

Lessons from the beautiful game

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The 2018 FIFA World Cup kicked off 11 days ago and with total viewers of 3.2 billion in 2014, it is expected to be one of the most watched sporting events in the world. What is unexpected are the results and performances of some of the top teams; four of the top five pre-tournament favourites failed to win their first match and continue to perform unconvincingly so far. It may not be immediately obvious, but the role of a football manager offers a topical analogy for the skills required and challenges faced by an investment manager.

There are several key characteristics common to both disciplines, the most obvious of which is the ability to maintain conviction and discipline, particularly with respect to one's philosophy and process. An investment manager without sufficient discipline will be far less consistent in their decision making and more likely to have unpredictable returns in the long run based on our experience researching managers over the last 20 years. Perhaps hand-in-hand with this is the ability to remain focused. Both football and investment managers are constantly surrounded by a plethora of opinions and ideas and the ability to block out unnecessary noise is often the key to separating a good manager from a great one.

Then, when building the team, football managers don't simply pick eleven players with the most impressive statistics (the most goals or assists etc.) but instead take into consideration which combination of players operates most effectively to achieve the manager's objective. Similarly investment managers are tasked with selecting the 'best' investments from a wide ranging universe with various mandates and constraints to consider. Again this process is not as simple as choosing the strongest performing investments. It involves selecting the appropriate combination of holdings which, when used together, creates a robust portfolio with the highest probability of achieving the desired outcome. To achieve this, portfolios must be balanced across a mix of asset classes and also within asset classes (e.g. style tilting within equity, varying interest rate risk within fixed income). Furthermore, the optimal blend will likely vary depending on market conditions and the stage of the economic cycle, which is not too dissimilar to a football manager changing formation depending on the opposition.

Even with the final team selection confirmed, there is more work to be done. Circumstances change throughout a tournament; some players underperform or become injured. Parallels can be drawn to an investment manager, given the dynamic nature of the markets – it would be myopic to expect our best ideas today to remain our best ideas indefinitely. As an active manager, it is our role to adapt to the ever changing circumstances we are faced with. To ensure the portfolio remains optimal and appropriate we need to monitor holdings closely, constantly search for ideas to challenge existing investments and tactically tweak the asset mix to reflect prevailing conditions.

Given the challenges faced by top managers, it is of paramount importance that we as investors and spectators remain patient, follow strategies for the long term and don't get too worried about adverse results in the short term. Despite the slow start to the World Cup by some of these top nations, it would be brave to bet against one of them winning the coveted prize on July 15th.

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Market Focus

- » Trade Tensions escalate between the US and its trading partners
- » OPEC agree 1 million barrel per day output increase
- » President Erdogan wins Turkish election
- » The People's Bank of China cut the reserve requirement ratio by 50bps

US

- » President Trump ordered the U.S. Trade Representative office to identify USD 200 billion in Chinese goods for additional tariffs of 10%, with an extra USD 200 billion should China retaliate. The Chinese government has responded by promising retaliatory measures
- » President Trump has threatened a 20% tariff on European made cars. The EU Commission responded stating "if they decide to raise import tariffs, we'll have no choice, but to react"
- » The US composite Purchasing Managers' Index (PMI) marginally fell in the month but still remains at a strong level of 56.0 (-0.6pt mom). The lower than expected manufacturing PMI of 54.6 (56.1 expected) contributed to this fall. The Dow Jones fell 0.9% to 25,090
- » US equities fell 0.9% in the week while Treasuries rose 0.1%

UK

- » The Monetary Policy Committee of the Bank of England voted 6-3 to hold the base rate at 0.5%. Notably Chief Economist Andy Haldane voted to hike the base rate for the first time since 2014
- » Prime Minister Theresa May has successfully passed the EU withdrawal bill through Parliament by 319 votes to 303, avoiding a backbench rebellion
- » Employment rose by 146K since April. The UK jobless rate is 4.2% , the lowest level since 1975
- » UK equities returned 0.7% in the week while UK gilts declined 0.1%

Europe

- » Continental European Equities ended the week 1.6% lower, partly driven by losses in the automobile, mining and technology sectors in light of potential US tariffs
- » The Euro area composite PMI rose to 54.8 in June from 54.1 in May with the increase in services PMI to a four month high of 55.0 driving the growth
- » The German composite PMI reading for June was 54.2 which surpassed expectations of 53.4. Similarly, France's composite PMI of 55.6 beat expectations of 54.2
- » The German automaker Daimler issued a profit warning in the week based on President Trump's announcement of potential tariffs on European cars into the US

The rest of the world

- » OPEC Ministers reached a preliminary agreement to boost production by 1 million barrels a day; however this was marginally below expectations, partly contributing to the 2.9% rise in Brent Crude
- » The People's Bank of China announced it will cut the reserve requirement ratio by 50 basis points. The cut is expected to inject USD 108 billion of liquidity into the economy'
- » The Turkish election has ended with President Erdogan winning 52.5% of the Presidential votes
- » In Japan, the manufacturing PMI increased in the month to 53.1 from 52.8 in May

Past performance is not indicative of future returns.

Source: Bloomberg, returns in local currency unless otherwise stated.

Currency returns					
Asset class/region	Currency	Week ending 22 June	Month to date	YTD 2018	12 months
Developed markets equities					
United States	USD	-0.9%	1.9%	3.7%	14.7%
United Kingdom	GBP	0.7%	0.2%	1.8%	6.9%
Continental Europe	EUR	-1.6%	0.7%	-0.1%	-0.4%
Japan	JPY	-2.5%	-0.1%	-3.0%	10.6%
Asia Pacific (ex Japan)	USD	-2.0%	-1.9%	-2.3%	12.1%
Australia	AUD	2.2%	3.6%	4.6%	13.9%
Global	USD	-0.9%	1.1%	1.6%	12.2%
Emerging markets equities					
Emerging Europe	USD	0.9%	-2.6%	-10.3%	6.2%
Emerging Asia	USD	-3.0%	-2.4%	-2.8%	12.7%
Emerging Latin America	USD	0.5%	-4.6%	-12.5%	0.8%
BRICs	USD	-2.3%	-2.3%	-2.4%	18.8%
MENA countries	USD	-1.2%	0.2%	8.4%	7.9%
South Africa	USD	-0.7%	-4.4%	-15.6%	6.0%
India	USD	0.5%	0.3%	-2.6%	8.5%
Global emerging markets	USD	-2.3%	-2.7%	-5.3%	10.2%
Bonds					
US Treasuries	USD	0.1%	-0.3%	-1.5%	-1.6%
US Treasuries (inflation protected)	USD	0.3%	0.0%	-0.5%	1.1%
US Corporate (investment grade)	USD	-0.4%	-0.9%	-3.6%	-1.7%
US High Yield	USD	0.0%	0.9%	0.7%	3.5%
UK Gilts	GBP	-0.1%	-1.0%	-0.1%	-0.7%
UK Corporate (investment grade)	GBP	-0.2%	-0.2%	-1.6%	-1.0%
Euro Government Bonds	EUR	-0.1%	0.3%	0.1%	-0.3%
Euro Corporate (investment grade)	EUR	0.1%	0.3%	-0.3%	0.7%
Euro High Yield	EUR	-0.3%	0.4%	-0.9%	1.5%
Japanese Government	JPY	0.1%	0.1%	0.7%	0.9%
Australian Government	AUD	0.3%	0.3%	1.6%	1.6%
Global Government Bonds	USD	0.2%	-0.5%	-1.2%	1.2%
Global Bonds	USD	0.2%	-0.5%	-1.7%	1.1%
Global Convertible Bonds	USD	-1.2%	0.2%	0.8%	3.1%
Emerging Market Bonds	USD	0.7%	-0.6%	-5.6%	-4.2%

Source: Bloomberg. Past performance is not indicative of future returns.

Currency returns					
Asset class/region	Currency	Week ending 22 June	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	2.5%	3.6%	-0.1%	0.8%
Australian Property Securities	AUD	2.3%	2.6%	2.4%	4.0%
Asia Property Securities	USD	-2.0%	-1.2%	-0.4%	8.8%
Global Property Securities	USD	0.4%	0.9%	-0.3%	6.8%
Currencies					
Euro	USD	0.4%	-0.2%	-3.1%	4.4%
UK Pound Sterling	USD	-0.2%	-0.3%	-2.0%	4.6%
Japanese Yen	USD	0.6%	-1.1%	2.4%	1.2%
Australian Dollar	USD	-0.2%	-1.8%	-4.9%	-1.5%
South African Rand	USD	-0.2%	-5.4%	-7.7%	-3.5%
Swiss Franc	USD	0.8%	-0.4%	-1.6%	-1.7%
Chinese Yuan	USD	-1.4%	-1.6%	0.0%	4.7%
Commodities & Alternatives					
Commodities	USD	0.4%	-2.9%	4.2%	21.6%
Agricultural Commodities	USD	-1.3%	-6.1%	0.1%	-0.7%
Oil	USD	2.9%	-2.6%	13.0%	67.1%
Gold	USD	-0.6%	-2.6%	-2.9%	1.4%
Hedge funds	USD	-0.5%	-0.1%	-0.8%	2.4%

Source: Bloomberg.

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