

Tuesday, 31 January 2012

## 2012 – a year for investment opportunity

Investors who do not come to terms with the changed economic and investment environment in 2012 are likely to miss out on opportunities, or put capital at risk, according to Australian Unity Investments' joint venture asset managers.

Australian equities manager Platypus Asset Management; international equities manager Wingate Asset Management; and fixed interest manager Altius Asset Management all agree that the economic, investment and financial world has continued to change over the past seven years and many rules that previously held true will need to be reassessed if investors are to see positive returns this year.

**Mr Donald Williams**, chief investment officer at Platypus, said that since the global financial crisis there has been a number of further shocks, including the current European debt crisis but he believes things are now beginning to look better for equity investors.

"The second half of 2011 was a very difficult time for equity investors. However, 2012 has already shown more positive signs.

"The data from the US is upbeat and we are about as certain as we can be that there will be no 'double-dip' recession.

"China's inflation appears under control and while the problems in Europe remain serious, it seems governments there are at last treating the issues with the urgency they need.

"At home, we think the Australian dollar (AUD) will remain uncomfortably high this year, and in the short term it could make new highs against the US dollar (USD), as it has already done against the Euro.

"This will continue to affect a number of industries directly and make USD/Euro revenue earners less attractive. The only positive to come from this is that the Reserve Bank of Australia (RBA) is likely to be more aggressive on rates to keep a lid on the AUD. Most of last year they were cheering on the AUD strength – now it is a policy problem.

"However, the RBA has done the right thing by cutting interest rates at the end of last year, and overall we believe the Australian economy is in a solid position.

"Our view is that the Australian market will stay relatively subdued for the next six months while overseas issues play out and Australian investors achieve a level of comfort with what is happening there.

"After that, and assuming there are no more major shocks to the system, we believe the market could end the year having overcome the 5000 point milestone," Mr Williams said.

**Mr Chad Padowitz**, chief investment officer at Wingate, agrees investors now need to take a new look at investment options and approaches they may previously have disregarded.

“It can be easy for Australian investors to dismiss international equities as too risky, too exposed to the downturn in the US and Europe, and look to the past 10 years’ subdued performance as justification.

“Certainly there are some serious adverse overseas considerations that must be taken into account. Global deleveraging is continuing – as it should, with debt having been built up for over 50 years in most developed countries that now needs to be repaid.

“Additionally, the risks from Europe have the potential to create a ripple effect around the world, in the same way the Lehman collapse did. Another failure by a major organisation such as a bank, or a major shift to the hard left – or for that matter extreme right – in politics could create global problems.

“But at the same time, many top tier global companies have good earnings and strong balance sheets, despite the difficult economic environment. Therefore they should be very attractive to investors, particularly because of the yield being offered on current prices.

“On top of this, many companies are buying back their own shares as opposed to over-investing in potential future growth, which by itself will create better returns for investors in those companies. Home improvement retailer Lowes is a good example of this,” Mr Padowitz said.

**Mr Chris Dickman**, senior portfolio manager at Altius, said bond markets are also an example of how many of the traditional axioms of investment markets no longer hold true.

“The exceptional level of interest in Australian bond markets by international investors and central banks surprised many investors in 2011, who did not expect our market to perform as well as it did.

“We believe this interest from off-shore investors will continue in 2012. The Fed has announced it will be keeping US rates at very low levels for the next couple of years. In this light, Australia continues to offer high yields compared to other developed economies, which will act as a magnet for ‘carry trades’.

“This is in addition to the benefits of being seen as a safe haven, having a relatively strong economy, one of a diminishing number of AAA-rated, and a hedge against the risk of a Chinese slow-down,” Mr Dickman said.

Altius also believes 2012 will see some positive activity in bond market issues, added Mr Dickman.

“Globally there is something of a log jam of issuers who have been waiting for the ‘right’ time to issue but at some point during the year they will simply have to push the button.

“The success of the Commonwealth Bank’s covered bond issuance, followed quickly by Westpac’s, demonstrates the appetite among investors for different types of funding. We think it is likely that corporates, who would usually have used bank loans for financing, will instead consider corporate bonds. This brings corporate bonds to the fore,” Mr Dickman said.

**Platypus Asset Management** is a boutique Australian equities manager with a specialist approach focusing on long-term growth potential, formed through a joint venture with Australian Unity Investments. Its investment approach focuses on companies that exhibit a track record of earnings and preferably dividend growth.

**Wingate Asset Management** is a joint venture between Australian Unity Investments and Melbourne-based Wingate Group. It is a boutique international equities fund manager with a large- company, value-based investment philosophy. Its investment process seeks to combine long-term capital growth with continual income generation.

**Altius Asset Management** is a boutique fixed interest asset management business, formed through a joint venture with Australian Unity Investments. Altius takes a diversified approach to fixed interest funds management, combining both credit and duration strategies, and seeks to optimise returns for investors in all market conditions.

**Australian Unity Investments** is the funds management arm of financial services, health and retirement living services provider Australian Unity. It has \$11.4 billion in funds under management as at 31 December 2011. Its investment approach is to use its established in-house expertise in property and mortgages while also forming joint ventures and strategic alliances with other organisations with specialist expertise.

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