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UP FOR THE EQUITY CUP



COMMITTEE CHAIRMAN

Adam Lewis

EDITOR
FUND STRATEGY

Unless you have been living in a self-contained bubble for the past several weeks you may have noticed a certain global event taking place. No, not the launch of Neil Woodford's UK Equity Income fund but the Fifa World Cup taking place in Brazil.

When this festival of football takes place every four years there are a number of things you can take for certain. One or two teams light it up early in the tournament (thus far, the Dutch and Chile). Others fancied to do well make shock early exits (this time, notably Spain and England).

The other thing that is certain is the investment-related tie-ins. With the tournament taking place in Brazil, the most obvious angle of "attack" is Bric-related. I expect to see lots written about the Brazilian economy and stockmarket, including possible commentary on emerging markets going head-to-head with their developed counterparts.

So this got me thinking about how *Fund Strategy* could "tackle" the issue without being a slave to the writings of some over-eager press offices.

The answer? Well, to have our own World Cup, of course. The World Cup of equities! I have charged the panel this month to name their countries of choice right now, as well as those they are avoiding.

Such a game has constraints and needs flexibility. Europe as a collective won't be found among the 32 teams in your 2014 sticker album, but for the sake of the game you can nominate it as your area of choice. Or you could be more specialist and go down the Northern Europe versus periphery Europe route.

Meanwhile there are some notable big nations that didn't make it to Rio, such as China, which you can still select if you want. This month we are joined by Schroder's chief economist Keith Wade to provide the independent voice.



Mike Deverell

INVESTMENT
MANAGER,
EQUILIBRIUM
ASSET
MANAGEMENT

Well, Gary, my forecast – as crazy as it sounds – is that Brazil, on home turf, will win the World Cup. Oh, sorry, that's for another interview. Actually, Brazil's equity market has a lot going for it. The Central Bank has raised rates a couple of times over the past year, which is currency positive. The market had halved in price over the three or so years to February 2014 and there was a great clamour of media reports on how badly emerging markets' economies were doing – at the end of the crash (would have been helpful at the peak). Actually, we are very positive for this market, and EMs in general. We are interested in quality assets that have crashed in price. On the other hand, we remain bearish on developed markets as their bull markets are now over five years old, i.e. old. Government bond yields keep falling and some 60 per cent of the time they move with equity indices. At peaks and troughs the correlation normally is higher. There is a correlation between stockmarkets and England's performances (reports our financial and football correspondent in Glasgow).



Alex Miller

CITY ASSET
MANAGEMENT

In 2003 Manchester City played Everton in an unremarkable 2–2 draw. Both were poor teams and yet over 300 million watched on TV as Chinese internationals Sun Jihai and Li Tie played on opposing sides. China may not be at this World Cup, but with interest in the game increasing in the country, it could become a football powerhouse. In the World Cup of equities, China is struggling to qualify, with the MSCI China down 6.8 per cent in a year. But as with football, the future looks brighter. The market, with a P/E of 6:3 compared with the US market on 19:2, is essentially a third of the price of the US. It is cheap because the economy has been slowing and investors are worried about a housing and credit bubble. But company earnings have increased by 11 per cent over 12 months. Investors should eventually notice this strong performance and, barring a calamity, the market should rebound strongly. In 2003 Everton's Li Tie set up Tomasz Radzinski for a stoppage time equaliser. Perhaps the Chinese stockmarket will see a similar last-minute turnaround.



Jonathan Davis

MANAGING
DIRECTOR,
JONATHAN DAVIS
WEALTH
MANAGEMENT

In contrast to the Spanish football team's performance, Spain's economy has been successfully targeting outsourced business from Brazil and from others that in the past have had favourable input costs. This indicates that the painful structural reforms Spain has implemented since 2011 are starting to bear fruit in the form of competitive gains. With a current account surplus, expanding employment and the prospect of the ECB providing increased support, the macroeconomic environment appears favourable for Spain. Company earnings remain far below their peak, yet we see opportunities rather than headwinds. Forward-looking indicators suggest a cyclical upside to margins, and with the Eurostoxx 50 greatly oversold relative to the S&P 500, there is scope for high returns. We are able to play this environment via a European manager willing to make big geographical and sector calls. CAM believes the Invesco Perpetual European Equity Income fund does this; positioned with overweights in Spain, financials and cyclical, it fully expresses our current views.



What's the investment angle on the current global football fiesta? Our panel turn pundits for the World Cup of equities

After the strong run in many markets, we seem to have reached limbo. To progress, markets need sustainable improvements in GDP numbers and broad economic data and for this to be reflected in company earnings.

It seems that the regions where there is most scope for markets to perform well are where doubts exist, such as in the emerging markets and Europe. It is here that value seems most apparent. In Europe there are significant differences between countries and, of course, risks remain higher, mirrored perhaps by their chances in the World Cup. But recent announcements and action by the ECB indicate a determination to create growth. Emerging economies, like Europe, have considerable differences in prospects, but growth isn't going desert them and they have the potential to surprise. Value is less easily found in the US and UK markets. The switch from growth to value stocks over concerns about interest rate rises points to investors believing valuations look full in large parts of these markets. Favouring the underdog may just be the best strategy.

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John Husselbee

HEAD OF
MULTI ASSET,
LIONTRUST

As the host country, Brazilians expect their national football team to lift the World Cup on 13 July. Home advantage and a deep pool of world class footballing talent has been confirmed by favouritism in recent betting. The nation's government has also been betting on a victory, hoping a 'feelgood' factor will support their re-election prospects in October. However, it is unlikely that the honeymoon period would linger that long, and voters will return to the health of the economy – an economy that has struggled over the past few years with low growth, high inflation and an overvalued exchange rate. The government has not sat back and has tried to implement growth policies, which have as yet failed to ignite the economy. Hosting the World Cup has meant new investment in stadiums and infrastructure which has led to job creation. This is not enough, though, and whoever is elected will still have to tackle high inflation and promote growth, hopefully in time for the summer Olympics to be held in Rio de Janeiro in 2016.

Looking at the historical evidence, every winner of the World Cup since 1974 has outperformed the wider stockmarket, with the exception of 2002 when the tournament was jointly held in South Korea and Japan and the winners, Brazil, were mired in a deep recession. The fact that every World Cup held in South America has been won by a South American team bodes well for the region. When Brazil hosted the 1950 tournament, Uruguay was triumphant. At the current time Brazil's economy is not robust, and with President Dilma up for re-election in October, the outcomes of both the election and the football tournament might not be clear-cut. But Brazil having won the tournament the most times and been favourites again this year might be a good sign for the Bovespa Index over the coming months. Equally, the Argentinian stockmarket has risen by 42 per cent in local terms this year, and with such a great football squad it could be the Latin American country to win the tournament and have the best performing stockmarket for 2014.

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Tim Cockerill

HEAD OF
COLLECTIVES
RESEARCH,
ROWAN
DARTINGTON

Equities have been our preferred asset class for much of the past year as they offer exposure to economic recovery and attractive valuations relative to cash, government bonds and credit.

Recent performance has justified this call, but as markets rise, investors have become increasingly nervous and the S&P 500 breaks new highs almost daily. The FTSE 100 has performed less spectacularly, almost like the England football team, but is approaching the previous high reached way back in 1999.

The US's best finish at a World Cup was third place in 1930, but we have been more optimistic on US growth prospects than on its team's chances of reaching such heights this year. However, we question US firms' ability to maintain profit growth given the high level of margins. We are rotating into markets that have lagged in performance terms.

Brazil have invested an estimated \$12bn into hosting the World Cup. The main effect the event will have on the economy is most likely tourist spending, which will rise by 0.1 to 0.6 per cent of GDP according to estimates. Meanwhile, mandatory holidays for Brazilians will hit retail and manufacturing.

My preference would be to start going back into the Asian emerging markets. Growth is still hard to come by, and although China failed to qualify for the World Cup it continues to restructure its economy. But low valuations discount many of the tail risks.

This is still a risky call, however, and fears that higher US interest rates will cause a re-run of last year's sell-off make it too early to go for the whole emerging universe. But by focusing on economies with sound financing and exposure to rising US demand, investors can take a first step back into an unloved asset class.

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Peter Lowman

CHIEF
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THE INDEPENDENT VIEW

Keith Wade

CHIEF ECONOMIST
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SCHRODERS

