Core global mandates

Adopting a core world mandate could be the way of the future.

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Do investors care more about owning equity in excellent, demonstrably undervalued companies, or do they care more about where those companies operate?

Global investing provides more than diversification. It also provides opportunity for increased returns, as the best companies in the world are not always located in Canada or the United States. Applying a strategy to the broadest universe of potential investments could maximize absolute returns, and ensure that the process of maximizing portfolio value is not impaired by arbitrary geographic constraints.

Conventional wisdom has been to invest in separate U.S. and non-U.S. equity portfolios. This allocation is based upon a pre-determined fixed strategic asset class mix with regular rebalancing to the policy weights regardless of market conditions. This approach has two major limitations. First, there is limited ability to opportunistically adjust the mix between these asset classes to add value or reduce exposure to undue absolute loss. Second, combining this 'best-of-region' portfolio may not result in a 'best-of-world' portfolio.

A better solution can be to allocate a portion of total assets to a global equity portfolio that provides exposure to the most attractive companies (comparatively) in the world, regardless of their domicile.

Widen the Playing Field

The idea of widening the playing field and having the ability to concentrate on the best companies globally is a good approach for a number of reasons. No market has a monopoly on best performance and, although particular country-level performance could be poor, there could still be good long-term picks. This is a world where companies have become global, with customers and operations all over the world. Companies compete more than ever on a global basis regardless of where they are domiciled, and having the ability to invest in your best choice is best for the portfolio, rather than making a second or third choice because you are limited to a particular region.

A global equity portfolio should allow a manager to focus holdings in the highest-conviction ideas globally, rather than holding a combination of the best ideas in several single markets. For example, the global portfolio would provide more concentration in the highest conviction names than a combination of the best ideas in several single markets or regional mandates.

Research is Key

True global investing is having the latitude and the capability backed by a strong integrated global research team to compare companies across regions and markets to uncover the best overall investment idea. Careful research and selection of the best companies to invest in globally should provide flexibility to take advantage of valuation opportunities that arise in different markets, without the need to make strategic shifts between U.S. and non-U.S. equity in the plan's overall asset allocation. It should also provide the opportunity to generate higher returns than a combination of separate U.S. and non-U.S. equity portfolios, particularly if they had been combined in a fixed weight. This may also help mitigate the impact of differing performance cycles of individual markets.

TRUE GLOBAL INVESTING IS HAVING THE LATITUDE AND THE CAPABILITY BACKED BY A STRONG INTEGRATED GLOBAL RESEARCH TEAM TO COMPARE COMPANIES ACROSS REGIONS AND MARKETS TO UNCOVER THE BEST OVERALL INVESTMENT IDEA.

Adopting a core global mandate (or world mandate, including emerging markets) could be the way of the (near) future. The goal of a pension plan is to achieve good absolute returns without sacrificing diversification and meeting liability requirements. What better way to empower active managers to enhance returns than to open up the borders? ▪