MARKET MOVER **BRENDAN MORAN**

Fund loves to profit by playing with emotions

Irish Life team pounces when investors let sentiment cloud their judgment. By **Niall Brady**

BRENDAN MORAN is head of equities at Irish Life Investment Managers (ILIM), leading a team that looks after actively managed funds. These include the Dynamic Global Value Fund, which invests in about 100 stocks and has €300m under management.

Investment philosophy

The fund has a value-based management style — seeking to exploit opportunities that arise when investors behave emotionally, leading them to undervalue individual companies.

"A value strategy is most appropriate if you have a reasonable time horizon," said Moran. "It involves buying stocks that are trading below intrinsic value and selling them when they hit fair value."

To be successful, value investors must know when it is time to dump stocks, as well as when to buy. "A strict sell discipline differentiates us from other value managers," said Moran.

"The risk is that managers develop an emotional attachment to a stock, which prevents them from selling even when the shares rise in value and the investment case plays out."

Performance

The Dynamic Global Value Fund has risen 60% since its launch in December 2008, compared with a 37% increase for the MSCI World index, against which the fund is benchmarked.

The fund has grown 9% so far this year, matching its performance benchmark.

Buying and selling

The growing middle class in emerging markets is creating opportunities for consumer-focused stocks in industries such as cosmetics, premium cars and alcoholic beverages.

"The luxury segment has rebounded, although stocks such as Daimler and Diageo have run their course in terms of value," said Moran.

ILIM invested recently in Avon, the cosmetics company that makes 55% of its sales in emerging markets, especially in Latin America. "The share price has been weakened by the dollar's strength — opening a value gap between Avon and premium cosmetics companies such as L'Oréal," he said.

Unexpected events such as the BP oil spill in the Gulf of Mexico can also create opportunities, allowing investors to buy into quality companies at substantial discounts to their true worth.

Moran: cautious on equities

ILIM used BP's problems to increase its holding in the oil giant. "Sentiment was so bad that at one point BP had lost over half its value," said Moran.

Similarly, the chaos caused by the Icelandic volcano in April allowed ILIM to increase its holding in Ryanair, which lost €50m because of the disruption.

Value investors can also profit from corporate restructurings, such as recent changes at Sara Lee, an American consumer goods company.

"It sold off underperforming divisions and the proceeds are being used to finance share buybacks and dividends, reducing the risk of the company making more bad acquisitions," Moran said. "The shares have rallied and we took the opportunity to sell."

Strong second-quarter earnings provided an opportunity to exit from some cyclical stocks too. "FedEx beat analysts' expectations as economic recovery boosted volumes, but we sold our position when the valuation reached the point where it was discounting a very strong economic recovery," he said.

Pharmaceutical companies are out of favour because of fears that earnings will be hit by healthcare reforms in America, austerity measures in Europe, the expiry of key patents and disappointing results from research to find new drugs.

Moran sees opportunities in Pfizer, however. "It's on a low valuation, with healthy dividends and cash flows," he said. "We believe the benefits from the takeover of [rival] Wyeth offset the effects of its cholesterol drug Lipitor coming off patent."

Outlook

Moran does not expect a double-dip recession, but predicts that growth will be sluggish.

"Our thinking has changed and we have turned more cautious on equity markets," he said. "Markets have shrugged off weaker economic data recently but it's likely that expectations will have to be lowered for earnings in 2011. Markets need to digest the recent rally before further gains can be made."