

FOCUS ON FUNDS

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Focus on Funds: Insights on Today's Investment Environment

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Fund portfolio managers have to make investment decisions in a fast-moving, global environment. In the June 2, 2017, edition of *Focus on Funds*, Goldman Sachs' Heather Miner summarizes where asset managers see opportunities today.

Transcript

Stephanie Ortvals-Tibbs, media relations director, ICI: Where's the smart money going in portfolio management these days? At ICI's recent General Membership Meeting, some of the best minds in the business got together to talk about investment trends and the forces behind them. Here are some of the key takeaways.

Heather Miner, global head of strategic advisory solutions, Goldman Sachs: We started from a macroeconomic perspective. The big question out there is, can our eight year post crisis recovery continue? The definite consensus among my peers on the panel was that that could continue. Some of the recent softness in the data that we saw—the Q1 print, layered jobs creation in March—certainly feel to be transitory.

We had a really interesting discussion about rates, and I do think there was less consensus about the direction of US rates. Where there was consensus—and I thought it was quite interesting—is a belief that rates are still really critical from a portfolio-construction perspective. They provide that downside risk protection, and at high valuations and with some of the headline risk in the market place right now, they still are very critical to portfolio construction.

Ortvals-Tibbs: So naturally from fixed income, we turn to equities. What was the panel consensus about investment in that area?

Miner: It's clear that the market is still working to digest some of the changes coming out of the new administration in DC. I do think there is the expectation that implementation will take longer than many expected. The conversation turned quite interestingly to, with high valuations in the US, where do you look for returns and growth in your equity portfolio? And I do think that there is strong consensus that the US investors are underweight in

international stocks and particularly underweight in emerging markets.

We of course covered risks in the market, and with elevated valuations many worry about headline risk, but we also spent time talking about execution risk. So, with many new policies being implemented by the US administration, can a new tax policy take hold and propel bottom-line earnings growth in the US? Can a big new infrastructure project improve sentiment and improve capex and customer spending?

Ortbals-Tibbs: So you had a pretty lively debate around that issue. Did the panel all wind up in the same place?

Miner: I do think there is a widespread belief that some changes will be implemented. I think the two takeaways—first, it's going to take longer than many expect, so if we don't get tax policy until late 2017 or early 2018, investors shouldn't be surprised. And then ultimately, as we're seeing with some of the negotiations around the ACA, I think the early discussions are sort of a line in the sand for many months of negotiations.

Ortbals-Tibbs: A last question about portfolio construction. Where did the panel see the industry headed on that issue these days?

Miner: We had a very robust discussion around portfolio construction. As you know, there's been big trends in the market away from active, toward passive. The way that we really framed the discussion was more around mutual funds and ETFs, and an acknowledgment that, in order to have really robust portfolio construction, we need both. And that can really be examined from an asset-class perspective, and looking at the availability and the performance of ETFs versus mutual funds in portfolio in asset classes overall.

I would say the other part of the discussion we had was more around factor-based investing and smart beta, and how new technology in examining factors can play a role in portfolio construction and in underlying investment techniques.

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