

TRANSCRIPT: EPISODE 38
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[INTRODUCTION]

Chris Salih (CS): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Chris Salih, joining me today is Laura Bottega, managing director and lead portfolio specialist on the Elite Rated Morgan Stanley Global Brands fund. Thanks very much for joining us today Laura.

Laura Bottega (LB): Thank you.

[INTERVIEW]

[0:16]

CS: Laura, could we start by maybe you telling us what a typical working day or week is like in your role?

LB: Sure. Well I'm the lead portfolio specialist for Global Brands and other funds managed by the international equity team. So a typical day for me is probably attending an investment meeting to understand any recent news on any of the stocks in the portfolio. I'll also be meeting with clients - often around the world - to update them on our performance and better understand their needs. I might also be working with internal functions like marketing or distribution to develop interesting content on topics like quality or sustainable compounders for our clients.

Markets evolve, so every day is different. That's what I love about this role.

[0:59]

CS: The Global Brands fund does, as the names suggests, invests in companies with global brands. There are millions of brands in the world though - so many to choose from - so what's something special that you look for? What's that thing that stands out when you're selecting companies for this fund that says, you know, we must own this company?

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LB: That's a really good question and we get that a lot. Our investment approach is really much broader than just the notion of powerful brands. We want, or we are aiming for, capital growth and earnings visibility and downside protection. The label 'global brands' is really shorthand for a focus on intangible assets, so they could be brands, but they could also be licenses or network effects. We think strong intangibles, which are hard to copy, can underpin great companies.

We're trying to find companies with high returns on capital, strong profits, strong balance sheets and they have to pay a dividend. That something special you ask about: its pricing power - ideally, the combination of pricing power and recurring revenues. The point of all of this is we think these type of companies are more likely to deliver reliable earnings over the long term.

[2:12]

CS: Environmental, social and governance issues have long been part of the process, two of the top ten holdings in the fund are Unilever and Coca-Cola, and they're core partners of the new plastics economy initiative. Plastics have really grabbed the imagination of the public in recent years and it's really a hot topic globally now. Do you find you're spending a lot more time engaging with companies on this particular issue and if so, how?

LB: Yes, we do. I couldn't agree more. Today's more complex world demands that PMs [portfolio managers] operate with a more holistic mindset. We have to understand the non-financial factors as well as the financial factors, so we focus on the material risks and opportunities that ESG issues present, and particularly how they impact the sustainability of these companies returns.

Plastics is a really good example of a topic that's caught the attention of consumers, particularly with heightened awareness in the last year of environmental and climate issues. If consumers care, the companies that depend on the consumer need to care. In recent months we've engaged with all our consumer holdings and we learned that the companies we hold are also helping lead solutions to the plastic challenge. They're decreasing their virgin plastic use, they're increasing their use of recycled plastic.

World class marketers understand that advertising this environmental awareness also endears them to the consumer and supports their pricing power.

CS: And what are the other key issues you engage companies about?

LB: So many, we think it's important as fundamental active managers to focus on what's really relevant and material for the stock or sector in question. So we'll probe data privacy and security for our

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software companies or product quality for our MedTech companies. In consumer space issues that could materially damage a brand's reputation matter, especially given the speed of social media. We're constantly on the lookout for opportunities too - those companies that can demonstrate agile management, have good capital allocation and a healthy awareness of being on the right side of the issue could separate them from the competition. Across sectors though we really care about pay: executive incentives remain a key governance issue and we recently introduced a formalised pay x-ray, which allows us to more easily compare company incentive schemes and be even more active in our engagement with companies.

[4:37]

CS: One of your top ten holdings is intriguing on two counts really: Phillip Morris. Firstly, how does the tobacco company pass muster in terms of ESG and secondly, given how there is no sort of advertising of cigarettes in many countries anymore, how does this company fit in a global brand fund today?

LB: We're very clear we're not approaching ESG from a moral perspective. We're looking for companies which exhibit high and sustainable returns on capital and for those clients who don't want to hold tobacco, our team offers a portfolio that excludes it. In [Morgan Stanley] Global Brands, Phillip Morris is the leader in next generation reduced harm technology, helping drive the consumer towards a smokeless future. The lack of advertising in the industry tends to play to the benefit of incumbents like PMI.

CS: Another of your holdings is Microsoft. Amazon and Google have recently announced that they are launching Stadia, a new online gaming service. Microsoft's CEO doesn't think this is a risk for Xbox at the moment. Do you agree? And how do you monitor new potential risks like this?

LB: Well, longer term, this is an interesting development to keep an eye on. Users will be able to download each game, and Google would be a store for games. That raises a question for the console business, but it's useful to keep this in context. Gaming is a very small part of Microsoft's very successful business. We think just 3-4% of gross profits. Xbox less than that. So it's the role of each of our PMs [portfolio managers] to be deeply knowledgeable about industry developments and attune to any such disruptive forces, including competition. We do this by talking to management and competitors and supplier management, and tracking their news through broker research. We also keep an eye on non-traditional sources of information such as AI [artificial intelligence] generated web scrapes to really know our companies.

CS: Thank you very much for your time today, Laura. I'm Chris Salih, and if you'd like more information on the Investing and go podcast, please subscribe to FundCalibre.