TRANSCRIPT: EPISODE 20
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[INTRODUCTION]
Ryan Lightfoot-Brown (RLB): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Ryan Lightfoot-Brown and we're joined today by Richard Hallett, the Elite Rated manager of the Marlborough UK Multi-Cap Growth fund. Richard, thank you very much for joining us.

Richard Hallett (RH): Pleasure.

[INTERVIEW]
[0:16]

RLB: Can you tell us what your view of the UK, or even the global economy, is at the moment?

RH: Yes of course. The UK economy as we see it at the moment is growing at a fairly temperate rate of about 1-1.2% depending on who you speak to, but that is a slowing trajectory. Really this is due to the ongoing effects of Brexit uncertainty, so the effect that's having on entrepreneurs and business leaders and the slow down in decision making in the business environment. It's also having an effect on consumer spending habits as well.

We see all these areas being affected, particularly in the car industry and construction sectors, hospitality and the retail space as well. But having said all that, this 1.1% growth we see as being particularly resilient given the geopolitical sort of headwinds that the UK economy is enduring. Without forecasting the Brexit outcome we see a continuation of that sort of trend.

Conversely on the global side of things, growth is about 3%, again on a slowing level, but more impacted by the US versus China trade negotiations which are really upping in ante in the last few months. This is an ongoing process and it remains volatile and uncertain, but we view this sort of level of growth as quite attractive given the very low levels of interest rates globally and indeed the fact that interest rates are likely to be lowered again later this year given very recent comments from the European and Federal Reserve, central bankers.

[2:21]

RLB: And how does that view impact your investment decisions?

RH: Well, I think the first point on this is we take the view that forecasting economic and political scenarios is incredibly difficult to do on any sort of reliable or consistent basis. This really plays into the fact why we prefer to select companies that have an ability at least, or potential to grow through the business cycle. With a really sustainable growth irrespective of the economic outlook. They can do this by being in a leading position in sectors which are really benefiting from powerful long-term structural growth trends or what we call cyclical growth.

These trends we see as being particularly global in nature. This is why the fund is positioned in companies which are quite global, have global franchises. This enables the fund to benefit from as we previously discussed, a stronger global growth background and protects it from perhaps a more tempest UK situation.

[3:40]

RLB: And what's the stock in your portfolio that excites you most and why?

RH: Cranewear is one of our largest holdings in the fund. It's a software business delivering what they call value based solutions, specifically to the US healthcare market. What excites us the most is their investment that they've been deploying in the last few years into a completely new range of cloud-based software products providing enhanced data analytics and pricing solutions to their existing consumer base, and indeed hopefully new ones.

This new Trisus product range have typically annual licenses of between 1.5 to 5 times the value of their existing average product prices. Very importantly we think that the cross sale opportunity into their existing customer base is quite realistic, so any sort of pull through to demand in this new category of products we see as being quite significant contributor to their bottom line profits.

[4:56]

RLB: And you tend to avoid oil companies and utility companies, why is that?

RH: Well we see oil - and other commodities for that matter - as being volatile commodities which are driven by very hard to predict variables such as demand and supply but also geopolitics and economic factors also tend to be quite material factors. So it's a very complex situation in which to analyse and lends us to the view of why we prefer businesses with a more stable earning structure and a more sustainable ability to grow their profits for the longer term.

Utility companies are slightly different, the draw back there as we see it, is they're vastly sort of regulated entities with controls on pricing but also increasing scrutiny on the amount they can spend on things like capital expenditure. This acts as a barrier perhaps to maximising shareholder returns and also adds a level of risk to their future level of profitability. Finally, our final factor is that a lot of utility companies are highly leveraged and got lots of debt on their balance sheet which we think limits their headroom in an event of a slowdown of shock to their business model.

[6:25]

RLB: You touched on that you look for companies with a sustainable competitive advantage that can grow throughout the market cycle but I see Tesco is in your top ten. Is this company not at risk from the likes of Aldi and Lidl?

RH: That's a good point, interesting. As part of our investment strategy alongside our core holdings, we do retain the ability to have up to 10% of the portfolio in what we see as shorter term tactical positions taking advantage of attractive opportunities as, and when they arise and Tesco really fits within this category.

It's going through a period of strategic change where the management are looking to double operating margins over a few years, which we think is credible. Another point I think is that Tesco as we see it is a very powerful brand and is also the largest purchaser in its market, particularly as it's entered into a JV [joint venture] with Carrefour quite recently. And it's these two factors which we think gives it an edge on holding off competition in the immediate term.

But I agree with your thought about this competitive dynamic and loss of share and it's with that point in mind that it's probably unlikely to be a holding for the longer term.

[7:45]

RLB: And can you tell us a little bit more about another company in your portfolio, perhaps the London Stock Exchange, which our listeners will be well aware of?

RH: That's another company that's one of our larger holdings and has been successful for a number of years. The LSE has completely reengineered its business model over the last five to ten years, away from the more volume driven capital markets activities and really positioned itself as a leader in the information services business, and also in the clearing house for over-the-counter derivatives.

This new model that the LSE is focusing on really positions itself in the strongest growth trends in finance today, which are the growth in ETFs, OTC clearing, risk management and also quant investing. Another factor that I think, whilst the LSE itself has been acquisitive over the last few years, it's recently picked up a stake in Euroclear. The global sector is indeed consolidating and has been well rumoured that the London Stock Exchange itself could be a target at some stage in the future.

[9:01]

RLB: And last time we met you mentioned e-commerce was a theme in the fund, is this still the case?

RH: Yes it is, we see e-commerce and the move away from bricks and mortar to e-commerce spending as a very strong and powerful trend that's going to continue for many years and our holding in Boohoo which is a leading, young fashion e-commerce company is really benefiting from that trend. It had very powerful results a week ago.

I should also mention that e-commerce growth is really driving the growth of digital payments globally and our holding in WorldPay has been doing very well over the last few years. There's lots of M&A and consolidation activity in that market. WorldPay merged with an American company called Vantiv last year and the combined group has been acquired by Fidelity National Informations Services in the last few months. This really does demonstrate the growth in this sector.

RLB: Well Richard, thank you very much that's been really very interesting and thank you for listening. I've been Ryan Lightfoot-Brown and if you'd like to listen to more of our Investing on the go podcast please subscribe to FundCalibre.