

Insight Paper: Takeaways from Workshop “Reality Check: Strategic Horizon for Global Markets”

Tom Woolwine, Vice Chairman, April 2019

Our March Programs in Finance and Investments workshop at the University Club in Chicago was titled, “Strategic Horizon for Global Markets.” Key takeaways from each speaker follow:

“Asset Allocation & Global Opportunities,” Adam Strumpf, Senior Consultant/CCO, DeMarche

- Long-term equity returns can be volatile and end-point sensitivity has material impact on AA modeling assumptions. Starting point and time horizon matter
- Institutional investors continue to allocate away from U.S. equities in favor of ex-U.S. and alternative products

“Investing: A Quick World Tour,” John R. Reinsberg, Deputy Chairman, Lazard Asset Management

- Global Concerns:
 - Synchronized Global Slowdown
 - Trade tensions
 - Geopolitical strains
- Global Opportunities:
 - Depressed valuations
 - Implementation of stimulus programs in China and potential trade deal with U.S. in coming weeks
- Great “Value vs. Growth” Debate Continues:
 - Valuation gap between growth and value has seldom been wider
 - Value has been under-owned/out of favor for decade – history suggests it may be time for turn

“Opportunities and Outlook for Emerging Markets,” Bill DeSanto, Executive Director, UBS Asset Management

- Opportunities:
 - Healthy fundamentals and inexpensive valuations
 - Demographic trends favor emerging markets over developed markets
- Risks:
 - Prolonged trade conflicts
 - Tighter financial conditions weigh on growth

“Emerging Markets – Best of Times, Worst of Times: A Tale of Two Cycles,” George Varino, EM Solutions Head, Investec Asset Management

- Steroid Cycle – Strong tailwinds (2002-2012):
 - +16.9% EM equities / +11.1% EM debt
 - China spurs commodities super-cycle
 - Economic globalization
 - BUT, limited reform
- Lethargic Cycle – Headwinds prevail (2013-2018):
 - +1.3% EM equities / +0.51% EM debt
 - Growth softens

- Monetary tightening
- BUT, adversity drove reform
- Conclusion – Reflection on Past Cycles and Next Chapter:
 - Analyzing past cycles is insightful when forecasting the future
 - The latest cycle in EM has been a catalyst for positive change and strengthening
 - Selectivity will be key in this rich and diverse opportunity set

“Effectively Accessing the Global Infrastructure Opportunity,” Michael Rose, Director/Partner, GCM Grosvenor

- The Case for Infrastructure:
 - Need for public and private investments is significant
 - Investors should approach the asset class defensively and diversify along variety of dimensions (Type, Sector, Stage, Geography, Vintage Year, and Manager)
- Investors need to recognize the varied nature of infrastructure assets when evaluating risk-return spectrum:
 - Core – contracted, yield generating (6% - 10% returns)
 - Core Plus/Value Add – Usage based, expansion (11% - 15% returns)
 - Opportunistic – Development Risk, high leverage (15%+ returns)
- Infrastructure’s Role in a Portfolio:
 - J-curve mitigation
 - Current yield
 - Low risk of capital loss and limited volatility
 - Inflation hedging

“Environmental Social & Governance (ESG) Integration in Investing,” Fiona Ross, Senior Analyst, Aberdeen Standard Investments

- ESG and Performance:
 - Misconception about ESG, its terminology, and that it leads to diminished returns
 - Increasing number of studies demonstrating a positive correlation between ESG and performance:
 - Better sustainability practices can lower a company’s cost of capital and improve operational performance
 - High ESG-rated companies tended to show higher profitability, higher dividend yield, and lower tail risks
 - ESG-integrated portfolios tend to have lower risk measures – reduced downside risk
- Future Drivers of ESG:
 - Clients/consultants/stakeholders increasingly expect managers to consider ESG risks
 - Demographics – millennials biggest fans of ESG strategies

“Call to Action,” Ryan Pickert, Consultant, DeMarche

- A broadly diversified investment portfolio improves portfolio efficiency. DeMarche helps clients build optimal portfolios in many ways:
 - Educational Sessions
 - Asset Allocation/Efficient Frontier Modeling
 - Plan Strategy/Investment Policy Review
 - If you would like to learn more about these workshop topics or to schedule an overview meeting, contact your DeMarche consultant or Ryan Pickert at (913) 384-4994.