Cidel Asset Management

cidel.com

Cidel International Equity Strategy

Q & A with Stephen Caldwell

By James Porter, EVP, Canadian and Institutional Business

Stephen Caldwell, FCA, CFA
Vice President and Portfolio Manager

Stephen Caldwell co-leads Cidel's International Equity strategy. Launching this strategy was a big step for Cidel and one that we are especially proud of because we developed it in response to client feedback. To help learn more about how this strategy works and Cidel's view on international investing, I sat down for a discussion with Stephen.

JP – Stephen, this is a new offering for Cidel. Since we already have an existing Global Equity strategy, could you tell me how the International Equity strategy is different? And also, how is this strategy a good match for Cidel's expertise?

SC – Through the Global Equity strategy, Cidel has demonstrated a high degree of success investing in global companies over the past 25 years. We have capabilities investing all over the world, including the United States, Japan, Mexico, Denmark, and beyond. The key difference between our Global and International strategies is the opportunity set of companies that an investor can access. Cidel's Global strategy has significant exposure to the U.S., together with the rest of the world. The International strategy, on the other hand, is focused on non-U.S. investments. More specifically, investments are made in Europe, Asia, Latin America and potentially other countries that we are comfortable with from a risk management perspective. In fact, one of the reasons we are so excited to be launching this strategy is that, historically, we have found some of our best investment opportunities outside of North America. While individual company names might not be as familiar, markets outside the U.S. are home to many exceptionally well-run companies that fit with Cidel's strict criteria – which includes strong cash flows, great management, competitive advantages in their markets, and potential for growth.

JP – There are many clients and investors who have a heavy tilt in their asset mix toward the U.S. This is commonly seen through shares and bonds, but often also comes from real estate and private business. For clients who have a lot of U.S. investments, how can this strategy help?

SC – The short answer is diversification, the ability to reduce the volatility of your total portfolio without sacrificing returns. Having said that, there are also other ways to think about this. Historically, we have seen better returns shifting from the U.S. to international markets and back again in quite regular cycles. Given the length of U.S. equity market outperformance and current valuation levels, it wouldn't necessarily be a surprise to see the mantle return to international stocks in the coming years.

JP – Are there any differences in the team's research approach with International and Global strategies?

SC – Not at all. The investment selection and portfolio construction are based on the same philosophy and process we've used successfully for a long time. While many individual stocks may be different, the rigorous vetting process will be identical – both for the companies and for the threshold level of governance standards of the markets where they trade. Given the common approach to portfolio construction and our preference for relatively stable dividend-paying stocks, we expect to shield investors from the full impact of weak markets, similarly to how we've managed our Global Equity strategy both historically and presently.

JP – Could you provide us with a couple of examples of companies that you and the team favour at present?

SC – In Japan, Olympus Corporation is an intriguing company. While it's best known for its range of consumer and professional cameras, the bulk of their profits come from medical devices – primarily flexible endoscopes for internal patient medical examinations. Olympus has a dominant market share of about 70%. While the growth potential from that market position alone makes for an attractive long-term investment, the company also has a lot of opportunity to boost margins towards its global peer group. Realistically, given the institutional biases of Japanese companies, it's optimistic to expect the gap to close completely, but even getting halfway there would result in dramatic profit gains. Recently announced changes to modernize governance at Olympus encourages us to believe we should see progress in this regard over the next couple of years.

Turning to Europe, a stock we are keen on is Dassault Aviation, a French company with two key businesses: fighter aircraft and business jets. The fighter aircraft business has a substantial backlog of domestic and international orders that will provide a very stable level of cash flow for the next several years. Meanwhile, the business jet industry is in the early stages of recovery after several lean years, making it one industrial market that's still far below a normal level of profitability. The company has a pristine balance sheet with a substantial amount of accumulated cash. These facts, along with a large stake in Thales, the French defence electronic systems firm, makes the value being ascribed to Dassault's fighter and business jet businesses dramatically lower than its peers. The company's management is shrewd and shareholder-friendly, and we expect this to be a very profitable investment over the next few years.

JP – Thanks very much Stephen!

For more information on the Cidel International Equity strategy, contact your Cidel Wealth Consultant.

April 2019