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香港退休計劃協會
The Hong Kong Retirement Schemes Association



Webinar
Quality Investing during inflationary times
24th February 2022





香港退休計劃協會

The Hong Kong Retirement Schemes Association



Opening Remarks

Ms. Evelyn XIA

**Managing Director, Head of Greater China Institutional Business
Ninety One**



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Speaker

Mr. Neil FINLAY

**Investment Director
Quality Investment Team
Ninety One**



Biographies



Neil Finlay

Investment Director
Joined the firm in 2014
Joined the industry in 2001

Neil is an investment director within our specialist Quality investment team. He represents the views and capabilities of the Quality investment team with clients.

Prior to joining the firm he was at Threadneedle as a client portfolio manager for UK Equities for over 3 years, and a senior product manager before that. He started his career at Morgan Stanley Investment Management in product strategy and development. Neil graduated from St. Andrews University with an MA first class degree in Economics and Modern History.

Neil holds the Investment Management Certificate (IMC) and is a CFA® Charterholder.



Evelyn Xia

Managing Director, Head of Greater China
Institutional Business
Joined the firm in 2021
Joined the industry in 2010

Evelyn is Head of Greater China Institutional Business at Ninety One, based Hong Kong. She is responsible for managing and driving our institutional business across Greater China.

Evelyn has over a decade of financial services experience and extensive client relationships in the region. She joined Ninety One from RBC Global Asset Management where she was Managing Director, Head of Asia Sales for institutional client coverage and strategic development in Asia, covering Sovereign Wealth Funds, Pensions, Insurers and Banks in the region.

Previously, she was Head of International Desk at Banco Santander Hong Kong Branch and worked at Santander Global Banking & Markets in both London and Madrid headquarters.

Evelyn graduated from the Beijing Foreign Studies University with a Bachelor of Arts in English. She gained her Master of Business Administration in Finance from the University of California at Berkeley.



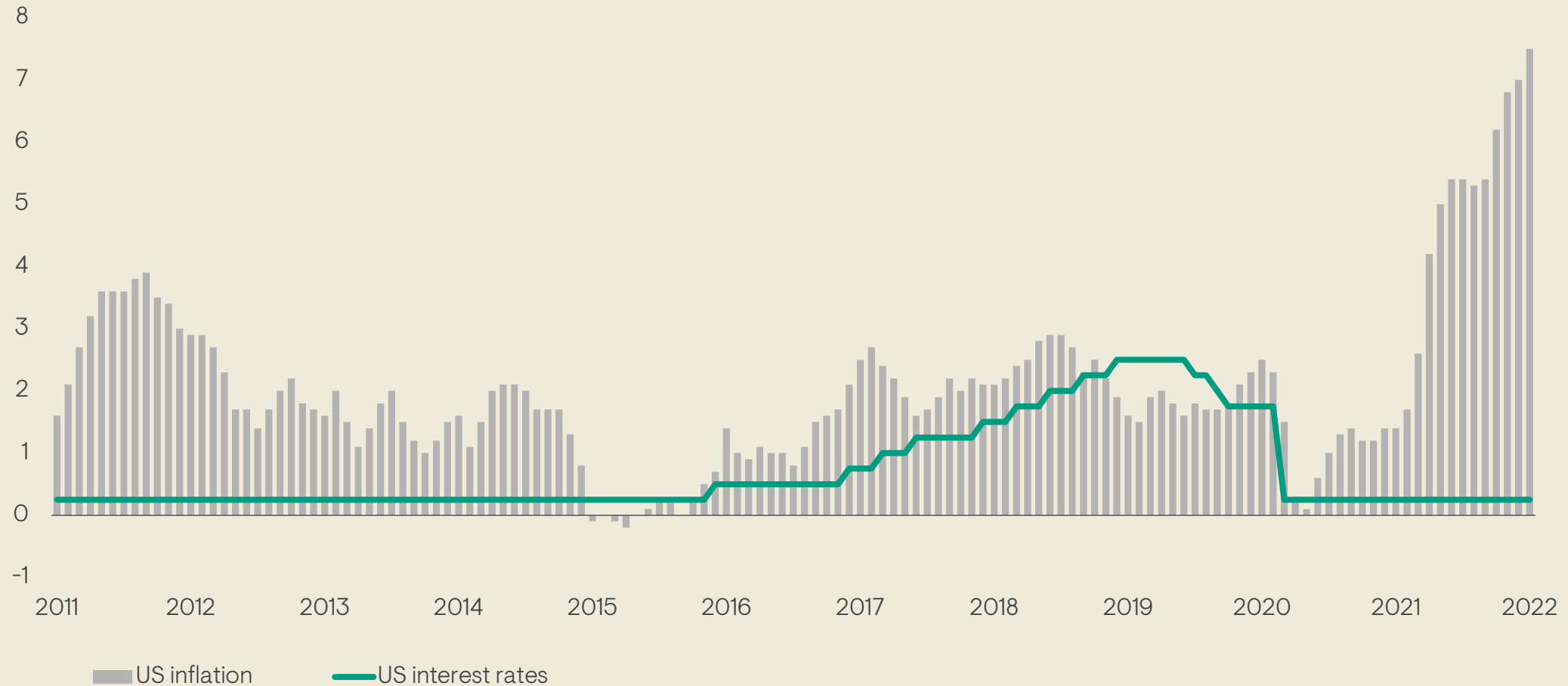
Quality investing during inflationary times

- Concerns around inflation have dominated investor conversations across the globe throughout 2021 into 2022.
- Supply chain disruption, pronounced energy crisis, geopolitical tension, prolonged COVID restrictions, labour shortages all make it extremely difficult to predict the level and duration of inflation.
- It is very important for pension funds and individual savers to assess the potential impact on our portfolio if we are indeed entering an inflationary environment for a prolonged period.
- We believe Quality businesses with three core characteristics that should offer cushion from any prolonged inflationary pressures:
 - Strong pricing power
 - Low capital intensity
 - Healthy balance sheets

Challenging macro environment

The building dilemma for central banks

The tension between persistent inflation and interest rates



Source: Bloomberg, 31 January 2022. US Interest rates = Fed funds rate.



Significant rise in inflation expectations

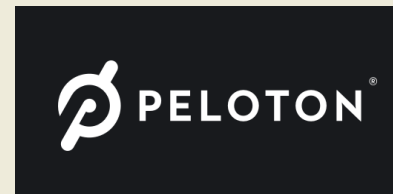
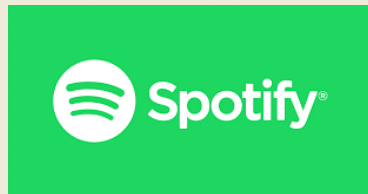
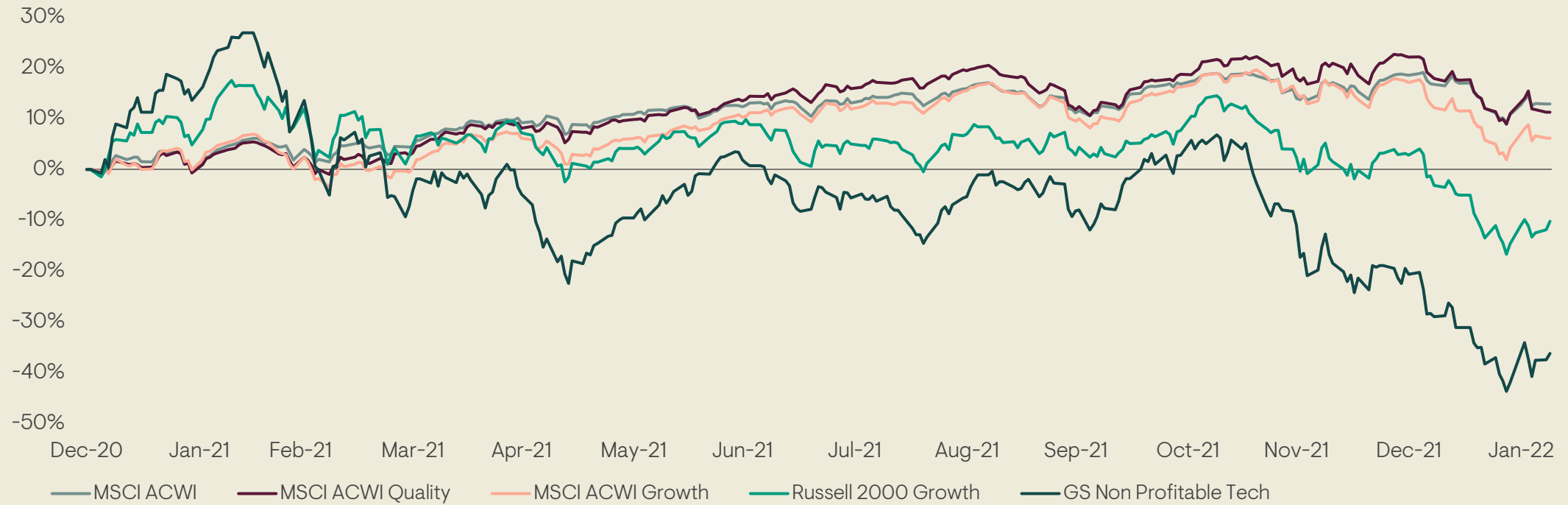
US 10yr Breakeven (inflation expectations)





Spec tech wreck

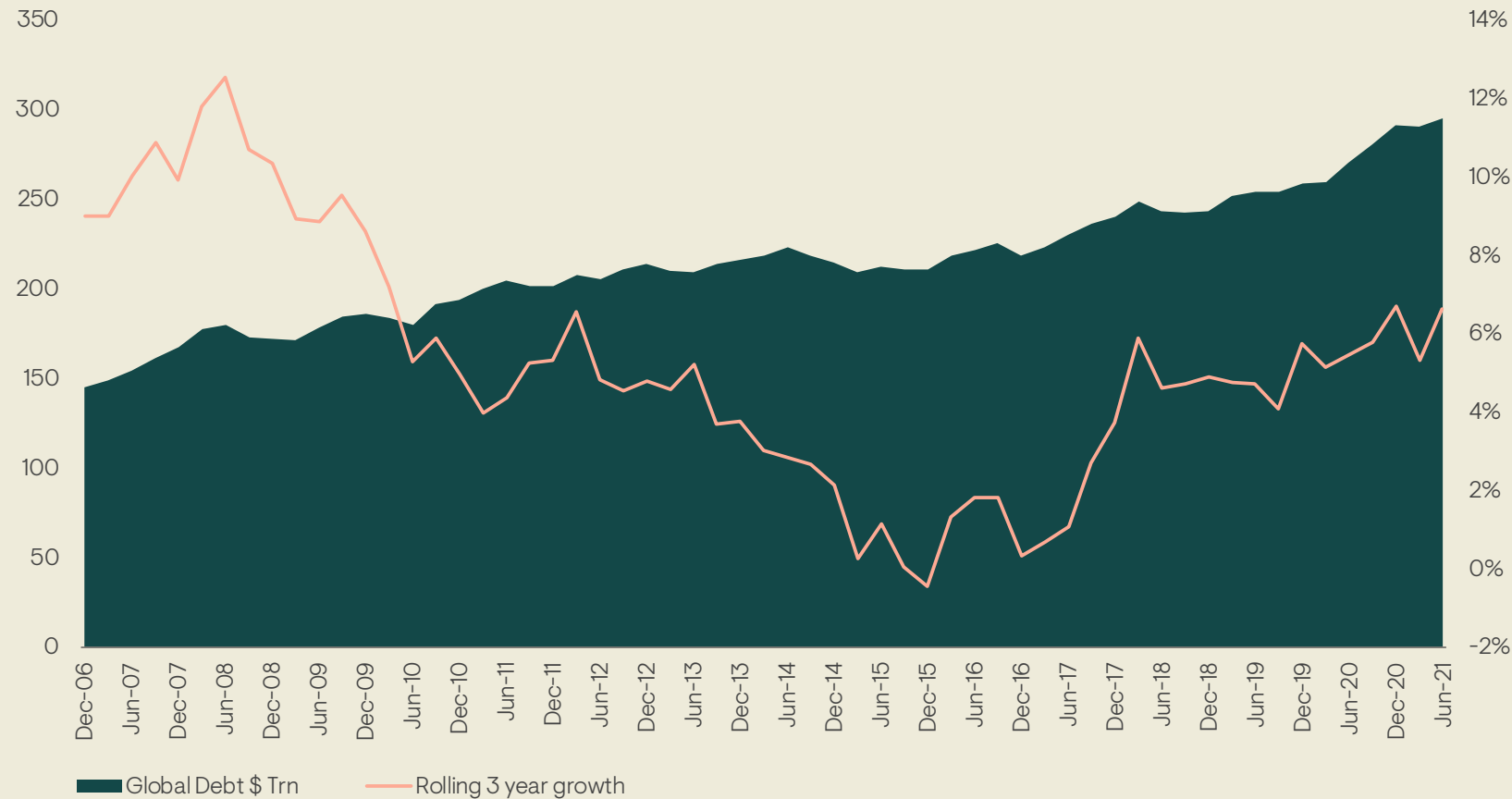
Performance since 31 December 2020 (USD)



This is not a buy, sell or hold recommendation for any particular security. Trademarks, copyrights, company logos and other intellectual property rights are and remain the property of their respective owners. Source: Ninety One, Bloomberg, 08 February 2022

Global leverage increases risk

Global debt is growing



- Global debt has doubled from pre GFC levels to \$296 trillion
- The growth rate is accelerating post Covid
- A 1% shift upwards in yield now takes 3.5% off world GDP compared to 2.8% in 2006

Source: IIF (Insitute of International Finance), as at June 2021

How Quality investing benefits in
an inflationary environment?





What is “Quality”?

5 key attributes



Hard-to-replicate enduring competitive advantages



Dominant market positions in stable growing industries



Low sensitivity to the economic and market cycle



Healthy balance sheets and low capital intensity

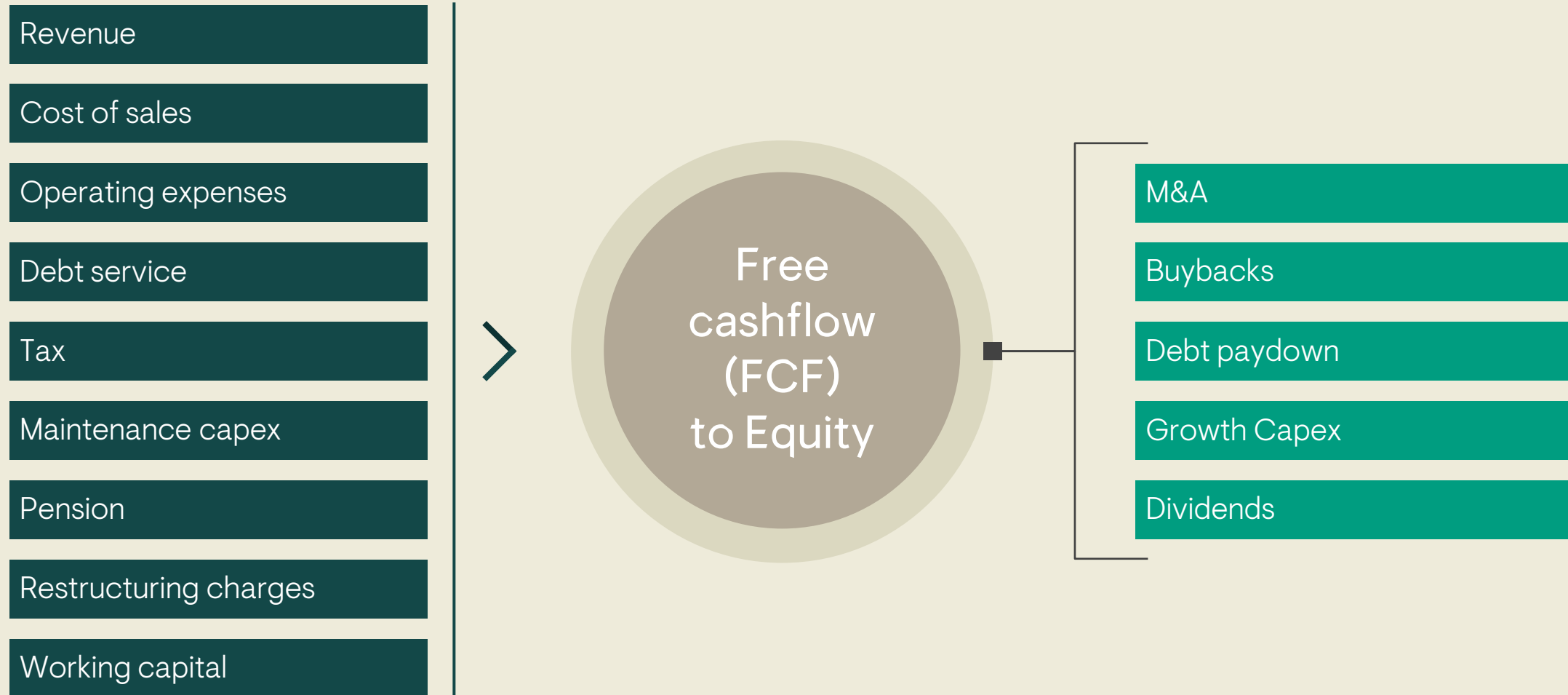


Sustainable cash generation and effective capital allocation

Best-of-breed quality companies that sustain high returns and compound shareholder wealth over the long term



The importance of cashflow generation and capital allocation





Quality investing during inflationary times

Three core characteristics that insulate quality businesses from the damage inflation can bring



Pricing power

Enduring competitive advantages create barriers to entry that give high quality companies pricing power. High gross margins mitigate the impact of rising input costs



Low capital intensity

Capital-light businesses are less impacted by capex and fixed cost inflation



Balance sheet strength

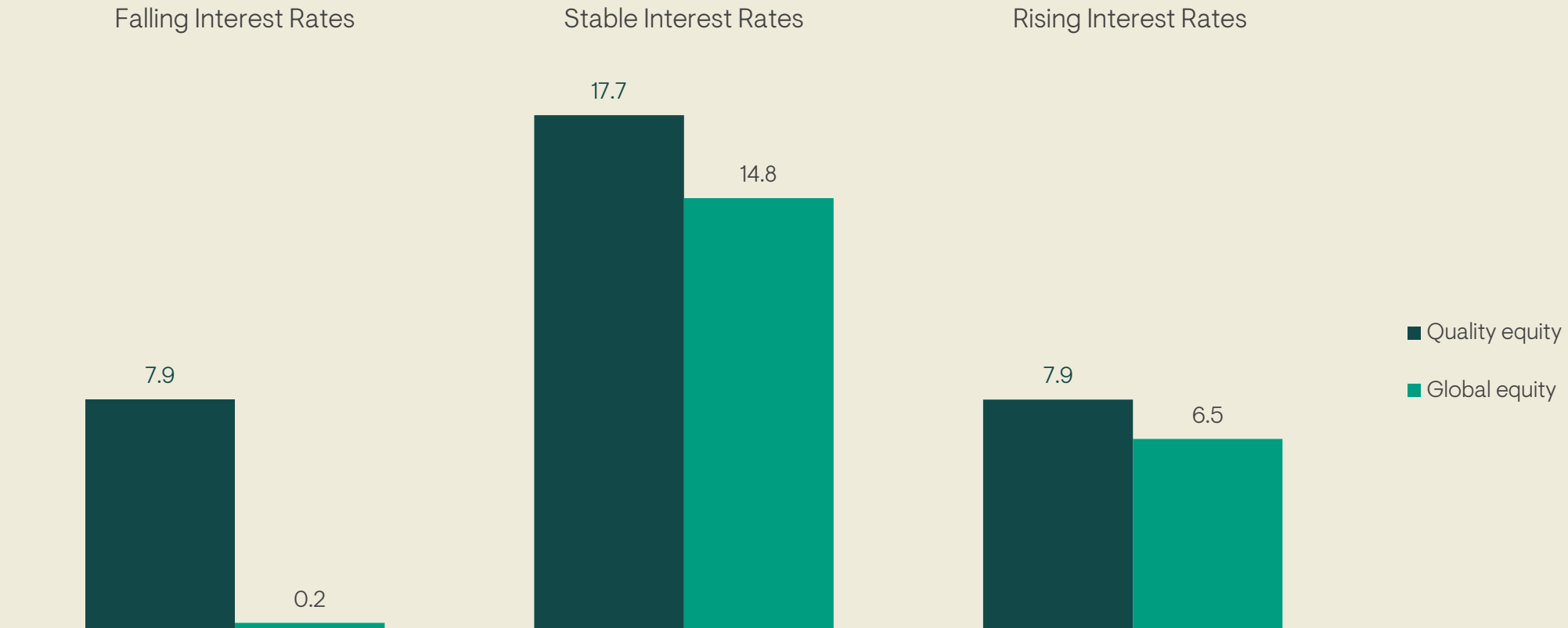
Low financial leverage minimises the impact of higher financing costs as rates rise to combat inflation



Quality equity has outperformed in rising rate environments

Performance through different interest rate environments based on year on year rate changes

Average of calendar year performance 2008 - 2021

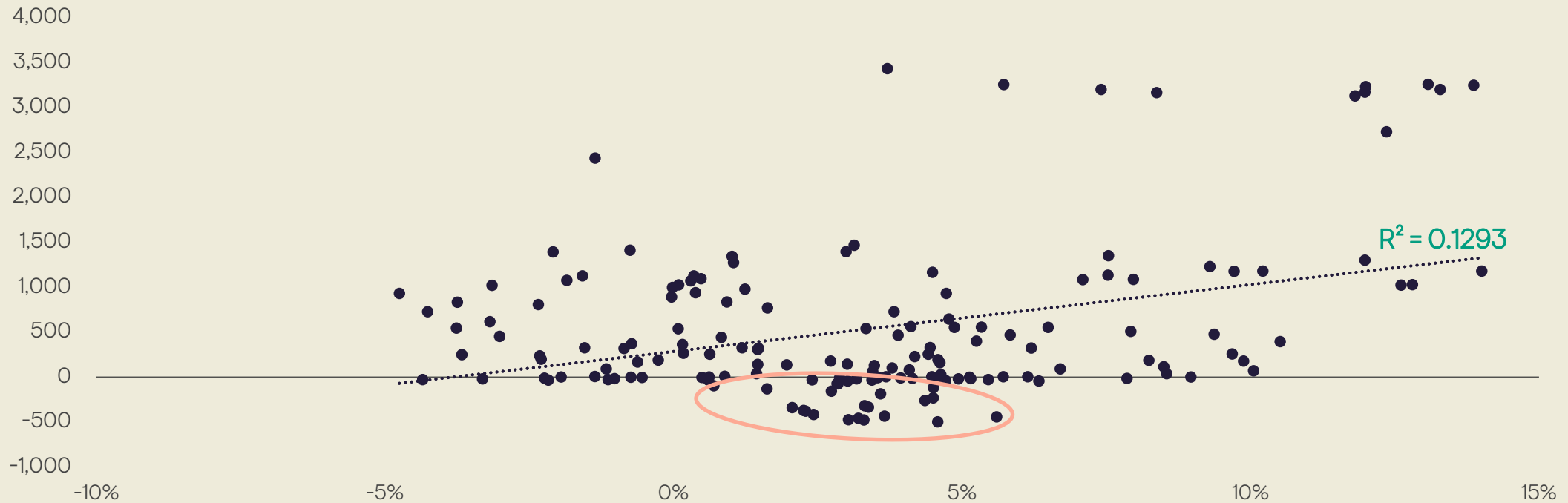


Past performance is not a reliable indicator of future results, losses may be made. Source: Federal Reserve Economic Data, Morningstar Direct. December 31, 2021. USD, falling interest rates indicate periods where rates have fallen year on year, stable indicating where rates have remained steady, and rising where interest rates have been lifted year on year. Quality equity= MSCI ACWI Quality, Global equity=MSCI AC World.



Don't fear the taper...

MSCI ACWI Quality 1-yr outperformance vs Fed B/S growth (\$bn)



Low correlation overall between QE and Quality outperformance
Quality has, however, typically outperformed during periods of QT

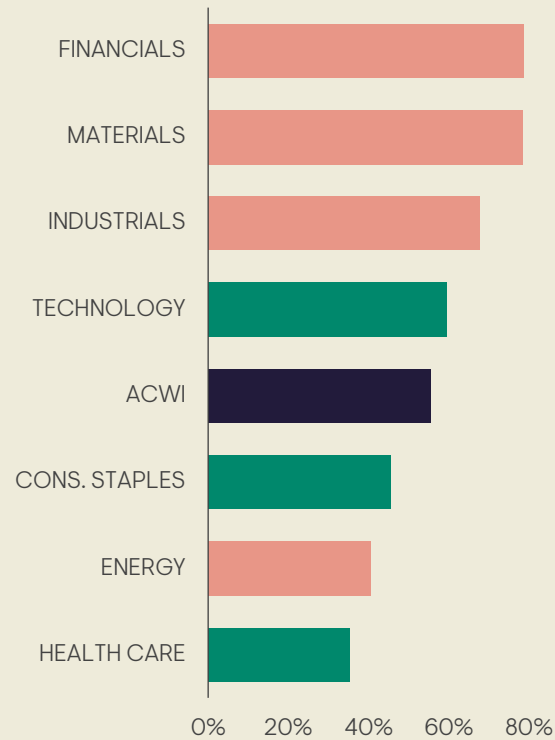


Will early cycle performers continue to perform?

History suggests low quality sectors struggle to sustain performance beyond early cycle

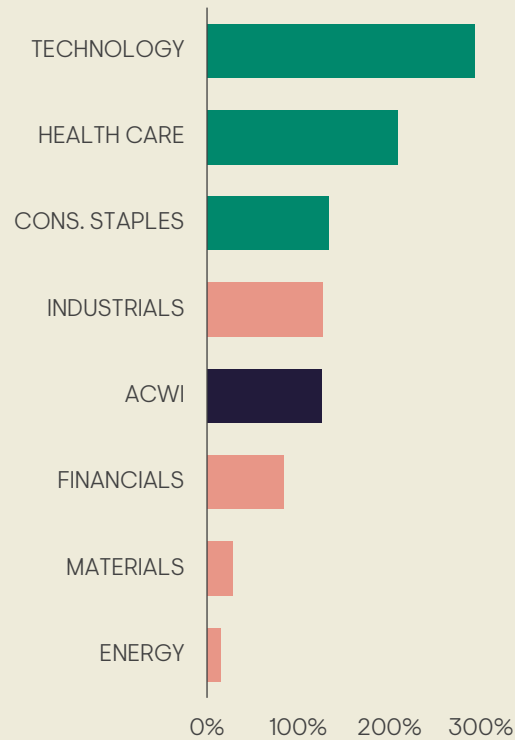
1st year after GFC

(Mar-09 to Mar-10)



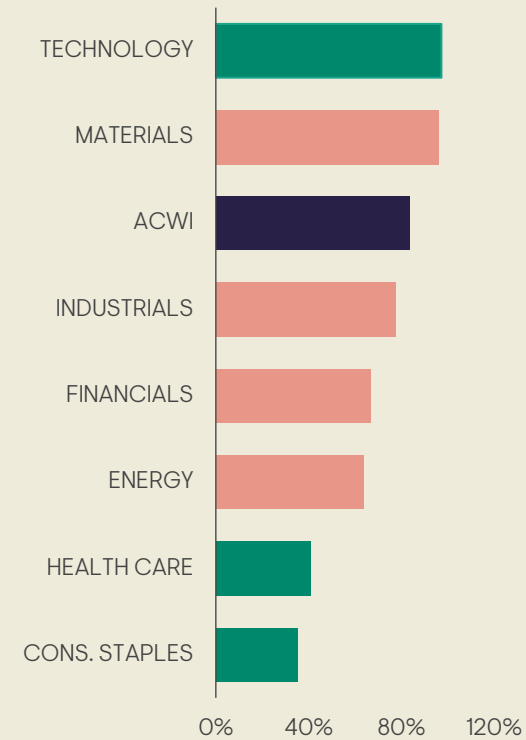
Rest of cycle

(Mar-10 to Dec-19)



Post-COVID recovery

(Mar-20 to Dec-21)



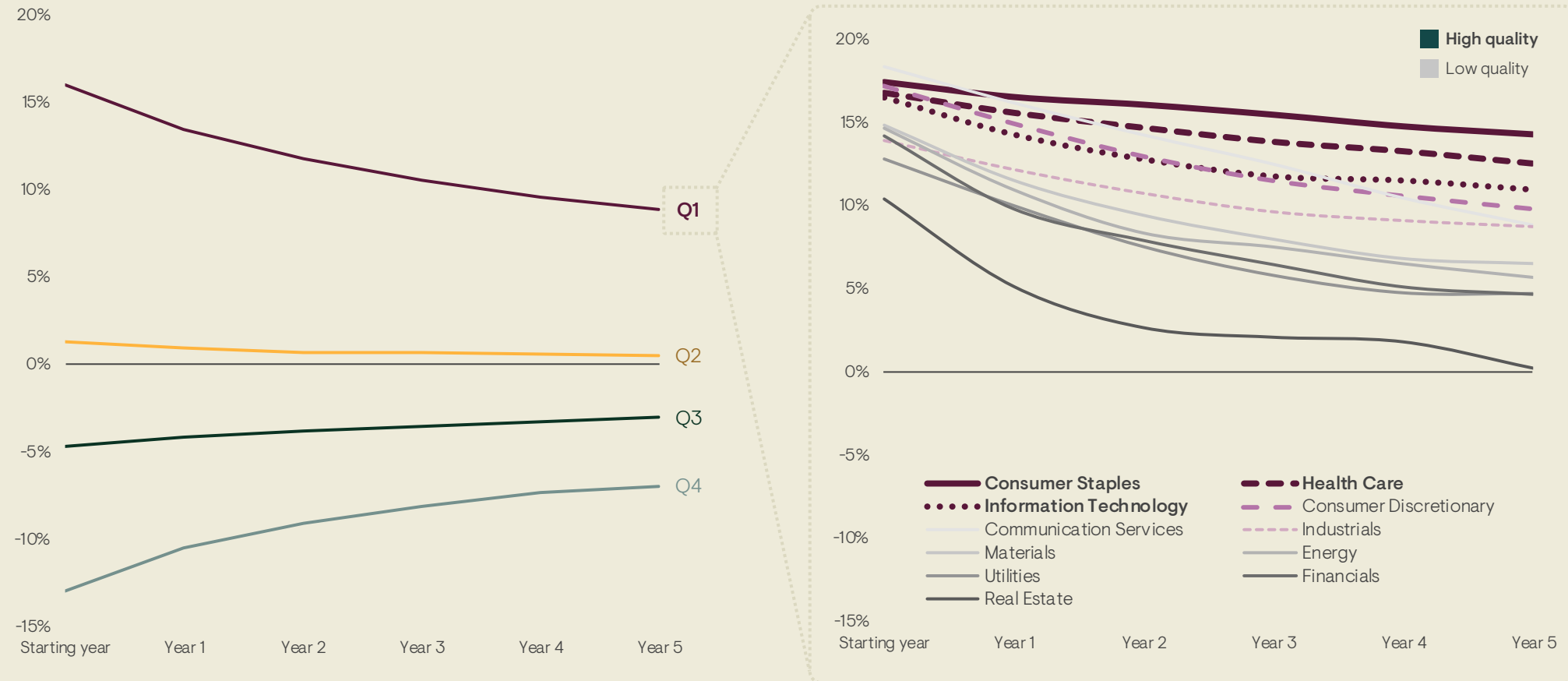
High quality Low quality



Sustained high returns from high quality companies

Return on Invested Capital (ROIC) – a fundamental measure of success

ROIC persistence (average of rolling five-year periods, 1990-2019)



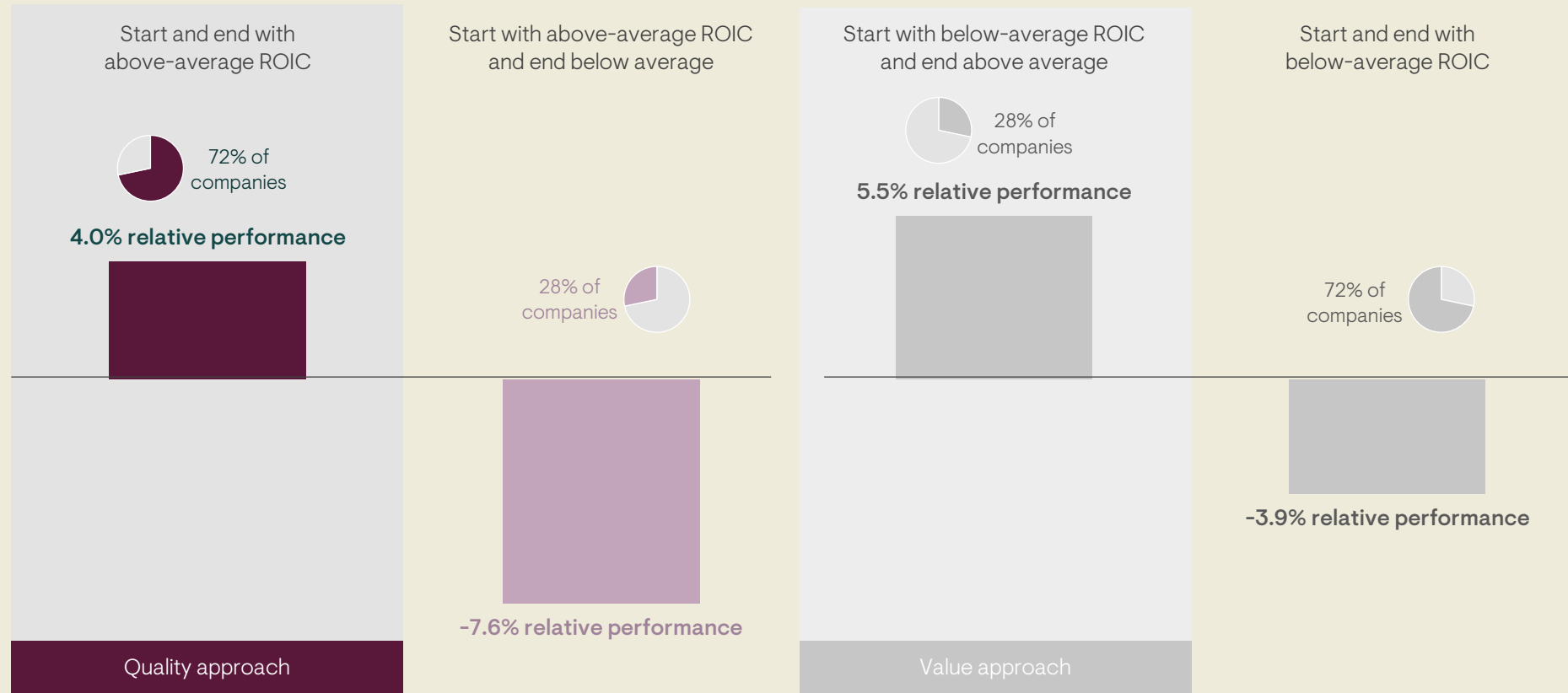
Source: Ninety One analysis of FactSet data. Our research framework involved gathering relevant data from the MSCI ACWI dating from 31 December 1990 to 31 December 2013 (this was the furthest point that would provide six full years of data for the analysis, conducted in 2019: one year to establish the ROIC quartiles across all sectors and then five subsequent years to track the decay profile of returns). For further information on investment process, please see the Important Information section.



Why Quality – outperformance from sustained high returns

Return on Invested Capital (ROIC) – a fundamental measure of success

Relative performance vs. ROIC persistence (rolling five-year periods, 1990-2019)

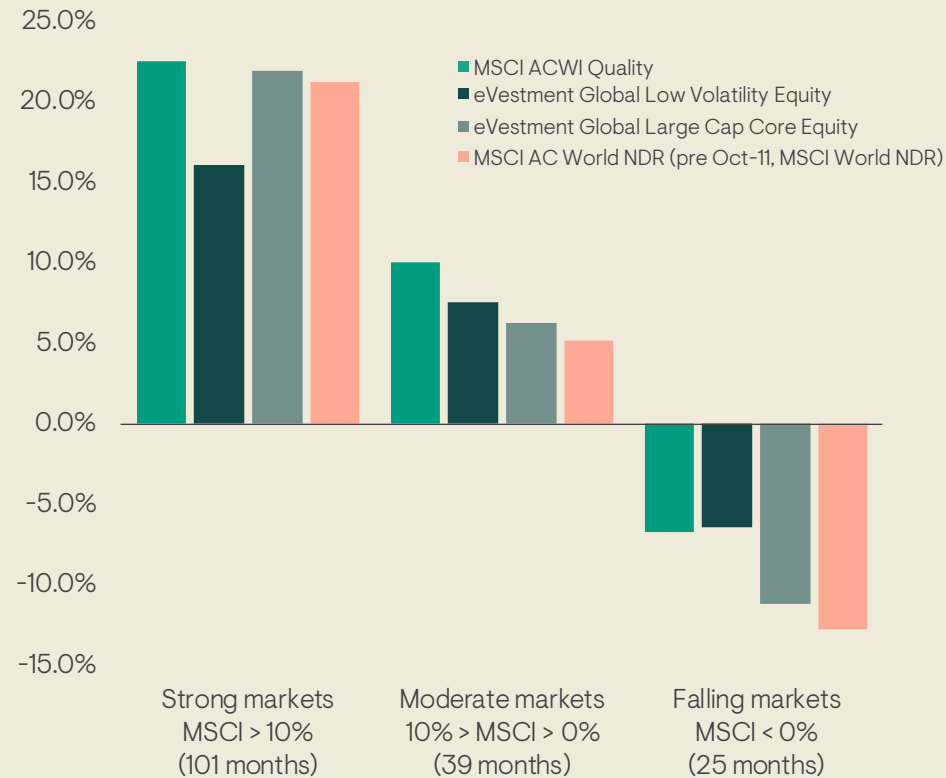


Past performance is not a reliable indicator of future results, losses may be made. Source: Ninety One analysis of FactSet data, MSCI ACWI universe, 31 December 1990 to 31 December 2019. For the full research methodology, please refer to our white paper entitled 'Equity Investing the Quality way' (October 2020) which is available on request. The MSCI All Country World Index is a market capitalisation weighted index designed to provide a broad measure of equity-market performance throughout the world. Comprised of stocks from developed and emerging markets. Maintained by Morgan Stanley Capital International. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

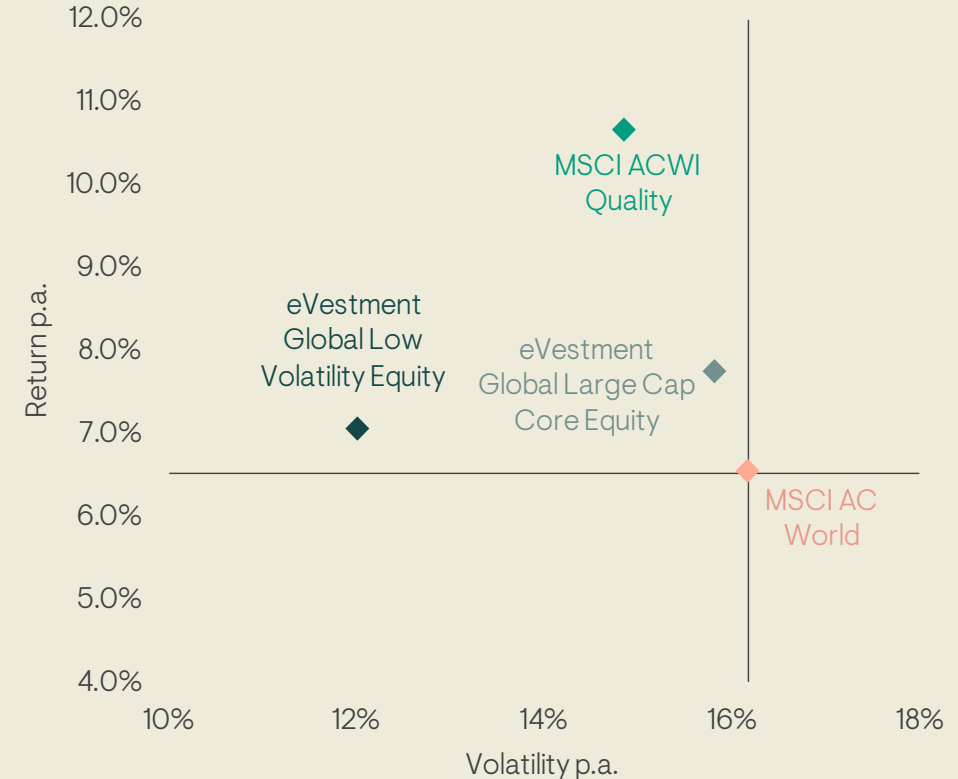
Attractive risk-adjusted returns

Defensive and differentiated outperformance

Average 12 month returns in USD



Risk return in USD



Past performance is not a reliable indicator of future results, losses may be made. Source: Ninety One, Morningstar, eVestment, 1 May 2007 to 31 December 2021. Please note that this report is run on the 10th business day. eVestment collects information directly from investment management firms and other sources believed to be reliable. eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and are not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on our systems and other important considerations such as fees may be applicable. Not for general distribution. All categories not necessarily included. For further information on indices, please see the Important Information section.



Conclusion

- The debate continues over how persistent inflation will be
- Quality companies have key attributes that mitigate inflationary risks
- Quality has delivered long-term outperformance*:
 - With smaller drawdowns in down markets
 - Without the same cyclical/sustainability risk as Value equities
 - Without the same valuation and inflation risk as Growth equities

* Long-term=a full cycle (typically 7 years), outperformance vs. global equities.



Important information

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Q & A

Moderator

&

Closing Remarks

Mr. Vincent CHOW

Member of Executive Committee &

Vice Chairman of Member Communication Sub-Com, HKRSA

Group Treasurer, The Hongkong Electric., Ltd



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Stay tuned to our next webinar in March
“Sustainable Investment in Pension”
Enrolment to be started on 4 March 2022!



Sustainable Investment in Pension

Over 2021, Headlines relating to Environmental, Social and Governance (E,S and G) topics comes a close second to headlines relating to the pandemic. So now into 2022, are asset owners any wiser on their approach to ESG integration, sustainability investing, their role in the climate transition journey and so on? What additional resources are asset owners and asset managers are putting in place to meet the new demands? Hear from the panelists and raise your questions and ideas, since the march towards greater disclosure, awareness-building and reporting is unstoppable, and it is important to be on the right side of ‘being ready’.

At this webinar, Mercer explores the challenges and invites you to express your thoughts, areas of interest or concerns, and challenges as key decision-makers in your respective areas.

Event Details

In Supportive of:



Keynote Speaker: Ms. Adeline Tan of Mercer
Date & Time: Thursday, 31 March 2022 | 3:00pm – 4:00pm
Language: English
Join the webcast: [Register here](#) or by scanning QR code
Webcast details will be emailed to participants approximately 24 hours prior to the event via email



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2. Virtual platform will be provided by Mercer. By registering for this event, you are providing your consent to the HKRSA to pass your personal particulars (including name, title, organisation, and email address) to Mercer to create access to Zoom facility for you.
3. For any enquiries, please contact us at events@hkrsa.org.hk or (852) 2147-0090.

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