IMAP Independent Thought Podcast

Episode 39: Holding Your Nerve in Narrow Markets

Delian Entchev & Alasdair Kingham from Aoris Investment Management join our host Emily Barlow (Perpetual Private) to discuss International Equities:

- **What's Driving Markets**
- **Aoris's Lens on Quality and Valuation**
- **Where Aoris is Finding Value**
- **Investor Behaviour and Outlook**

Aoris Investment Management are the winners of the 2025 IMAP Managed Account award for International Equities

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Emily Barlow – Perpetual Private

Hello and welcome back to the IMAP Independent Thought Series podcast.

I'm Emily Barlow, Investment Director at Perpetual, and today we'll be talking about international equities.

With market concentration intensifying, geopolitical tensions, uneven earnings, and bouts of volatility, investors have been kept on edge over the course of 2025, making the question of where to from here? especially topical.

Joining me for today's discussion are Delian Entchev, Portfolio Manager, and Alasdair Kingham, Senior Analyst, both from Aoris Investment Management, a high conviction, quality-focused global equity manager and recently recognized as the winner of the 2025 IMAP Managed Account Award for International Equities.

Welcome, Delian and Alasdair, let's start by setting the scene.

As I mentioned in my introduction, global equities have had a mixed year.

Delian, how are you thinking about the current market environment?

Delian Entchev - Aoris Investment Management

Yes, look, as you've no doubt read about, Emily, the performance of global share market indices has been unusually concentrated the last 18 - 24 months into a handful of large tech companies.

You might call them the AI winners.

Meanwhile, most businesses that haven't been judged AI winners, have been left behind. And particularly relevant for our fund, the quality businesses.

So, if you look at the MSCI Quality Index, it is underperforming by the widest margin since the inception of the index 15 years ago. So, there's this disparity between the haves and the have nots. But as with any year, market sentiment can shift. It ebbs and flows.

At a point in time, certain stocks are more in and out of favour. Our eyes on the long term. And in the long term, we believe share prices should follow earnings. On that note, the fundamental picture looks quite strong. So corporate profits as a percent of global GDP are near all-time highs.

Many companies are delivering good earnings growth in the current September 2025 quarter reporting period. So, we feel good about the fundamental growth and value of most companies we're looking at.

Emily Barlow – Perpetual Private

And Alasdair, Aoris describes this philosophy as quality first, value aware in a world where returns are being driven by that very narrow part of the market that we've just been talking about. And some of the strongest gains are in fact, coming from unprofitable or even no revenue tech companies. How are you thinking about quality and valuations in a rally that seems to be rewarding momentum and speculation?

Alasdair Kingham - Aoris Investment Management

Yes, that's a good question, Emily. And during times like this, we really try to make sure we route back to our fundamental process, which is rooted in the earnings growth of our businesses. As Delian said, over the long term, share prices follow earnings. And so that's where our focus is on the earnings power and durability of our businesses.

We think that there is always going to be periods of exuberance or despair in markets. We really try not to get caught up in that. We target returns that are say 8 to 12%, and most of that comes from the value of our businesses growing over time as their earnings grow.

We want to find the businesses that grow slightly faster than average, but in a predictable and durable way. And that doesn't necessarily change, depending on how the markets uh are going. Sometimes we have more opportunities when the markets are maybe in despair, and sometimes less when they're exuberant. But our focus remains on finding these underlying businesses that can durably and predictably grow earnings faster than the average.

There's an interesting analogy here, which I think some have drawn to the dot-com boom. And it's not that the internet didn't eventually live up to its promise. It absolutely did and changed our lives in in many ways.

But that doesn't also mean that these stocks were all good investments. And I think Cisco still hasn't made back its all-time highs from that period.

I guess the challenge with the current AI spending is there's no doubt that Nvidia's built a very successful franchise and on the back of decades of investment into their chips and software.

But this is still a really fast-moving market, and it's really hard to look forward five to ten years with confidence, that they'll still be the leaders in this market. Right now, there's a lot of market valuation and sentiment pinning hopes on a few select businesses which have quite a wide range of outcomes and a lot of uncertainty associated with that growth expectation.

Emily Barlow – Perpetual Private

And Delian, are you finding it harder to find good opportunities or are volatility and dispersion creating opportunities?

Delian Entchev - Aoris Investment Management

It's interesting. You might not think it, but I think active managers should embrace volatility. It presents opportunities for us. And I was actually running the numbers on this the other day. If you look at the S&P 500 companies today, and over the last decade, if you take the median difference between their high price and their low price in a given year, there's about a 50% dispersion in performance for the biggest companies in the world.

So, you don't have to be turning over rocks in these small companies to make good returns. And I think there's all these opportunities out there. And of course, it helps that at least in our fund, we only have to find 15 great ideas, rather than 100 or 200 great ideas. And naturally, the more ideas you need to find, then the more you have to compromise on either quality or growth or valuation.

So, I feel pretty good that we can find 15 high-quality businesses trading at a discount to what we think they're worth. But if I had to may be find 100 of those in the current environment, I might struggle.

Alasdair Kingham - Aoris Investment Management

For what it's worth, our current portfolio and also our watch list is actually trading at a larger discount than average. And we think part of that is because as Delian mentioned, quality seems to have underperformed recently. And so, we've actually seen quite a good number of opportunities as a result.

You're absolutely right, Emily, that in any concentrated portfolio, there'll be periods of ideas. And at the end of the day, fund managers, they charge a fee for their services. And it makes it very difficult to outperform your benchmark if your portfolio looks like the benchmark because your fees from day one drag on your returns.

And I think a lot of asset owners, (we're hearing this from our clients), they also don't want a high degree of overlap between the holdings of their managers.

That introduces correlation risk in their portfolios, especially when the markets themselves have become quite concentrated. So, I think there's a good place in portfolios for concentrated portfolios that have a proven record of outperformance and offer something different to what's out there.

Emily Barlow – Perpetual Private

And sticking with the strategy, you typically are holding companies for years rather than quarters, right?

You're a long-term investor, not looking to turn over portfolios quickly. And with that in mind, are there businesses or themes that are looking particularly compelling in the current environment?

Alasdair Kingham - Aoris Investment Management

Yes, certainly. One area in particular that we like, are businesses that provide essential products and services that make their customers more efficient.

One reason we think this is particularly important currently is for all the talk of AI, perhaps, impacting white-collar jobs, there's a lot of labour shortages in other parts of the economy. And a lot of it's driven by long-term demographic trends.

For example, globally, the number of people aged 65 plus outnumber the number of children aged under 5.

And in 20 years, they'll outnumber people aged under 18. And so, it creates a real demographic headwind to the labour market. And so, these businesses that are able to make customers more efficient and make businesses be able to do more with less, we think are really well positioned.

We spoke to a US rental company, for example, who mentioned that for every 7 skilled tradespeople that are retiring, only one is being trained up. And you hear that across industry. So, we think businesses that are able to provide services that fill that gap are really well positioned.

So outsourcing services is one area that we like. It's interesting, they often benefit from scale advantages, which they then share with their customers so they're able to provide a service at a lower cost, and also take the burden of that service away from their clients.

A really good example is Compass. They're the largest catering company in the world. If you go to a Google office, they'll be the ones serving you your food.

If you go to the Australian Open, they'll also serve your food. So as the largest, they have lots of procurement advantages, and they can actually provide the service at a 30% lower price than say Google could themselves. Plus, they take that burden of hiring procuring, operating the food, the catering facility away from the customer. So that's a really good example of a place we like to be.

Another area that we've increased our exposure to, (not due to a top-down views), is the UK. We've increased the number of UK holdings in our portfolio over the past 18 months. They're all global businesses with leading positions in their market.

This is not a top-down view on our thoughts on the UK. It's more the fact that we've recognised and found these high-quality businesses, and they were trading at attractive valuations. So yes, the past 18 months we've increased our exposure to UK businesses.

Delian Entchev - Aoris Investment Management

You touch on an interesting point, Alisdair, around demographics. And I'm sure we're reading a lot in the press about this desire for the US to onshore manufacturing to become more self-sufficient in many industries that it had previously outsourced to low-cost countries. What we're hearing is that that this will create demand for a lot of jobs, (is the theory).

But today there's a shortage of 250,000 manufacturing workers in the US already, let alone having the skilled workforce needed to operate factories, and the factories of today are very different from those of 10, 15 years ago.

They're more automated, you need more skilled technicians running this equipment.

So there's a really challenging labour environment, and the hope is that AI can help us maybe navigate some of these challenges, but otherwise I think companies will lean more on their suppliers and outsourcing partners, uh, at like the ones Alice Dem mentioned uh to help share the burden.

Emily Barlow – Perpetual Private

Delian, you mentioned factories and AI. My understanding is they're now dark factories up and running in parts of the world like China. Is that something that you've looked at?

Delian Entchev - Aoris Investment Management

Yes, it's quite interesting. Just as an aside, my father works in warehouse automation, so he helps companies like Woolworths and Amazon automate their warehouses. And a lot of these facilities now might have one or two people in a football-sized warehouse just basically monitoring the machinery.

Otherwise, they run 24x7 and there's robots zipping up and down and working by themselves. So, it sounds a bit futuristic, but it's already happening. And maybe that's the sort of environment we need if we're short-on skilled people.

Emily Barlow – Perpetual Private

Taking a slightly different direction, again, we've talked about concentration, and that leads on to a conversation about risk. And particularly for a long-term investor, is volatility value discipline or something else entirely from a risk perspective feeding into your portfolio construction process?

Alasdair Kingham - Aoris Investment Management

Yes, I think so, we view ourselves as having a very risk-first approach. A large part of our success, we think, is going to come down to avoiding disappointed outcomes, and we often classify that as avoiding the bottom 20% of the market.

But in saying that, we don't view share price volatility as risk. I think volatility, (as Delian mentioned), often presents opportunities. And it's also just a fact of life for active investors or for any investors in the share market.

Our main priority and where we spend our time is on the volatility of earnings of our businesses. So, we want businesses that have low volatility of earnings. One way that we implement this risk-averse approach in practice, and to help us avoid the worst outcomes is by simply avoiding sectors where we think they're more likely to occur.

That includes natural resources, banks, pharmaceuticals, and even utilities. So, any businesses where we think the externalities matter, we look to avoid.

For natural resources, for example, commodity prices are really important to their revenue. And we don't think we have an edge or an ability to forecast commodity prices. The risk of a disappointed outcome is higher there. And therefore, we simply avoid sectors like that.

The other thing we do to mitigate the risk of, as Delian mentioned, we've got 15 stocks, but we feel we get diversification through the revenue exposure of our businesses.

So, we're always looking for very broad businesses that their success isn't dependent on a single geography or a single product. They've got, as Steve likes to say, their three-legged stools, and we think that really helps us avoid the disappointed outcomes as well.

Delian Entchev - Aoris Investment Management

Back to the topic of the episode of international equities. An interesting point is that of many of the sectors that dominate the Australian share market include banks, mining companies, and a lot of utilities. Over a very long term, let's say 10 years plus, those industries deliver very poor economic returns. And for different reasons. It might be because they're highly regulated, it might be because they're a large amplitude of cyclicality for the businesses, and that tends to bring out the worst behaviours.

Managers get overconfident at the top of the cycle and make lots of big value-destroying acquisitions, and then in the reverse, when things don't go to plan, they're panicking and cutting costs and raising equity to get things back on track.

So, there's just this wealth of opportunities in international markets, and we get exposure to businesses that are much more resilient, competitively stronger, and they're global leaders in their field. We've just got a much larger hunting ground than what you find in Australia. And in the Australian market, there are of course, a handful of great companies. I'm not saying there aren't, but they also tend to be valued commensurately. There's a scarcity factor. So, we feel good about the space acclaim.

Emily Barlow – Perpetual Private

Alisdair, I just want to pick up on a point that you made around externalities, and not wanting to be driven by that. Are environmental social factors something that feeds into your process as well.

Alasdair Kingham - Aoris Investment Management

Yes, it is. We naturally avoid natural resources and things like that. Meaning we screen well on an EST perspective, but we also do have as part of our process for example, governance is extremely important as shareholders. We avoid companies that have too much exposure to defence, avoid gambling, tobacco companies. So yes, companies where perhaps regulation matters as well, we look to avoid, and as part of that, ESG is a big factor.

Emily Barlow – Perpetual Private

Thanks so before we wrap up, I want to touch on where we think markets are going, and looking into your crystal ball. So, Delian, if we start with you, are you optimistic as we look forward into 2026, or does the current environment call for more caution?

Delian Entchev - Aoris Investment Management

So, this is something that's actually quite dear to my heart as a question, which is I think it pays to be an optimist as a long-term investor.

Remember, you're investing in the future of the businesses you own. So, you'd hope it's a good one. And every year has its challenges. This year, maybe it's tariffs, and last year everyone was worried about the US election, and the year before that it was Fed rates and supply chain shortages and Ukraine war and pandemics and so on.

But I think good businesses find a way to deal with challenges effectively, they just get on with it. And long-term investors need to be able to stay the course through the inevitable setbacks. What makes this challenging is the mainstream media, that negative news sells best, and half the time you read the paper, you think the world's ending. So, investors need to be able to tune out the noise and focus on the long term.

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And if I look at our portfolio and how our businesses are performing fundamentally and may be the share prices that have lagged the earnings, I feel optimistic that value gap might close over the coming few years.

Emily Barlow – Perpetual Private

And Alisdair, what do you think will define successful investing in international markets over the next few years? Is it patience, perhaps selectivity, or something else?

Alasdair Kingham - Aoris Investment Management

I think that successful investing, whether it be international or not, often comes down to attributes that help you make sound judgments, ideally as free as from bias as possible.

So, I think one attribute that help that helps with that is making sure you remain humble. It's a very tough job, and you've got to have a real balance of maintaining conviction but also being humble enough to change your mind if the facts change or if you're proven to be wrong.

I think the other attribute is being patient. There's a well-known UK fund manager that makes a good analogy with the Tour de France. The winner of the yellow jersey may not actually be the one that wins the most stages, but it's often the one who definitely avoids the disasters of crashing out the back but is always in the top sort of quartile or half of the Peloton.

We view fund management in a similar sort of way. We're probably not going to be the top performing market fund every single year. But if we avoid those disappointing outcomes, and if we're consistent in our in our performance and being near the top year after year, I think over a 10-year period, you'll probably end up with a pretty good outcome and have a pretty good chance of success.

Emily Barlow – Perpetual Private

Unfortunately, we're out of time. That's been a really thoughtful discussion.

We've covered the narrowing of global markets, the meaning of quality and value discipline, and how long-term thinking can help investors stay anchored amid volatility and uncertainty.

A big thank you, Delian Entchev and Alisdair Kingham from Aoris Investment Management, for joining me and all of you for listening.

If you enjoyed this episode, please share it with your network and subscribe for more conversations on advice, markets, and portfolio construction.

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