Good brands are not always good investments

By Grant Alexander, Director Private Client Holdings

Despite being one of the main drivers of growth and competitive advantage, brand value is often underestimated in the business world.

Brand value is what commands price premiums, customer loyalty and in turn, growth and superior investor returns. For this reason, positioning offshore portfolios to take advantage of investment opportunities presented by select global brands is key.

Interbrand's top 100 global brands list was recently updated and published. This report analyses how well brands contribute to the growth of businesses – from delivering on customer expectations to driving economic value. The ranking not only focusses on the financial performance of brands, but also on the influence these brands have on consumer choice.

Interbrand's 2016 report named Apple, Google and Coca-Cola as the three most valuable brands. Some notable new entrants into the top 100 list include Tesla and Dior, entering at number 100 and 89 respectively.

The top growing sector on Interbrand's list is retail, represented by Amazon, eBay and IKEA. Amazon is the number 8 ranked brand and one of this year's top growing brands. One trend is common among those that did well - they speak to the needs of the growing trend to shop online.

However, good brands alone are not always indicative of good investments and when companies like Private Client Holdings construct portfolios such as the PCP Offshore Equity portfolios the strategy includes a sizeable exposure to top global brands, currently including the likes of Apple, Diageo (Johnnie Walker), Walt Disney and Nestlé. We make use of proprietary quantitative metrics to evaluate parent companies of top global brands. The quants model includes quality, value and momentum factors, which are valuable predictors of future performance. So it is not just the brand value that counts – we have to take it a step further to generate alpha for our clients.

The brands carve-out is blended with a low cost smart beta strategy and select global opportunities, which fall outside of the top 100 brands list. This derives improved risk-adjusted returns, and allows for the inclusion of a small exposure to alternatives such as private equity.

The Private Client Portfolio offshore equity portfolio (PCP Offshore Equity) delivered a 9.4% cumulative out-performance over the last five years compared to its benchmark. On an annualised basis, this portfolio delivered 11.9% per annum in US Dollar terms over the last five years.

This portfolio's objective is to provide long-term capital growth through a diversified portfolio of globally listed shares and Exchange Traded Funds. The portfolio aims to outperform the MSCI All Country World Index over the medium term, assuming an above average level of risk in the short term.

For more information contact PCH on 021 671 1220 or email Grant Alexander (Grant@privateclient.co.za).