to physicist Thomas Kuhn's definition of a crisis as 'a period of extraordinary rather than normal science, a proliferation of competing articulations and the willingness to try anything.'

In investment terms, Slater felt that the market is experiencing several such crises at once, including simultaneous paradigm shifts driven by trends ranging from the cloud and Big Data to genomics and energy storage. He argued that companies such as Amazon, Alphabet and Facebook have fundamentally changed the structure of the global economy and enjoyed exceptional growth as a result. ■

RABBITS IN THE HEADLIGHTS? TOP 10 MANAGERS IN GLOBAL MULTI-CAP GROWTH

DATA TO JANUARY 31, 2019 / SOURCE: CITYWIRE DISCOVERY

RANK	MANAGER NAME(S)	CITYWIRE RATING	FUND(S) MANAGED	TOTAL RETURNS (%)				3-YR SECTOR MR*
				Q4 2018	1 YEAR	3 YEARS	5 YEARS	
1/72	Alexander Umansky	CITYWIRE / AA	Baron Global Advantage	-14.4	-1.6	77.7	71.6	1.14
2/72	David Eiswert	CITYWIRE / AAA	T. Rowe Price Global Stock	-14	-0.2	67.3	77.2	1.01
			T. Rowe Price Institutional Global Focused Growth Eq					
3/72	James Anderson	CITYWIRE / AAA	Baillie Gifford Long Term Global Growth Equity	-16.5	-3.7	82.5	-	0.88
	Mark Urquhart	CITYWIRE / AA						
	John MacDougall	CITYWIRE / AAA						
	Tom Slater	CITYWIRE / AAA						
7/72	John Boselli	CITYWIRE / A	Hartford Global Growth HLS	-15.4	-2.7	53.2	70.5	0.76
	Matthew Hudson	CITYWIRE / AA						
9/72	Scott Berg	CITYWIRE / AA	T. Rowe Price Global Growth Stock	-11.8	-4.4	53.6	63.7	0.71
			T. Rowe Price Institutional Global Growth Equity					
10/72	Kristian Heugh	CITYWIRE / AA	Morgan Stanley Institutional Global Opportunity Morgan Stanley Institutional Global Centerpoint	-15.8	-2.7	67	107	0.7
Average Manager				-14.3	-6.8	39.7	41.6	0.17

*The manager ratio is the average information ratio of the funds the manager has run in this sector over the past three years. A positive figure means the manager has outperformed their benchmark(s).

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Baron Global Advantage Fund's annualized returns for the Institutional Shares as of March 31, 2019: 1-year, 13.73%; 3-year, 23.81%; 5-year, 13.09%; Since Inception, 14.41%. Annual expense ratio for the Institutional Shares as of December 31, 2017 was 1.59%, but the net annual expense ratio is 0.90% (restated to reflect management fee reduction from 1.00% to 0.85% and current fee waivers).

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Information Ratio (Info Ratio) is a ratio of portfolio returns above the returns of a benchmark – usually an index – to the volatility of those returns.

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