

Investment Manager Roadshow

Bruce Campbell Founder and Strategic Advisor Pyrford International



HOSTED BY: Financial Standard and FS Advice: The Australian Journal of Financial Planning

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Investment Market Outlook







Introduction

- The upward trend in global stock markets was decisively broken in 2018
- Is this the beginning of an extended down-shift?
- Global credit is tightening after a 9-year unprecedented splurge
- This is a monetary policy sea-change
- Government bonds have enjoyed the ride provided by central banks. Is this the end for them as well?
- Global debt levels have increased since the GFC and are worryingly high
- Stock buybacks in the US reached record levels in 2018. Leverage has been employed to buy into an expensive market
- Global growth is slowing
- Australia is very exposed to the complex cross-currents. Housing (and banks) are particularly vulnerable

MSCI World Equity Index (US\$)



Source: Thomson Reuters Datastream

Accessed Feb 2019

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Source: Professor RJ Shiller, accessed Feb 2019

or



US: Monetary Base & the Stock Market





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Change in Central Banks' Balance Sheet Assets Billions of US dollars (Federal Reserve, BOJ, BOE, ECB)



Accessed Feb 2019

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S&P 500 Stock Buybacks (to Q3 2018)

US\$ billions



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Net Buyers and Sellers of US Shares



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US: Non-Financial Corporate Debt to GDP %

(All instruments)



General Government Debt as a % of GDP

Advanced Economies, 1880-2018



Global Gross Debt

As a % of GDP



Source: IMF Global Financial Stability Report, October 2018

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China: Non-Financial Private Sector Debt

Expressed as a % of GDP



Source: IMF, Global Debt Database, December 2018

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Household Debt to Disposable Income – US, UK, Canada & Australia



Source. momson Realers Dalastrea

Accessed Feb 2019



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(% of disposable household income)



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Australia: House Price Index

(Quarter on quarter % change)



Accessed Feb 2019

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Major Housing Markets ranked by Affordability:

(covering Australia, Canada, Hong Kong, Ireland, New Zealand, Singapore, UK and USA) Data as at 3rd Quarter 2018 Top 20 Markets ranked by median multiple



Source: Demographia International Housing Affordability Survey – 15th Annual Survey (January 2019)



Australian Stock Exchange Dividend Yield (to Dec 2018)



Source: Global Financial Data Inc. & Thomson Reuters Datastream, accessed Feb 2019

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US Dollar/Australian Dollar Purchasing Power Parity Analysis (to Jan 2019)







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Australia: Labour Productivity

(Real GDP over Total Employment in the Economy) Annual % Change



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The Demographic Time-Bomb

- The working-age population is shrinking relative to the total population
- The only significant increase in the working-age population is in low-income countries
- Europe, Japan and China have a particularly worrisome working-age population outlook
- Global growth will inevitably slow because of this dramatic demographic-shift
- Productivity growth, already disappointing, will exacerbate the problem
- Pension plans are a case of too little too late in most countries. Many retirees will fall back on increasingly indebted

governments



Change in the Working-Age Population (15-64) Relative to 2015 levels (Millions)



Global Asset Management

BMO

5 Year Compound Annualised Growth Rate: Working Age Population (Aged 15 – 64)



Ratio of the Population aged 65 and over to the Labour Force



Working-Age Population – Share of Total Population China and India



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, (medium variant).

Productivity Growth 1995-2016

Annualised growth of labour productivity (GDP per hour worked)



Source: OECD Compendium of Productivity Indicators, June 2018

Contributions to Global Growth



Go for Income

- Dividends have always provided the lion's share of long-term equity returns
- In the face of fading global growth, dividend yields remain too low





The Importance of Dividends

Returns from selecting markets by yield (measured in USD)

Return (% per annum)



Source: Credit Suisse Global Investment Returns Yearbook 2011; Elroy Dimson, Paul Marsh and Mike Staunton,

Triumph of the Optimists: 101 Years of Global Investment Returns, Princeton University Press; 2002 Copyright © 2011 Elroy Dimson, Paul Marsh and Mike Staunton

The Importance of Dividends Data from 1900 – 2016 (% p.a.)

	Mean Dividend Yield %	Real Dividend Growth %	Change in Valuation	Total Real Return (Annualised)
Australia	5.2	1.1	0.4	6.8
Belgium	3.8	-1.2	0.2	2.7
Canada	4.3	0.9	0.4	5.7
France	3.8	-0.4	-0.1	3.3
Germany	3.6	-0.1	0.6	3.3
Ireland	4.4	-0.9	0.8	4.4
Italy	4.0	-2.0	0.0	2.0
Japan	5.1	-1.7	0.9	4.2
Netherlands	4.9	-0.3	0.5	5.0
New Zealand	5.3	1.4	-0.6	6.2
Norway	4.0	0.2	0.1	4.3
Portugal	4.0	-0.6	0.2	3.5
South Africa	5.7	1.1	0.4	7.2
Spain	4.3	-0.8	0.1	3.6
Sweden	3.9	2.0	0.0	5.9
Switzerland	3.5	0.8	0.1	4.4
UK	4.6	0.9	0.0	5.5
USA	4.2	1.7	0.4	6.4
World (USD)	4.1	0.5	0.5	5.1

Source: Credit Suisse Global Investment Returns Yearbook 2017; Elroy Dimson, Paul Marsh and Mike Staunton, Triumph of the Optimists:101 Years of Global Investment Returns, Princeton University Press, 2002. Copyright © 2017 Elroy Dimson, Paul Marsh and Mike Staunton. Data excludes 1922-1923 for Germany



World Market Dividend Yield (to Dec 2018)



Summary

- The macro environment is rapidly changing as global credit shrinks
- Stock markets, one of the main beneficiaries of QE, will struggle to provide adequate returns from ٠ today's "start-point"
- Government Bond prices were ramped ever-higher by central bank liquidity that phase is now over ٠
- Global debt levels remain too high ٠
- Australia, particularly housing, is vulnerable ٠
- The world faces a growth challenge because of ageing populations ٠
- Weak productivity growth exacerbates the problem ٠
- Emerging and developing economies offer the best growth prospects ٠ **Global Asset Management** BMO 34



Investment Strategy

- Focus on absolute return. Don't ignore cash in a volatile and low-return environment
- Most equity markets remain expensive. Be very wary of the US market
- Maintain modest equity weightings until value returns
- Low-duration government bonds
- International diversification with particular emphasis on emerging Asia
- Seek out currencies that are "cheap" relative to the Aussie. Currency can be a significant driver of returns
- Equity selection: Higher than average dividend yields, sustainably high ROE and modest debt the magic combination
- Emphasize geographies with a favourable demographic tailwind





Investment Manager Roadshow

Michael Angwin Director, Intermediary Business BMO Global Asset Management



HOSTED BY: Financial Standard and FS Advice: The Australian Journal of Financial Planning

BMO Global Asset Management Worldwide investment capabilities



Unless otherwise noted, all Assets Under Management (AUM) reported is as at 30.06.2018 and includes both discretionary and non-discretionary assets. AUM figures are in dollars.

1 Includes AUM managed by BMO Global Asset Management (Canada), BMO Global Asset Management (United States), BMO Global Asset Management (EMEA), Pyrford International and LGM Investments. LLC are wholly owned subsidiaries of BMO Financial Group. BMO Real Estate Partners is a subsidiary of BMO Global Asset Management (EMEA). AUM may not add up due to rounding. Figures are adjusted to avoid double-counting of assets sub-advised by investment specialists.

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2 Includes \$8.0 billion managed by BMO Real Estate Partners.

3 AUM of Hong Kong domiciled BMO Exchange Traded Funds.

BMO 🔛 Global Asset Management

Source: BMO Global Asset Management

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Three goals:

- 1. Preserve capital (aim not to lose money in a 12 month period)
- 2. Beat inflation by a significant margin over the long-term
- 3. Deliver returns characterised by low absolute volatility

Past performance does not guarantee future results



Four key return drivers





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Global Absolute Return Strategy (£ Sterling) - risk return

Annualised Monthly Data (01 October 1998 – 31 December 2018)

- Low absolute volatility
 - Annualised standard deviation of 5.31% since October 1998



Source: Pyrford International, Office for National Statistics, FTSE and MSCI BARRA

Performance shown is for Pyrford's Absolute Return Strategy (Base Currency £) Composite, which comprises all fully discretionary, Absolute Return Strategy accounts with a market value greater than £7.5m, a base currency of GBP and no client restrictions or guidance. Performance is shown gross of fees from the inception date of 1 April 1994 to 31 December 2018. This is supplementary information. The composite focuses on absolute returns and is benchmark-agnostic, although performance has been shown against the above indices as supplemental information and for comparison purposes only. Please see full GIPS compliant performance disclosure at the end of this document.

Past performance does not guarantee future results.

Goal: Capital preservation

"The strategy seeks to provide a stable stream of real total returns over the long term with low absolute volatility & significant downside protection"

Calendar year returns of Pyrford for investors, compared to negative equity markets

	2000	2001	2002	2008	2011	2015	2018
Pyrford	+11.7%	+3.9%	-2.1%	+12.8%	+5.0%	+2.6%	-0.7%
FTSE 100	-8.2%	-14.1%	-22.2%	-28.3%	-2.2%	-1.3%	-8.7%
FTSE All-Share	-5.9%	-13.3%	-22.7%	-29.9%	-3.5%	+1.0%	-9.5%

	1 month	3 months	1 year	3 years	5 years	10 years
Positive	69%	78%	93%	100%	100%	100%
Negative	31%	22%	7%	0%	0%	0%

Source: Pyrford International as at 31 December 2018

Performance shown is Pyrford's Absolute Return Strategy (Base Currency £) Composite, which comprises all fully discretionary, Absolute Return Strategy accounts with a market value greater than £7.5m, a base currency of GBP and no client restrictions or guidance. Performance is shown gross of fees. This is supplementary information. The composite focuses on absolute returns and is benchmark-agnostic.

Past performance does not guarantee future results. Please see full GIPS compliant performance disclosure at the end of this document.

Global Absolute Return Strategy (AU\$) – Gross Investment Performance

Growth of a Unit Value. Annualised returns since inception (01 March 2012 – 28 February 2019)



Source: Pyrford International Ltd / Thomson Reuters Datastream as at 31 December 2018

Performance shown is for Pyrford's Absolute Return Strategy (Base Currency AUD) Composite which comprises all fully discretionary, Absolute Return Strategy accounts with a base currency of AUD and no client restrictions or guidance. Please see full GIPS compliant performance disclosure at the end of this document.

Past performance does not guarantee future results.

Capital Preservation in Action

Event	Period	MSCI World Performance (%AUD)	ASX All Ordinaries Performance (%)	Pyrford GAR (AUD) net Performance (0.9%pa)	Relative Performance (%)
De-risking & ebola outbreak concerns	04 Sep – 16 Oct 2014	-2.4%	1.4%	1.4%	3.8%
China concerns, global growth	27 Apr – 24 Aug 2015	-2.7%	-0.1%	0.7%	3.4%
Oil and commodity concerns	02 Dec 2015 – 08 Feb 2016	-8.3%	-2.1%	-0.6%	7.8%
Inflation driven sell off	12 Jan 2018 – 26 Mar 2018	-2.7%	-3.3%	-0.5%	2.3%
Policy tightening & US government shutdown	04 Oct 2018 – 25 Dec 2018	-16.3%	-11.1%	-3.2%	13.1%

Source: Pyrford International/Thomson Reuters Datastream, accessed Feb 2019



Fund information

Platforms	Menu Type
Asgard	IDPS / Superannuation
BT Wrap	IDPS / Superannuation
Colonial First Wrap	IDPS / Superannuation
HUB24	IDPS / Superannuation
Macquarie Wrap	IDPS / Superannuation
Netwealth	IDPS / Superannuation
Panorama	IDPS / Superannuation
PowerWrap	IDPS / Superannuation
SmartWrap	IDPS / Superannuation

Fund Ratings



Report date: 30 April 2018 Please see next page for Morningstar disclaimer



Report date: 17 January 2019 Please see next page for Lonsec disclaimer



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Absolute Return Strategy Composite AUD - Disclosures

									Returns %		_
Calendar Year	Composite Return for the Period %	Composite Return for the Period %	Composite 3-Yr Ann. Std Dev %	Accounts at period end	Composite Assets at period end (AUDm)	Total Firm Assets at period end (AUDm)	% of Total Firm Assets	Standard Deviation	High	Low	Median
10 Months to 31 Dec 2012	8.2	7.6	-	1	225	6,696	3.2	-	-	-	-
Year 2013	14.9	14.1	-	1	294	12,792	2.3	-	-	-	-
Year 2014	7.0	6.2	-	2	435	15,526	2.8	-	-	-	-
Year 2015	6.3	5.5	5.6	1	231	15,220	1.5		-	-	-
Year 2016	3.3	2.6	4.7	1	939	13,354	7.0		-	-	-
Year 2017	4.1	3.4	4.5	1	535	13,415	4.0		-	-	-
Year 2018	2.8	2.1	3.7	1	886	15,211	5.8	-	-	-	-
Since Inception to 31 Dec 2018	6.7	6.0	3.7	1	886	15,211	5.8	-	-	-	-

Source: Pyrford International

Past performance does not guarantee future results



Disclosure

Pyrford International Ltd claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Pyrford International Ltd has been independently verified for the period January 1, 1994 to September 30, 2018 by Grant Thornton UK LLP. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes to the performance presentation

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The Absolute Return Strategy (Base Currency AUD) Composite comprises all fully discretionary, Absolute Return Strategy (Global Balanced) accounts with a base currency of Australian dollars and no client restrictions or guidance. The composite focuses on absolute returns, and is benchmark-agnostic. The composite was first created on March 1, 2012.

All returns are calculated in AUD terms on a time-weighted basis. Effective May 1, 2013, portfolio returns are calculated daily. Prior to this date, portfolio returns were calculated monthly using the Modified Dietz method. Monthly composite returns are calculated by weighting each account's monthly return by its relative beginning market value. Where there are more than four accounts in the composite over a full year, dispersion is measured as the asset weighted standard deviation of asset weighted portfolio returns of all accounts in the composite for the full year.

The three-year annualised standard deviation measures the variability of the composite returns over the preceding 36-month period.

The accounts in this composite are unleveraged and any derivatives that may be employed are used solely for currency hedging purposes.

Performance results are presented gross of management and custodial fees, but net of transaction costs and before taxes (except for non-reclaimable withholding tax). The standard management fee schedule for segregated management is as follows: 0.70% per annum on the first AUD50 million; 0.50% per annum on the next AUD50 million; 0.35% on the next AUD400m and thereafter 0.30% per annum.

Net-of-fees performance has been calculated using the highest management fee of 0.70% per annum, as described in the firm's fee schedule shown above.

There have been no significant events within the firm (such as ownership or personnel changes) which have materially impacted the historical investment performance.



Absolute Return Strategy Composite £ - Disclosures

							Returns %		Total Strategy**				
Period/ Calendar Year	Gross Composite Return for the Period %	Composite 3-Yr Ann. Std Dev (%)	Number of Accounts in Composite at period end	Composite Assets at period end (£ m)	Total Firm Assets at period end (£ m)	t period end (£ m) % of Total Firm Assets	Dispersion (Range) (%)	High	Low	Median	Number of Accounts in Strategy at period end	Total Strategy Assets at period end (£ m)	% of Total Firm Assets
9m to end 1994	(0.4)	-	3	64	304	21.1	-	(0.2)	(0.4)	(0.3)	-	-	-
1995	04.4		2	70	201	10.4		24.0	20.4				
1996	21.4	-	2	70	301	19.4	-	21.9	20.4	-	-	-	-
1997	8.3	-	2	76	507	15.0	-	8.3	8.2	-	-	-	
1998	12.3	-	2	85	706	12.0	-	12.4	11.9	-	-	-	-
1999	16.6	-	2	100	687	14.6	-	16.6	16.4	-	-	-	
2000	6.8	-	2	107	763	14.0	-	6.8	6.5	-	-	-	-
2001	11.7	-	1	36	565	6.4	-	-	-	-	-	-	-
2002	3.9	5.1	1	38	816	4.7	-	-	-	-	-	-	-
2003	(2.1)	6.1	1	41	825	5.0	-	-	-	-	-	-	
2004	11.4	6.3	1	49	1,191	4.1	-	-	-	-	-	-	-
2005	9.2	6.1	2	73	1,405	5.2	-	-	-	-	-	-	-
2006	9.6	4.4	4	247	1,520	16.3	-	9.7	9.1	9.6	-	-	-
2000	5.7	3.2	4*	305	1,572	19.4	-	5.9	5.6	5.7	10	493	31.4
2007	8.6	2.6	1	81	1,503	5.4	-	-	-	-	11	642	42.7
2008	12.8	7.1	1	94	1,397	6.7	-	-	-	-	11	806	57.7
2009	5.7	8.9	1	100	1,600	6.2	-	-	-	-	11	810	50.6
2010	10.7	9.1	1	149	1,994	7.5	-	-	-	-	11	1,027	51.5
2011	5.0	6.2	1	337	2,258	14.9	-	-	-	-	11	1,251	55.4
2012	2.3	3.2	2	1,061	4,468	23.7	-	-	-	-	15	2,269	50.8
2013	5.6	3.0	2	1,672	6,911	24.2	-	-	-	-	16	2,975	43.0
2014	4.7	3.2	1	2.155	8.149	26.4	-	-	-	-	13	3.270	40.1
2015	2.6	3.9	1	2 206	7 513	29.4	-	-	-	-	12	3 199	42.6
2016	10.5	4.1	1	2 378	7 826	30.4		_	_		12	3 919	50.1
2017	2.1	4.1	1	2,578	7,320	37.6					12	3,687	47.5
2018	(0.7)	3.6	1***	2,756	8.408	32.8	-	-	-	-	10	3,667	43.6

Source: Pyrford International Ltd

*Three accounts moved from unrestricted to restricted composites due to changes in investment guidelines.

**Number of accounts and total assets for all Absolute Return Strategy mandates have been shown here as supplemental information. These figures include the value of any Absolute Return Strategy accounts that have some form of investment restrictions and/or a base currency other than sterling.

***As at December 2018, the composite comprised one pooled account containing 74 individual schemes Past performance does not guarantee future results.

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The Pyrford International Ltd "Absolute Return Strategy (Base Currency £) composite" comprises all fully discretionary, Absolute Return Strategy (Global Balanced) accounts with a market value greater than \pounds 7.5m, a base currency of £ and no client restrictions or guidance. The composite focuses on absolute returns, and is benchmark-agnostic. The composite was first created on April 1, 1994.

All returns are calculated in £ terms on a time-weighted basis. Effective May 1, 2013, portfolio returns are calculated daily. Prior to this date, portfolio returns were calculated using the Modified Dietz method. Quarterly valuations were used from April 1, 1994 to June 30, 1994 and monthly valuations from July 1, 1994 to April 30, 2013. Effective January 1, 1999, monthly composite returns are calculated by weighting each account's monthly return by its relative beginning market value. Prior to this date, composite returns were calculated on a quarterly basis by weighting each account's quarterly return by its relative beginning market value.

Where there are more than four accounts in the composite over a full year, dispersion is measured as the asset weighted standard deviation of asset weighted portfolio returns of all accounts in the composite for the full year.

The three-year annualised standard deviation measures the variability of the composite returns over the preceding 36-month period. The standard deviation is not presented prior to 2001 because monthly composite returns were not available and is not required for periods prior to 2011.

The accounts in this composite are unleveraged and any derivatives that may be employed are used solely for currency hedging purposes.

Performance results are presented gross of management and custodial fees, but net of transaction costs and before taxes (except for non-reclaimable withholding tax). The standard management fee schedule for segregated management is as follows: 0.55% per annum on the first £75 million, and thereafter 0.30% per annum.

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