

Renaissance Global Markets

Morningstar Quicktakes™ Report

Philip Lee
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We are excited about this 2-star fund's facelift.

[Editor's Note: On Aug. 17, 2007, Renaissance Global Opportunities merged into Talvest Global Markets, which was renamed Renaissance Global Markets. This report was written on Talvest Global Markets prior to the merger.]

Since its 1992 debut, Talvest Global Markets has been a consistent underperformer in the Global Equity category. However, we think the fund's future brightened up considerably in October of 2006 when it enlisted the help of reputable manager David Winters and his New Jersey-based firm Wintergreen Advisers, LLC. We think his focus on risk mitigation and his proven downside performance make this a top-notch offering in the category.

The fund's previous mandate didn't give it much of a chance to outperform its peers and the benchmark MSCI World Index. One important reason was its management-expense ratio, which has averaged roughly 2.7% over the past six years. Also, the fund aimed to beat the index only by making relative bets on country weights through investments in options, futures and forwards that provided exposure to regional stock market indices; this restricted the potential to add relative value. When Winters took the helm, he was given the flexibility to invest globally in any asset class and in any market capitalization. He can also invest in securities of distressed companies and those that are going through a merger or restructuring, but only when the risk-to-reward trade-off is attractive.

While giving a manager such freedom can be risky, we expect that Winters will only consider buying securities that are cheap relative to his estimate of fair value or sit patiently on the sidelines with cash (as he has done in the past) rather than risk a large permanent loss of capital.

Mutual Beacon, a fund he managed for over six years from November 1998 to May 2005, benefited from his prudent strategy, particularly during the bear market from mid-2000 to 2003. Winters positioned the fund with significant cash levels (over 30%) and primarily stuck to defensive stocks that produced strong cash flows, such as tobacco companies British American Tobacco and Altadis SA. This helped it mitigate losses and produce a cumulative double-digit gain while the global markets struggled severely.

We also like that Winters invests with a long-term mindset and only owns companies with long-term merits. He made Hong Kong-listed Shun Tak Holdings Ltd. a top-10 holding because he was confident that it would continue to successfully develop its land assets in Macau -- the only place on the Chinese mainland with legalized gambling. While he calculates that the company is undervalued now, Winters believes that its greatest value will be realized with Macau's long-term development.

Investors can expect the fund to exhibit short-term return volatility, especially when the fund's holdings fall out of favour in the marketplace. However, this isn't necessarily a bad thing because we expect Winters to take sentimental price fluctuations as potential buying opportunities, which would bode well for unitholders over the long haul.

Morningstar Rating ★★

(as of 30 Jun 07)

Strategy

Manager David Winters uses a bottom-up strategy to identify securities that are trading at steep discounts to his estimates of intrinsic value. Depending on the specific risks of a potential holding, he can look for a discount in excess of 30%. Companies in which the manager invests typically generate strong free cash flow and have management teams that have proven their ability to bolster shareholder value over the long term. The manager will invest the majority of the fund's assets in 20 names he deems attractive. To avoid permanent losses of capital, he invests in securities that have a significant margin of safety.

Management

David J. Winters is the founder of Wintergreen Advisers, LLC. Prior to founding the firm, he held various positions at Franklin Mutual Advisers, LLC, including president, chief executive officer and chief investment officer. His firm also manages the U.S.-sold Wintergreen fund, which has roughly US\$900 million under management. The firm manages over US\$2 billion in aggregate.

Kudos

- ▶ Winters has shown an ability to handle bear markets relatively well with other mandates, which should bode well for this fund in the event that global equity markets falter.

Renaissance Global Markets

Of Note

- ▶ The fund is in the process of being merged with Renaissance Global Opportunities; the continuing fund will be renamed Renaissance Global Markets with Winters as its manager. Prior to the merger, the terminating fund will be restructured to resemble Talvest Global Markets. As a result, there will be no merger-related transaction costs borne by investors of this fund. Also, we don't expect the combined fund's asset size (roughly \$200 million) to negatively impact Winters's investment strategy.
- ▶ While the mandate allows Winters to invest in distressed debt and merger arbitrage opportunities, there are currently no such securities in the portfolio.
- ▶ Winters tactically hedges the fund's foreign currency exposure. Currently, only about 30% of the exposure is hedged because of the Canadian dollar's substantial appreciation over the past few years.
- ▶ Winters prefers to run a fairly concentrated portfolio; the top 20 non-cash holdings represented 61% of fund assets as of March 31, 2007.

Question Marks

- ▶ The fund's 2.72% management expense ratio is higher than roughly 60% of the funds in the Global Equity category. Going forward, we would like to see the MER decline as the fund's assets increase.

About the Author

Philip Lee is a fund analyst with Morningstar Canada. Prior to joining Morningstar, he was an analyst at a pension trust fund and performance analyst at the asset management arm of a leading Canadian institution. Philip earned a Bachelor of Arts (honours) degree specializing in Economics from the University of Toronto. He is a CFA charterholder and holds the FRM designation.