

Onwards and upwards through volatile markets

Following a busy year filled with geopolitical and economic uncertainty, navigating the financial markets requires foresight and experience. **Jesmond Mizzi**, Managing Director at Jesmond Mizzi Financial Advisors Ltd, opens up to **Helena Grech** about the challenges 2019 brought, as well as his view on the road ahead.

In a year that saw the US and China impose tariffs worth billions of dollars against each other, the Brexit vote delayed three times and global geopolitical tensions unfold, one could be forgiven for thinking that investors experienced a turbulent year in the financial markets.

Managing Director of Jesmond Financial Advisors Ltd - a company that offers investment and wealth management services to both private and institutional clients - Jesmond Mizzi, sheds light on how the volatility experienced actually led to clients having a positive year as it brought about opportunities amid the challenges.

On the local markets front, he remarks that the Malta Stock Exchange had a positive year, "particularly on the equity side but also on the bond market side," in line with general global trends.

"The local investor is still very focused on new issues to the market. As is typical for Malta, only a few equity issues were brought to market, whereas more issues were launched on the corporate bond side, which are very popular with the Maltese investor."

Zooming out on the global picture, Mr Mizzi recalls the final quarter of 2018, when the markets had turned negative. "We were expecting interest rates to go up, particularly in the US, which caused havoc in the markets and caused a big shift downwards."

As 2019 began, Mr Mizzi explains there was a shift in the expectation of where interest rates were going to move. "It has been a year during which we saw the US Federal Reserve push down interest rates. The US is led by a very forceful President who is either influencing the Federal Reserve directly or is making other decisions that will influence it anyway, such as through the trade war with China."

He stresses that this has been the most fervently discussed financial news item throughout the year and that President Donald Trump's decision to "take action" against China in the form of tariffs left the Federal Reserve no option but to shift its position on the lowering of interest rates. "Rightly or wrongly, the markets were happy about it. However, the cautious investor who is leaving money in the bank is being squeezed, as interest rates will remain low for the foreseeable future."

He highlights that "people who thought this year would be a bad one due to various factors, obviously lost money. If you left



Photos by Inigo Taylor

Photos by Inigo Taylor

"Because we are strong believers in the fund business, we also have access to third-party funds and that provides peace of mind to underlying investors that they can rely on us to select bonds and equities, as well as third-party funds."

your money in a bank account and delayed your investment decision, you clearly lost a good year.”

Reviewing the effect of international events closer to home, Mr Mizzi showcases his firm's ability to plan ahead and provide a measured approach to uncertain developments. He observes that the several Brexit delays over the year and the looming UK general election “play into the investors' hands”. He says that “by and large, notwithstanding this uncertainty, markets were still up.”

As the first Brexit deadline approached in March, the company launched a Sterling Hedged Share Class of the Merrill High Income Fund which aims to allow investors who are long Sterling to diversify their portfolio by investing in a fund with a wider sectorial and geographical exposure. “This is how we manage our business in a dynamic way to actively provide the opportunity for further diversification on an international level,” said Mr Mizzi.

Mr Mizzi believes that 2019 will act as “a good base to move forward for another challenging year, especially within the regulatory aspect.” He laments that the situation is constantly changing, however, concedes that higher demand from regulators forces businesses such as his to remain effective and provide a good quality of service, to both current and new clients. He adds that a focus on technology and the business model in general will serve to maintain and improve efficiency.

Asked about challenges for investors, Mr Mizzi says that the most difficult aspect is how to administer funds, particularly in relation to smaller clients. “The compliance work needed today to retain a client are significant, both in terms of anti-money laundering (AML) and the Markets in Financial Instruments Directive (MiFID). In this regard, we are moving towards the direction of giving investors the possibility to buy investments online and consolidate their holdings.”

He observes that Maltese investors have a tendency of using a few firms, maybe four or five, to carry out their business with. “I think this will have to change and investors will have to choose one company in order for the work to be viable for both the investor and the financial advisor.”

Moving onto funds being managed by his firm, Mr Mizzi speaks about the past three years during which the company's Merrill funds “witnessed steady growth with total assets under management now reaching close to €115 million.” He explains that the first sub-fund launched, the Merrill Total Return Income Fund, had a specific mandate for a specific institutional investor. “The aim was to have 70 per cent invested in bonds, 30 per cent in equity and no parameter on where the fund should be invested, whether locally or overseas.

“The Maltese are changing their thinking to be more in line with trends overseas and are looking for further guidance from their financial advisors on how to manage family wealth and plan for succession.”

On the bond side of the investment, with the exception of 15 per cent, which can be invested locally where bonds have no rating, the remaining percentage is always invested overseas in investment grade bonds.”

He explains that for both bond and equity investments, the financial advisors can invest up to 35 per cent in third-party funds. “Because we are strong believers in the fund business, we also have access to third-party funds and that provides peace of mind to underlying investors that they can rely on us to select bonds and equities, as well as third-party funds, which have the same aim of what we are looking for in a particular period in time. Clients are effectively gaining the experience of Jesmond Mizzi Financial Advisors but also have exposure to very large funds managed by international companies of high repute.”

Mr Mizzi proudly remarks that the Total Return Income Fund today has a four-star rating by Morningstar, “it has surpassed the three-year mark and is performing very well.” He goes on to discuss the launch of two funds in 2017: the Merrill High Income Fund and the Merrill Global Equity Income Fund. “We knew the high-income fund would attract most business as the Maltese tend to focus on income, so many invest in bonds.” He adds that, in this regard, the company tries to adapt and change the mindset of investors by investing 85 per cent in bonds and 15 per cent in equities. “We believe that all portfolios should contain equities,” he says. He observes that balance is achieved by investing in a combination of slightly riskier bonds as well as investment grade ones, adding that, in this way, the value of the fund remains as stable as possible.

Just a few weeks ago, Merrill SICAV launched the Merrill Strategic Balanced Fund. Mr Mizzi highlights that it is a different type of investment, predominantly in direct bonds and equities. “It will be more balanced, with no specific targets in mind but will have a larger proportion of bond investment than shares. It is a US dollar denomination, and we kicked off with \$10 million, having now reached \$15 million within a month. We believe this could be another way for local investors to diversify between Euro, Sterling and Dollar.”

In addition to fund management, Mr Mizzi shares his approach when developing different aspects of the business, from managing family wealth to institutional clients. Homing in on family wealth, Mr

Mizzi observes that the Maltese are changing their thinking to be more in line with trends overseas and are looking for further guidance from their financial advisors on how to manage family wealth and plan for succession.

For corporate clients, Jesmond Mizzi Financial Advisors have overseen two large bond issues in 2019: Bank of Valletta plc and MeDirect Bank plc. Mr Mizzi remarks that the firm continues to be in contact with existing and new corporate clients and institutions on taking businesses to market. In addition, with the wealth of family businesses in Malta, Mr Mizzi takes pride in assisting such entities on how to restructure their business when the time is right. **cc**

