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CFA Event - Challenges, Opportunities and Insights on Public and Private Equity Key Takeaways

Members of the Pender team attended CFA Society Vancouver's event: Challenges, Opportunities and Insights on Public and Private Equity, on October 3, 2019, moderated by our own [Amar Pandya, CFA](#). Amar was joined by panelists Aaron Papps, CFA, Senior Portfolio Manager at the British Columbia Investment Management Corporation (BCI) and Tyler Mordy, CFA, President & CIO of Forstrong Global for their thoughts on the current state of private and public equity markets. Here are some of the key takeaways from their conversation.

Speculating on an imminent recession?

It's on everyone's minds right now so, not surprisingly, a key theme for the panel was a potential recession. Interestingly, the speakers had strikingly contrasting views. Aaron's thoughts on the current state of the public equity market were that "it's a crazy market. The last ten years have been the longest running bull market in history, and maybe something's gotta give.... it's simply not sustainable". From his point of view, a recession is imminent, but the severity and length of the downturn are largely unknown. More worrisome, he believes, is that the tools that governments implement during a recession are already in use. We are in uncharted territory. From his perspective, valuations for leveraged buyouts (LBOs) are at historic highs and so the margin for error is therefore very small.

Conversely, Tyler thought that psychologists might say that we've suffered from recency bias as a result of the global financial crisis of 2008 - overestimating that a recession will occur again but underestimating potential new scenarios. He thinks "this concept that we're going to suffer another global financial crisis just isn't rooted in the data". While Tyler believes there is a "massive bubble in fear", he does not believe there is a bubble in stock markets. Tyler said that we are more likely to see small resets as opposed to a full-blown recession.

We're monitoring the CNN Fear and Greed index¹ closely as it dips in and out of extreme fear. Geoff Castle, PM of the Pender Corporate Bond Fund recently said "I think if we do go into a recession in North America, as far as I can recall, this will be the most widely predicted recession that ever happened. Often these things tend to catch people by surprise, and yet you see it'd almost be the consensus that we're heading into recession."²

Standing out in today's competitive environment

Another significant theme was talk of standing out and finding success in the current competitive environment in both public markets and private equity. The panelists shared some advice on how to find value, even with high competition. Their recommendations included being more conservative in underwriting standards and trying to invest in strategies with less correlation to leveraged buyout activities, including investing in distressed debt and other special situations that most investors may find too risky or too hard.

A much talked about theme was the rotation out of active management and into passive management and whether ETFs are actually passive instruments. Tyler's view was that some ETF users now are in fact active managers who are seeking exposure to certain asset classes or industries, and this reinforced his opinion that ETFs are not setting the trends so much as they are structured to follow them.

The conversation also touched on investing in other geographies. Certain markets, like the US stock market, are very expensive, but globally there are pockets of opportunities in regions with less competitive valuations

¹ <https://money.cnn.com/data/fear-and-greed/>

² <https://www.penderfund.com/podcasts/episode-26-quarterly-fixed-income-update/>

including Asia, Australia and parts of Europe. Additionally, the panelists spoke of finding investment opportunities in the mid-market space and becoming more specialized in certain areas. Their last recommendation was one we believe in strongly at Pender – a focus on a long-term investment time horizon. We share our thoughts on this in our blog post: [The Underappreciated Value of a Long-Term Orientation](#).

Understanding negative yielding debt

CIO Felix Narhi wrote about “The Stranger Things happening to yield” in his [recent commentary](#) and it was a hot topic with this group as well. Clients looking for income and safety typically look to invest in fixed income, but that space, especially in Europe, can no longer provide income, with negative yielding bonds guaranteeing a loss if held to maturity (Geoff Castle also touched on the yield environment in his [recent commentary](#)). The panel recommended alternative strategies to provide better balance and portfolio returns included focusing on emerging markets and company valuations, as they are the best predictor of long-term results.

Private equity growth: doubling the pace of public equity

The discussion shifted to the growth of the private equity market, which has doubled the pace of public equity over the last decade or so. While it has generated more returns more consistently than public equity, it may not be sustainable. There may be a direct correlation to current fearful sentiment with investors remembering how portfolios were down an average of 30% across Canada as a result of the financial crisis in 2008. The panelists reminded us not to compromise on our investment standards due to market trends or the current focus on yield.

Navigating a choppy political environment

There is always something to worry about in the political environment, whether it is current issues like Brexit and trade wars, or the US-North Korea tensions of 2017. The key is not to let geopolitical issues and risks dictate portfolio decision making rather, to remain mindful of how your portfolio could be affected by those considerations. While uncertainty is high in the near-term, the panelists recommended taking a long-term view and investing in companies with domestic or globally diversified customers to alleviate that risk.

The topics covered and thoughtful conversation sparked numerous questions from the engaged audience. We are grateful to CFA Society Vancouver for hosting this event, and to panelists Aaron and Tyler for joining Amar and sharing their thoughts.

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