Northstar launches global income fund

Patrick Cairns, CityWire SA Editor

The fund targets a yield of 4% in US dollars and stable capital returns equating to 1/3 of the risk of the equity market.

Northstar Asset Management has added to its suite of funds with a global portfolio that targets an income yield in US dollars at low volatility.

The Northstar Global Income fund, which is domiciled in Mauritius, will be benchmarked against the EAA USD Cautious Allocation sector, with a real return target of 2% over rolling three-year periods.

'We've always said that we want a limited fund range, rather than managing a huge number of different products,' portfolio manager Mark Seymour told Citywire South Africa in an interview. 'But we believed there was a gap in our range in that we only had one offshore offering, being the Northstar Global Flexible fund.

'We believe there is a gap for a fund that is lower risk, and that meets the requirement of an investor looking for something with a more stable profile.'

Seymour said that in order to meet its yield and volatility targets, the fund is likely to hold around 70% in fixed income instruments, 25% in equity, and 5% in commodities over time. This is based on Northstar's three-year risk and return expectations from these asset classes.

'We analysed funds across the cautious allocation sector and discovered that they cover a wide spectrum of risk,' Seymour said. 'There are funds that operate with a standard deviation of as low as 3%, and some as high as 10% to 11%.

'We wanted to create something that fulfils the need of a global investor that is looking for stable returns in US dollars. A large number of investors are looking for an offshore solution, but may not necessarily have the risk appetite for either a high equity flexible fund or a pure global equity fund. If you are close to or even in retirement, and you want a permanent offshore holding, you are probably looking for a 3% to 4% yield, with some capital growth.'

He added that 'we will be optimising for the best risk-adjusted returns and limiting the overall risk profile for the fund to not exceed one third of the equity market'.

Seymour said that 'an exciting problem to solve' has been identifying the kinds of assets to include in a portfolio of this nature.

'The characteristics of the equities we hold have to be different to a high growth portfolio,' Seymour said. 'We want to find companies with a high dividend yield, but also the fundamentals that lend themselves to stable capital appreciation over time.'

‘But if you screen just on dividend yield, you might find energy companies on massive yields, but you have no idea whether their balance sheets are going to hold up over the next five years. Other companies might have good fundamentals and good growth profiles, but they are not preoccupied with paying out dividends. As you start looking for higher yield, the profile of the company in terms of quality starts dropping off, generally speaking.

‘We don’t want to compromise on quality, but we want the high yield, so you have to do some smart screening. We have to look for interesting opportunities where companies have potentially been unfairly priced down.’ Specifically, Seymour is looking for companies trading on a 4% dividend yield – or 2% above the market – showing top-line growth, stable margins, steady free cash flow growth and robust balance sheets at valuations that meet the required rate of return.

At the moment, he is finding these opportunities in tobacco stocks, certain healthcare stocks ‘that have been priced for negative outcomes’, and a range of financials including Morgan Stanley, T. Rowe Price and Northern Trust.

‘There is not a lot of overlap between what we hold in this fund and in the Northstar Global Flexible fund,’ Seymour said. ‘British American Tobacco and some healthcare stocks do appear in both portfolios.

‘But we are stretching ourselves to think more broadly, which I think has been very healthy. We have been very focused on a certain segment of stocks that have high quality characteristics. We won’t drop that measure, but it’s been a challenge to find great quality companies, at a reasonable price, at attractive yields.’

The bulk of the portfolio is however currently in short-dated US Treasuries, where Seymour is able to pick up yields of around 5% on an average duration of just a few months. He will continue to recycle these holdings while these kinds of yields are on offer at the short-end of the curve, but anticipates that in time he will shift some of that into longer-dated bonds and equities.

‘At some point we will also look at corporate bonds, but at the moment I just think, from a risk-adjusted perspective, there are more interesting opportunities in the equity space.’

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https://citywire.com/za/news/northstar-launches-global-income-fund/a2420150?utm_medium=website&utm_source=citywire_za&utm_campaign=home-content-list-1&utm_content=international-south-africa-latest-news-list&utm_pos=1

NORTHSTAR

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