



**EPOCH**

Epoch Investment Partners, Inc.

GRANT SAMUEL  
FUNDS MANAGEMENT



24 August 2016

## MEDIA RELEASE

### **Active management key to long-term returns**

Speaking from New York by video link at the PortfolioConstructionForum Conference in Sydney today, Mr Bill Priest, CEO of Epoch Investment Partners said that active managers who focus on the short term negate the longer-term advantages of active asset management.

“While active managers may be under pressure from passive and low cost approaches, they must stay true to their long term strategies.

“Every investor is trying solve the same problems: to balance the competing needs of capital preservation and capital growth as well as finding recurring sources of after tax income,” he said.

Mr Priest is a co-founder of Epoch and is recognised as a stalwart of funds management, an industry he has worked in since 1965 – the year when the Dow Jones industrial average first crossed through to 1000. He has witnessed first-hand the many milestones and periods of extreme volatility in markets.

GSFM formed an alliance in October 2007 with Epoch to distribute Epoch’s investment products to Australian clients. Australian retail and self-managed super fund investors have invested over \$2 billion in the hedged and unhedged funds since the strategy was launched in Australia.

Mr Priest said: “Today’s investment environment perhaps presents the greatest of challenges in over 40 years as we work our way through the outcomes of the very unusual and extraordinary monetary policies that affect financial markets today.

“Quantitative easing (QE) has significantly altered the discount rate applied to all financial assets thereby causing a surge in values but with relatively little impact on the real economies in the world – the ultimate source of earnings gains.

“Active management can deliver positive risk adjusted return in the long run but it is never easy.”

He says there are three important ingredients that active managers need to succeed.

“Firstly, investment managers need to have a culture that is investment led and puts the client first. If the client does not win, the investment manager does not deserve to win.

“Secondly, they also need to harness technology in a way that aids human judgment. If you have an investment process that allows quantitative tools collect the dots - and an investment team that connects the dots – that system will be superior to either one on their own.

“The third essential is that research analysts and portfolio managers must adhere to a defined investment philosophy that is transparent and also meets the definition of a sound financial architecture.

“The key to understanding a company requires an understanding of the cash generating drivers of the business. Not a focus on accounting terms like earnings or book value.

“The important questions are how does a business generate its free cash flow, and how does its management allocate that cash for the betterment of shareholders.

“It is the ability to generate free cash flow that makes a business worth anything to begin with, and it is the ability of management to allocate that cash flow properly that determines whether the value of the business rises or falls.

“Accrual based accounting measures such as earnings and valuations metrics based on earnings simply do not provide the relevant information as to whether a company is successfully generating free cash flow and whether management is allocating that cash flow properly.

“If a company can invest - either internally or through an acquisition - and it can generate a marginal return on investor capital that is greater than its marginal cost of capital, then that investment will increase the value of the business

“But if the return is less than the cost of capital – making the investment actually reduces the value of the business – and management should return that capital to the shareholders via a cash dividend or share buyback or reduction in debt – rather than engage is supporting a bad investment.

“In today’s complex environment the business of protecting and growing capital and providing for recurring sources of income is very challenging.

“At the same time active management is under pressure today as never before, but with the correct culture and investment philosophy and by leveraging technology, active management remains central to helping investors obtain their goals,” Mr Priest said.

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To access the video presentation, please first log into your PortfolioConstruction Forum account, or sign in as media guest. Media registration is complimentary and takes only a few minutes: <https://events.brilliant.com.au/register/2016-conference/guest-media>

Once signed-in, you may view the presentation, here:

<http://portfolioconstruction.com.au/perspectives/active-managers-require-three-ingredients-for-success/>

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For more information please contact:

Damien McIntyre  
Phone: 03 9949 8852  
Email: [dmcintyre@gsfm.com.au](mailto:dmcintyre@gsfm.com.au)

*Grant Samuel Funds Management (GSFM) Grant Samuel Funds Management (GSFM) was established in July 2007 and is a subsidiary of the Grant Samuel Group, and co-owned by the executives of GSFM. Grant Samuel Group is an independent investment advisory house founded in 1988 and owned by its executives. GSFM specializes in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.*

*GSFM formed an alliance in October 2007 with New York based Epoch Investment Partners, Inc. to distribute Epoch's investment products to Australian and New Zealand clients.*

*In May 2008, GSFM acquired an equity stake in Tribeca Investment Partners, a successful Australian boutique manager which has been investing clients' funds since 1999.*

*In May 2011, GSFM formed a relationship with Payden & Rygel, a Los Angeles based independent investment management firm established in 1983, to distribute its global fixed income and absolute return strategies in the Australian and New Zealand market.*

*In early 2014, GSFM established a relationship with Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm based in Sydney. Triple3 specialises in volatility as an asset class.*

*GSFM currently represents over \$6 billion funds under management. For more information about GSFM please visit the website: [www.gsfm.com.au](http://www.gsfm.com.au)*