



Kieger – Thoughts from the Street

Morningstar Institutional

Conference 2017

‘Understanding why we own what we own and knowing how long to own it’: Fundamental investment concepts revisited and questioned in the city of the Tulip bubble

We attended the 7th annual Morningstar Conference 2017 from Mar 15th to Mar 17th in Amsterdam.

This is one of the few non-healthcare conferences we participate in, aimed for PMs. The topics were diverse – from a broad approach to value investments, to uncovering value in EMs, overcoming behavioural biases on one end of the spectrum to the concept of Active shares and how they correlate to fund performance, the notion of how risk management as a concept starts with being risk savvy etc., on the other end.

One of the most interesting sessions that we attended was the one hosted by the CIO of Morningstar, which was a compilation of the best of wisdom from very successful investment managers of the past few decades. The theme was on how portfolio managers overcome behavioural biases while investing. Ultimately, a PM is paid for the returns generated and as such subjective opinions do form a huge role; but where does that end and when does behavioural bias creep in? To address this, few core principles of investments were discussed.

Investors first, now and always: this principle is, not surprisingly, the very foundation of Kieger AG – offering highly customized solutions to meet our investors' requirements and ensuring every day of our work adds value to our investors.

Invest for the long-term: a well-known quote of Warren Buffett was used to drive home this point, that for outstanding businesses with outstanding managements, Buffet's **holding period is 'forever'**. While this may sound intuitive, we at Kieger AM – investing solely in Healthcare, believe in the value of investing in well run companies with strong managements, especially when we consider that many of the healthcare projects could be commercially worthwhile a decade after a project is launched and have a market life of decades beyond that.

Be driven by valuations: The core message here was that PMs need to know why we pay what we are paying for and dares managers to be brave to step in when stocks are on sale. The idea of value investing is to acquire more than what we pay for – a thought which resonated very well with the bottom up analysis and value ranges we at Kieger create for stocks in our universe.

Adopt a fundamental approach: This principle continues on the previous point on the irrefutable importance of deep-dive research and valuation models, and understanding fundamentals of company / industry / economy, all of which have a bearing on the value of a stock and on the direction of returns.

Strive to minimize costs: Very simplistically stated, but profound – as with any investments, the returns are uncertain, but the costs are not. Need we say more?

Build holistic portfolios: In a Healthcare dedicated fund like ours, we often face binary situations for which risk management is of utmost importance. In such situations, spreading the risk by building a holistic portfolio – which implies combining a portfolio with different drivers is the most scientific option. An interesting reminder for us was that simply holding more investments should not be the easy way to diversification and can never be true diversification. True Diversification can be achieved by investing in stocks which respond differently to the same drivers.

Stand-out for outstanding returns: The message was also a clarion call for PMs to have the courage to stand out, as the only way to achieve outstanding returns. And this can only be an outcome of thinking independently and formulating our own views.

Summary: Stick to core principles to help avoid the noise of the market

While many successful managers spoke about their individual experiences of managing assets and what helped them differentiate, the core message was always the same – consistency in approach, the ability to separate noise from true signals and the importance of disciplined investing as the way to generate sustainable returns over the longer term for our investors.

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