Global Matters Weekly

23 May 2022

Belvest 研富

Definitely Maybe

by Richard Parfect

In our industry there is often a level of expectation placed upon fund managers to fully understand everything that is going on and, worse still, to have Sage like skills in predicting the future. This pressure is heightened should the unfortunate individual concerned be in the public eye or rolled out in front of the media to give comment on events. Of course, the investment industry is not alone in this.

When someone is interviewed on the premise of being an "expert", I am reminded of Michael Gove who commented in the lead up to the Brexit vote in 2016 who said, "I think the people in this country have had enough of experts..."

Recent tragic events in Ukraine have illustrated in depressingly graphic detail how badly "experts" can get it wrong. From the governments and their agencies who were convinced with all certainty that Putin could be contained through economic cooperation; to the armchair commentators who (so far falsely) predicted Ukraine would be defeated within a few weeks; we have seen how the "known unknowns" are often beyond the analytical skills of even the most informed.

Over confidence in the prediction of something positive or negative is an easy trap to fall into - as they say, "a little knowledge is a dangerous thing". Such excessive conviction is what leads towards the mispricing of assets that we seek to exploit. One such example is an investment that we have to admit to having got partly wrong prior to COVID, but in more recent times has defied market expectations and added value to our portfolios:

We have been investors in two aircraft leasing vehicles, which without going into too much detail have two key components to them: a lessee in the form of Emirates and physical assets in the shape of a portfolio of A380 "super jumbos".

Entering a global pandemic with such an asset was admittedly painful (but not excessively so as we are careful with sizing our investments). Despite aviation shutting down, the high-quality counterparty of Emirates came through, as they continued to pay their lease obligations, consequently we received our contractual income on time and in full. Meanwhile, turning to the physical asset value, industry "experts" had professed with complete certainty that the pandemic was the final nail in the coffin for the A380 and that all operators would retire them as soon as possible.

Fast forward to this year, and despite a war waging in Europe (which one would ordinarily expect to bring aviation to a halt), airlines are struggling to keep up with the level of demand for air travel. They are rushing to reactivate their fleets to enable travellers to reconnect with the world. Of greater concern for Emirates is the protracted delays to the certification process and deliveries of the new Boeing 777x (the purported successor to the A380) and the technical problems befalling the relatively new Airbus 350. The result of these problems with new aircraft means the embedded fleet of A380 aircraft will be crucial to Emirates for many more years to come. Furthermore, other airlines that declared they were to retire their A380s have reactivated them for similar reasons. The result for us is that we received a high level of income from the vehicles through the pandemic and their capital value over the last six months has been strongly positive whilst other "risk assets" have fallen in value.

The moral to all of this is that valuation continues to dictate returns and that the nearest we can get to certainty in investing is, with apologies to Oasis, "Definitely Maybe".

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Important notes