TALKING GLOBAL EQUITIES

with Richard Dalidowicz - Senior Investment Consultant

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So – why invest in global equities?

A strong trend among institutional investors over the past 15 years has been to diversify with higher weight to global equities. In the past, a typical allocation for a balanced fund was 30 to 35% Australian equities, close to double the typical global equities allocation of 15 to 20%.

Today, this has reversed with global equities at 30 to 35% and Australian equities at 20 to 25%.

The rationale for making the shift to global equities is to target higher returns over the long term and lower risk by diversifying investment exposures. Global exposure offers:

1. Access to global growth opportunities in industries under-represented in the local market of consumer goods, healthcare and technology **(table 1 below).** Iconic global companies include: Colgate Palmolive (tooth paste and shampoos), Unilever (washing powders), Samsung (mobile phones), Facebook (social media) and Alphabet (Google).

2. Reduced exposure to the narrow Australian market **(table 2).** The local market's performance is dominated by two large industries of Financials (38%) and Resources (20%). The big four banks are close to 30% of the benchmark.

3. Offset to a potential slowdown in the local economy by investing globally in countries **(table 3)** that are at different points of the economic cycle and have higher economic growth than Australia.

4. Diversify currency risk away from the Australian dollar. Global investing provides exposure to offshore currencies including the US dollar, European euro, Japan yen and Chinese yuan.

Investing in global companies headquartered in weak economies at first glance may not make sense. However, this provides the opportunity to invest in great companies at bargain prices as their revenues are sourced globally and are not dependent on the home economy's strength.

Global equities as measured by the MSCI All Country World Index returned 16.9% p.a., outperforming the Australian equities (ASX 300 index) return of 10.4% p.a. over five years to January 2017. All returns are in Australian dollars and unhedged.

Richard Dalidowicz
Senior Investment Consultant
Contango Asset Management Limited
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Contango Asset Management Limited
ACN 085 487 421
Level 27, 35 Collins Street
Melbourne VIC 3000 Australia
P +61 3 9222 2333
F +61 3 9222 2345
E contango@contango.com.au
W www.contango.com.au

contango ASSET MANAGEMENT LIMITED

Table 1: Industry Comparison Australia vs. Global

Industry	Australian Equities ASX 300	Global Equities MSCI ACW Index	Difference
Financials	37.8%	18.6%	19.2%
Materials	16.2%	5.3%	10.9%
Real Estate	8.4%	3.1%	5.3%
Consumer Staples	7.0%	9.6%	-2.6%
Health Care	6.7%	11.3%	-4.6%
Industrials	6.6%	10.6%	-4.0%
Consumer Discretionary	5.0%	12.1%	-7.1%
Telecom Services	4.2%	3.5%	0.7%
Energy	4.2%	6.7%	-2.5%
Utilities	2.6%	3.1%	-0.5%
Information Technology	1.3%	16.1%	-14.8%
Total	**100.0%**	**100.0%**	0.0%

Source: ASX and MSCI

Table 2: Stock Numbers Comparison Australia vs. Global

	Australian Equities ASX 300	Global Equities MSCI ACW Index	Difference
Number of Stocks	300	2500	-2200

Source: ASX and MSCI

Table 3: Country Comparison Australia vs. Global

Country	Australian Equities ASX 300	Global Equities MSCI ACW Index
Australia	100.0%	
USA		53.9%
Japan		7.8%
United Kingdom		5.8%
France		3.2%
Canada		3.2%
41 Other Countries		26.1%
Total	**100.0%**	**100.0%**

Source: ASX and MSCI

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