



**Greg Hopkins**

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## Introduction

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Greg is a CA (SA) and a CFA charterholder. He is PSG Asset Management's Chief Investment Officer.

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### Not yielding to the market cries

#### **A patient and cautious investment approach is appropriate under current market conditions**

When we comb the world for mispriced securities, we more often than not circle back to the same conclusion: numerous securities across a range of asset classes appear overvalued. Many investors appear to be ignorant to the risk they are taking in their portfolios and the real possibility of capital loss. Most concerning is the fact that we consider risk to be high in some of the asset classes where the lowest risk investors are heavily exposed, including government bonds and property. This is probably not a surprising outcome, given that yields on many securities are at generational low levels. We agree with notable value investor Seth Klarman when he says, 'we prefer the risk of lost opportunity to that of lost capital'.

#### **We always take a long-term approach and exercise patience**

Investors in our products will have come to appreciate that we always take a long-term approach when deploying our investors' capital and that we hold the virtue of patience in very high regard. Our process is characterised by long periods of inactivity and bouts of extreme enthusiasm and greedy buying. The latter occurs when quality assets go on sale or when distressed or forced selling results in a happy asymmetry in future expected returns, being limited opportunity for downside and very attractive upside. Over recent years, and despite being six years into a bull market, the market has fortunately provided us with good opportunities to lock in great returns for our investors without taking excessive risk. We have talked and written about some of these in recent publications and roadshows. We can still find exceptional, but selected, investment opportunities. In this edition, Lisa Haakman writes about one such opportunity that we have been exploiting in the global equity markets.

However, on balance, fewer securities have been passing our hurdle rates and we choose to rather wait for more fertile ground to sow the seeds of future wealth creation.

#### **Questioning the impact of rising yields in the context of an uncertain future**

In our investment meetings and around the coffee machine, we continually question what impact normalising yields will have on our portfolios. This is not about making a macro or top-down prediction but instead goes to the heart of what we believe is the essence of value investing – understanding what yields or future returns a security will generate compared to what a prudent investor ought to demand, given a range of uncertain future outcomes.

The impact of rising yields and constructing portfolios given uncertain future outcomes and scenarios are unpacked in more detail throughout this edition.

I hope you find it as interesting as our internal discussions have been.