GLOBAL RETURN
ASSET MANAGEMENT, LLC

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Q&A WITH GLOBAL RETURN ASSET MANAGENT

Tell us about Global Return Asset Management's investment strategy.

Global Return Asset Management is a value investment firm focused on risk management. Unlike Wall Street, which is always looking for all the reasons a stock might increase in value, I flip that entire approach on its head. I'm looking for risk and all the reasons a stock might *decline* in value. Specifically, my strategy is to identify risks within a company and then assess whether those risks are compensated by the upside potential.

What are you trying to find with a great investment?

I'm looking for an investment that generates a huge return without the commensurate risk; that's obvious. The market is currently loaded with opportunities for average returns, but the difference between an average return and a great return is the amount of risk you bear to earn that return.

Here's an example that illustrates this. Assume you have $10 to invest in one of these opportunities. In *Opportunity A*, you'll risk $3 and earn $1, for a 33 percent return. There are lots of these stocks available. But in *Opportunity B*, you only have to risk $2 and will earn $1, for a 50 percent return. These are the opportunities I'm looking for.

From our high cash balance, low net market exposure and our returns, you can see we're getting a lot of Opportunity B.

As for actual metrics or specific characteristics, what I'm looking for sounds a lot like what typical managers say: "strong margins, growing sales," et cetera. But because of my focus on risk, I'm able to generate much higher returns and do it with a fraction of the risk.

Why is tracking environmental, social and governance (ESG) factors in a company's disclosures important?

Analyzing a company's ESG factors helps me identify risks within a company's operations. I've never seen a company list "Risk" on its financial statements, you have to look beyond these to find risk. ESG is one of the methods we use.

What does a company's ESG factors tell you about it?

ESG factors give me a broader and deeper understanding of a company's operations, its management's focus, and the investment's risk-reward ratio. ESG factors also illuminate the quality of the company, its earnings and its financial statements. And finally, I'm able to better assess the opportunity's risk and return profile.

Can you give us an example of an ESG factor you look for and how that translates into risk?

If I see a company changing its accounting policies every other quarter, it tells me that management is finessing their financials to meet Wall Street's estimates, their compensation hurdles, or both. It could also indicate that the company's fundamentals are deteriorating.

As for how this translates into risk, let's assume a company's fundamentals are deteriorating. At some point the company will have to acknowledge this, which might require forecasting downward guidance. Worse, if in the past the company has finessed its financials to hide this deterioration, they might have legal or regulatory consequences, or even need to restate their earnings.

Any of these would cause the company's stock to drastically decline. Had I not reviewed the company's accounting policies — a governance factor — I would have not identified this risk.

There can be many reasons why a company could go up in value, but it only takes one reason for it to go down in value. I want to find those reasons.

How difficult is it to track ESG disclosures across multiple companies?

It's a lot easier now that I use Calcbench. With Calcbench I can focus on specific sections of companies' disclosures. Even better, I can see how the companies have changed their disclosures over the years. Downloading a PDF version of a 10-K and then using Control-F to look for changes isn't sufficient, because I could be using the wrong search words. And even if I found the right section, it's very time consuming to review every line between two filings in an attempt to spot any changes; and I would be apt to miss something.

Does the investment industry have industry-wide standards on what an ESG factor is and how to address those factors when investing?

Sort of. There are many organizations that support ESG initiatives and offer guidance. The United Nations Principles for Responsible Investing is probably the world's largest and most established organization addressing this. I'm on the committee that's drafting the industry guidelines for hedge funds to incorporate ESG analysis into their investment process. And while our guidelines will be suggestive in nature, I suspect they'll be the foundation for industry standards.

How does Calcbench help you with your with ESG research?

Calcbench is a phenomenal resource for several reasons. First, I get unfiltered data directly from the company's SEC filings. I don't want a company's filings delivered to me via an outside service provider because I have no idea how that service provider may have altered the filings. I've checked and there are errors in the software used. This isn't done maliciously but I can't afford to use incorrect data. And even where the data is correct, I disagree with most of the auto-generated formulas they offer.

Second, I'm able to focus on specific sections of a filing and have these exported directly into my Excel templates. And I can do this with confidence because the data is in XBRL format.

Additionally, hard-to-find footnotes — which is where I find the important data I need — is easily located with Calcbench. And again, I can import this directly into my templates.

Finally, especially as it relates to a Risk Disclosures and ESG, I can track text changes in every filing. This saves me time and lets me quickly determine whether a new risk exists or a previous risk no longer exists.

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This article originally appeared on the Calcbench blog at blog.calcbench.com and has been minimally edited for clarity, though nothing material has been changed.