

# Five Oceans World: socially and environmentally responsible

James Dunn



ROSS YOUNGMAN

## RESEARCH FOCUS

**Ross Youngman** is a good example of where funds management is heading: he's a socially and environmentally responsible investor – just don't call his fund, the wholesale Five Oceans World Fund, an SRI (socially responsible investment) fund.

Youngman, who teamed up with ex-BT Funds Management colleague Chris Selth to form Five Oceans Asset Management in 2005, is a firm believer in incorporating environmental, social and corporate governance (ESG) factors into fundamental equity research.

"Corporate sustainability issues can affect a company's ability to generate long-term returns, through a lack of understanding of potential risk, or a failure to embrace opportunities," he says. "Chris and I felt quite strongly about using ESG assessments as an input into each investment decision – we consider, 'how does this company manage issues relating to ESG factors?' But make no mistake, this is a commercial, mainstream, bottom-up global equities fund that's there to make money for its investors."

Youngman is Five Oceans chief executive officer and Selth is chief investment officer. Youngman was most recently Deutsche Asset Management (Australia) chief executive, but left the industry for four years before joining with Selth. Selth developed an outstanding track record as a portfolio manager for the BT European Fund and later became BT's head of international equities to form Five Oceans.

From the beginning, the pair targeted the index-unconstrained approach to international investing – a sector of the market that had only previously been filled by Platinum, but which has begun to be tapped by managers such as PM Capital, Global Value Investors and K2.

"The whole idea was to have a concentrated, non-index global equity portfolio, built from the perspective of the Australian investor," Youngman says.

"We've got a very free-flowing approach, we're just looking for about 50 good ideas – that could include Australian stocks, international stocks, emerging markets stocks – from our universe of 12,000 global stocks over \$1 billion in market cap.

"We're completely index-unconstrained. We have a long bias, but we can hold 30 per cent of the portfolio in short positions.

"We manage the currency exposure, we can hedge and we can hold cash in the portfolio."

The fund began investing in March 2006.

Sectoral tilts have moved around a bit, but the

bigger positions have been in energy and materials, Youngman says. The fund has also been overweight in consumer stocks, both discretionary and staples, and has been quite low on financials right through.

"That's been valuation-driven and risk-driven," Youngman says. "When we started, we felt that risk in the financials wasn't being fully appreciated. Obviously we didn't see the hurricane that was coming, to the extent that it has, but we didn't feel that risk was being appreciated and that manifested itself in a very underweight position in financials.

"We also saw opportunity in other sectors, such as materials and energy, where we looked at some of the dynamics such as the growth of Asia and the emergence of China and India, which would mean that there would be more of an underpinning for those sectors. Also, we felt that areas like information technology would be supported because of the need for corporations to upgrade their capital requirements over time."

The fund's biggest portfolio has been Rio Tinto, which Youngman says is its best pick so far. "We saw a situation vis-a-vis the other large global miners that looked attractive to us," Youngman says. "We got into Rio Tinto early in 2007 and built quite a significant position through 2007, up to our limit, of 6 per cent."

The worst pick has been some small positions the fund took last year in US homebuilders. "We've done quite a lot of work on that area, because at some point there is going to be a huge opportunity coming through in financials and homebuilders," Youngman says. "While that hasn't worked in the short term, we think that work is something that forms a foundation for the future."

Five Oceans has about \$120 million under management, about half of that in the World Fund and half in the Five Oceans Global Fund, which is a fund that it runs offshore. "Planners have really only had Platinum in this space. They like the story of index-unconstrained global investing, they know full well that usually, they will be 50 per cent-plus in US whether they want to be or not. So they like this story," Youngman says.

Challenger owns 25 per cent of Five Oceans Asset Management, and provides administration and distribution support, office premises and working capital funding. The fund can be entered directly through Challenger – the minimum investment is \$10,000 – or through BT Wrap, Asgard, Asgard Elements, Ausmaq and Etrade. □

The Five Oceans Wholesale World Fund offers a well-diversified, absolute return-focused exposure to international equities.

Key aspects of the investment process include the fund's long bias (although it can hold up to 30 per cent in 'shorts'), its benchmark-agnostic approach, its concentrated portfolio composition (target 50 stocks), its value style orientation, its keen eye on capital preservation as the principal tool in risk management, its long-term time horizon and its bottom-up qualitative research focus.

Chris Selth and Ross Youngman have brought together a strong investment team, which contains five portfolio managers (including Selth) and three investment analysts. In Zenith's view, the senior investment team members convey a similar (ex-BT Funds Management style) investment philosophy and are thereby able to complement each other's work, allowing for a more collegiate and consistent investment approach.

Five Oceans use a range of valuation techniques with a strong focus on discounted cash flow (DCF) models with contrarian cross-checks, which will seek to explain why a stock is cheap. There is a strong focus on identifying emerging themes and paradigm changes that have not been recognised by the market. The investment team harnesses an international network of industry specialists and "knowledge leaders" to complement and enhance the research focus.

Zenith Investment Partners

## FIVE OCEANS WORLD FUND

NET PERFORMANCE AS AT MAY 31, 2008 (%)		
	6MTH	1YR
FIVE OCEANS WORLD FUND	-11.72	-12.35
MSCI WORLD EX-AUSTRALIA	-10.97	-16.66
(NET DIVIDENDS REINVESTED, \$A)		

SOURCE: Five Oceans World