01:
Scott Berg
portfolio manager,
global growth equity
strategy
T.Rowe Price

Global equities: Secrets to Success

You could say that passive investing is the path of least resistance. It provides a low-cost, low-touch entry into the sharemarket. By contrast, active management takes more time, more deliberation and more humility.

But the passive versus active debate is a thing of the past and today's investors are more interested in finding the right balance between the two. In active management and particularly in growth investing, one fund manager has withstood the test of eight decades: T. Rowe Price.

The group is a familiar brand in the US, managing more than 1.6 trillion dollars in assets. Of that pool, it manages around $10 billion in international equities for the local market.

In this issue, T. Rowe Price's US-based global growth equities expert Scott Berg describes the fund's strategy and what separates them from other active managers.

Michelle Baltazar
Director of Media & Publishing

Global equity investors have enjoyed strong returns for much of the last decade, despite a multitude of headwinds. Investors face a range of challenges as well as opportunities in 2020. Markets are near all-time highs, and while bull markets tend to die of extremes or crisis, there are concerns about the age of this particular bull market, especially given the global economy slowed in 2019. Add to this the recent coronavirus pandemic, Middle East tensions and a U.S. presidential election later this year, and it would be easy to lurch toward safe havens.

But we continue to live in a world with low or negative interest rates and central banks that are proactively stimulating or preparing for stimulus. With valuations showing few signs of broad-based extremes, equities remain a good option, in my opinion.

Corporates have delivered on earnings

There is, however, a perception that equities are expensive, but we would argue that on a historic basis valuations remain reasonable. While markets have enjoyed spectacular returns since the lows back in March 2009, much of the returns have been delivered by companies continuing to grow their earnings year after year.

Back at the depths of the Global Financial Crisis, global equities were trading on just 10-times earnings. This was effectively the 'Sale of the Century' for equities and, as a result, investors seem to have become anchored to that reality. But if we take a different time horizon and go back to 2002, at the bottom of the tech crisis, markets had collapsed around 50%, yet stocks still traded then at 15-times earnings. Today, they trade at 17-times earnings, even though in the subsequent period markets has gone up over 500%.

Of course, when people see that type of growth, they often jump to conclusions of a bubble-like expansion in valuations. The reality is that while stocks today may not be as cheap as they once were, they are not massively expensive either.

Geopolitics is important, but it shouldn't paralyse investor behaviour

The fraught US/China relationship remains a concern, and an issue that goes far beyond the trade dispute. The two largest economies in the world have fundamental differences and there are tensions with each other on multiple fronts: trade, technology, military ambitions and political positioning across the entire Indo-Pacific region. This potentially has an impact on globalisation.

I would, however, make the point that while geopolitical events can often be important considerations, they should not overly influence a bottom-up investor. Let's take Australia as an example. The country has enjoyed the longest economic expansion in post-war history, yet during this time Australia has had the most political change and uncertainty domestically that it's ever had. While the different parties and leaders keep changing, it hasn't impacted market returns or gross domestic product (GDP) growth. Politics does play a part, and is something to be aware of, but it shouldn't paralyse an investor who is looking first and foremost at company fundamentals.

Keys to success

Since the launch of the T. Rowe Price Global Growth Equity Strategy, the financial landscape has shifted dramatically but my investment principles, which are centred on stock selection and a thoughtful approach to portfolio construction, have not changed and have allowed me to navigate these more volatile times. This would not be possible without the resources we have at T. Rowe Price. I firmly believe our global research platform provides me with a real advantage, given its breadth and consistency of results. This unique platform allows us to be truly global in nature, diversifying across sectors and geographies. It also enables us to delve deeper into the opportunity set, including the best that emerging markets have to offer.

We also find that many global equity managers limit their exposure to developed markets, ignoring the full opportunity set available to them. We believe the ability to look beyond the index is crucial to producing a broader and potentially more rewarding portfolio. Over the last few years, I have visited nearly 60 countries in the quest for new stock ideas. The result being that we are invested in 28 different countries, around half of which are individual emerging markets.

Some also argue that a highly concentrated portfolio is needed to generate alpha. We believe concentration does not equal conviction. Our research capabilities enable us to have actionable insights into every stock we own, giving us a high degree of conviction about their potential to achieve our price targets.

At the same time, you also need to embrace complexity. We live in an era when complexity regarding investments can create confusion and have a negative connotation. The case can certainly be made that when communicating an investment approach, the simpler the message, the easier it is to convey the principles and the more comfortable you could be with an investment solution. You often hear the phase "if you don't understand it, don't invest in it." And there is certainly some merit to this belief, but there also needs to be an understanding that important concepts are often very complex ones.

Ultimately, when we are investing, we are looking for companies that offer high-quality, growing businesses in good industries, but that also offer a valuation opportunity that gives high-conviction upside potential. That goes to the core of active management—making difficult choices and systematically good decisions over long time horizons. The key is finding a sustainable source of excess return after fees, when pressures to reduce costs and avoid disappointment have become intense. We aim for the best-in-class set of returns, driven by what we do well over time—finding stocks where we have insights about cash flow and durable earnings that have not been recognized and valued properly by the market. **FS**

The quote

I firmly believe our global research platform provides me with a real advantage, given its breadth and consistency of results.

Watch the video on www.fsitv.com