

Talking investments with Jim Hall – Manulife Global Balanced Fund

So the Manulife Global Balanced Fund, we think is a great way for investors to get exposure to some of the world's best companies, while not just blindly following the crowd, while mitigating some of the risk by adding in a bond portion to the portfolio.

On the equity side, the way we invest money, as we've been doing for a very long time is what we call the "be boring, making money" approach to investing.

What this means, is investing in companies that have a return on capital that beats their cost of capital. We think this is a great way to invest money.

If a company itself can grow its wealth for shareholders, we think its stock price will follow over time. The value we provide is in investing this way consistently over long periods of time, day in, day out, no shortcuts, no exceptions.

Ya, often times the key to success in obtaining one's investment goals is to be able to sleep well at night. Um, and so that's the foundation of our investment process.

We make sure that we know what we're investing in and we're following in investment process and philosophy that's worked for decades; that enables us to stick to the game plan and that's the most important thing.

We do recognize, however, that there will be shocks and surprises along the way; which is why we look at companies under thousands of different scenarios, to see which ones would be resilient if it does turn out to be the downside case, while still doing very well in the upside case.

Then we put together portfolios of companies with these characteristics, makes the portfolios themselves resilient.

And it's this durability that allows uh, people to stick to the program. We have found that over time, if you're, consistently compounding wealth over time, it's a lot easier than if you're trying to jump in and jump out of wildly gyrating portfolios, and it helps you to sleep a lot better at night.

This fund is an unconstrained fund, meaning that we can invest anywhere in the world, in any size company, any industry. So we actually have no trouble generating ideas.

We get ideas from our investment team, uh, from quantitative screens, from sell-side analysts, from companies themselves, so we actually have no shortage of ideas.

The problem is actually narrowing down the ideas. We think the key to doing that successfully is being very clear about what kind of companies that you're looking for.

For us, it's very specific. We're looking for companies that can create wealth, which have excellent management teams and where the valuation is reasonable.

When that's, uh, that's what we're looking for, and once we've established that, we have both quantitative and qualitative ways to look for those companies.

On the quantitative side, we're looking for companies, uh, that have an excellent track record of creating wealth in terms of return on investment, where valuation in terms of multiples looks reasonable, and where the balance sheet is actually, uh, looks steady as well.

On the qualitative side, we also do screen, uh, looking at management, uh, how what has been their track record of capital allocation and what's the business model itself?

Is this the kind of business that we would be willing to invest in for a very long period of time?

And that's what we do, day in and day out, is looking, uh, across the world in, in all major markets for those type of companies and we have very disciplined way of filtering out the noise and finding what we're looking for.

We found that the best way to mitigate risk is to invest in good companies in the first place. If you invest in strong businesses, even if you go wrong about the timing or the price or the management teams, it's the business model itself that could bail you out and it gets you most of the way there in terms of managing risk - but we don't stop there.

We do look at management teams – um, we're very concerned about understanding how they themselves manage it, manage risk. Because they do manage risk at the operational level and at the balance sheet level, so that's the second line of defense.

The third line of defense is the price of the stock itself. So we look at stock prices under thousands of different scenarios; this enables us to build in a margin of safety in the companies that we invest in and to steer away from those companies where everything has to go right in order to justify the valuation.

The last line of defense is diversification. We know that there will be surprises out there, things that we didn't foresee.

So we do have limits, um, by stock and by industry in our portfolios. We found that sticking to these simple tenets of risk management has worked through all kinds of environments over decades.