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investing ON THE go

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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 today I have the pleasure of being joined by Bertrand Cliquet, Elite Rated manager of the Lazard Global Equity Franchise fund. Bertrand, thank you very much for your time.

Bertrand Cliquet (BC): Good morning Ryan.

[INTERVIEW]
[0:19]

RLB: Now your fund is the Global Franchise fund, but what exactly qualifies a global franchise? Is it that it's got big brand names, like a Google or Amazon, or is it something a bit different? Can you maybe talk about that sort of economic franchise model?

BC: Yes, I think Ryan you're spot on. The concept of an economic franchise for us is it's not only about investing in good businesses. What we see are businesses where we have a superior ability to forecast future earnings, because our process is very focused on valuation. And therefore, if you have companies where you have a very strong confidence in future earnings and a margin of error around those earnings that is very small, then you can be more assertive on valuation.

So yes, we'll have some you know, large companies EssilorLuxottica, for example. The case of Amazon is an interesting one. We certainly don't deny it is an excellent business. But one of the issues we have with Amazon is that we've very frankly and, and you know, humbly said that we do not know how much money he's going to make in five or 10 years time, and you can go all the way through the spectrum. They may continue to be exceptionally profitable in AWS, and they may capitalise on the retail business, on the one hand and therefore may end up as the most profitable business on the planet. On the other end of the spectrum, you may see competition coming through AWS and, you know, remember you have an extremely powerful competitor in Alibaba that hasn't cracked their market.

And therefore, you may see some of the challenges of, you know, the ongoing retail business has, you know, Tesco has faced in the last 10 years, for example, and therefore Amazon isn't in the universe. We're not restricted to you know, huge businesses as well. Some more niche businesses are part of the universe. So Fresenius Medical Care, which is a German company. They're one of the leaders globally of dialysis treatment for people with kidney failure are one of the stocks in the portfolio.

[2:20]

RLB: Actually, while we're on Europe, you've got quite a lot of the portfolio in Europe. It's been one, it's a region that's been dominated by quite negative headlines in the first quarter of the year. But you've got now nearly a third of the portfolio in there. Are you sort of positioning for a strong recovery in the continent or is this where you see most of your value opportunities?

BC: Yes, it's certainly value-driven. The start of the year and the volatility we saw in the start of the year, give us a number of really nice opportunities. In the healthcare sector in the UK, we can come back certainly to that or in the utility sector for that matter. So we bought to the national grid of Italy, Terna. We bought a French motorway business Vinci and therefore the way of into Europe has really increased as we see these you know, much lower share prices.

RLB: And how has that sort of related to performance?

BC: It has helped. So what we think is essential in our process is to keep this valuation discipline. There are certainly probably three ways we make money for investors. The first one is when you have big sector rotations, as we saw at the back end of 2018, where, you know stocks and Fresenius Medical Care, I mentioned earlier fell 25% for limited underlying reasons. And we'll see as the opportunities on, on that basis. So what we do when we build a portfolio, is we rank companies in the order of declining upsides. You know, such rotation can change the ranking of stocks in this in this order. And therefore we repositioned the portfolio.

The second one is when you have an industry that is challenged, or you have a question mark on its future profits. So when the tech sector faced a question mark around the transition to the cloud in 2014, [20]15 our belief was that some companies such as Microsoft, for example, would come out of it you know, quite positively and therefore a lot of tech stocks at the time became you know, some of the top 10 positions in our portfolio.

And the last one is when, you know, a single stock faces a short-term blip. So, they are living and breathing creatures and sometimes, you know, they are challenged. And, and, you know, our job, as we saw with Tapestry, which was one of the largest contributors last year, is you have a luxury goods company that sees all of its stores closed for a big part of the year, the market panicking, and our thesis was very much based on an improvement in their value chain management and the ability to limit their discounts with their product, therefore margin improvement and a business coming out of this pandemic, actually a stronger business that it entered it.

[5:11]

RLB: And now ESG has been a sort of a key word in the industry over the last few years. Your fund screens for ESG factors. What exactly do you look for? What does this add? And does this eliminate some of the sort of big names that we might've thought about?

BC: Yes exactly. And to give you some background, we are blessed in our team to have a colleague called John Mulquiney. So John has a PhD in atmospheric chemistry from the, in the 1990s, actually very few people were… thought climate change was something worth spending time on, and John certainly did extremely thorough work on the topic. So on the environmental side, that's certainly, you know, something worth bearing in mind in terms of how serious and committed the team is and how you know, scientifically we approach this this rigorously, we approach the environmental problematic. You know, I think essentially for us, if you think about our focus on forecast ability, sustainability, isn't very far off as, as a concept. And therefore we've always had this focus and approaching these problematic as you know very much any business opportunity or threat.

I'll say one example, which is probably the most you know, relevant in the case of a quality portfolio, but we have never invested in the tobacco sector. So we've run the strategy since 2013, the fund since 2015, and we've never had in our investible universe or later on in the portfolio, a tobacco company. And the reason that was the case is the societal implication of smoking made us unable to have a strong view on the long-term growth of the industry. So we thought because of the S in ESG there was a challenge that we felt made us unable to, to narrow down this future forecast. But there are opportunities as well. So some of the newer investments in the portfolio, I mentioned Terna the national grid of Italy. We own the National Grid in the UK, these companies are key enablers of the energy transition and energy transition can't happen without the national grid. We know we all want to go green in one go. What we're not ready to accept is when we flip the switch, you know, light doesn't go on. And the national grid is one of the key enablers. So you see companies with a very high degree of predictability in the earnings, you know, highly regulated earnings, increasing their investments by the tune of 20-25% at some you know, and, and making them you know, nice recurring companies for the foreseeable future.

[7:50]

RLB: Okay. And what about sort of healthcare, is this a similar sort of space? I know we've touched on a couple of names. You've got around a quarter of the portfolio in it. It's had an interesting 18 months, let's say, what's attractive about the sector that makes you want to add a lot of companies into your portfolio?

BC: Yes. So Ryan, I should say in the, in the healthcare sector, there's one big part we don't invest in, which is the big pharma companies. The reason that's the case is their, their value is very much linked to the probability of success you ascribe to their pipeline of new drugs, and therefore it doesn't really go hand-in-hand with, with forecast ability. But we do invest in a lot of business that provides services to the healthcare industry or medical equipment. And for us, it is a collection of very high-quality businesses. And we've had opportunities over the years to, to seize volatility in the sector. That was the case in the aftermath of the Obamacare legislation in the US and what we've seen, due to the pandemic, is that elective surgeries were canceled. So think about a business such as Medtronic, the largest medical device provider in the world, half their business is linked to elective surgeries. So, we saw de-rating in the stocks and that's one of the reasons we have increased our weight to the sector and added new names. So in the first quarter of this year, we bought Smith and Nephew one of the largest provider or manufacturer of orthopaedic prostheses, for example, because they were heavily impacted by the fact that, well, if you wanted your hip or your knee replaced, it was deemed elective and could be postponed. And our thesis relies on the fact that not only will we have a reversal to you know, normal levels, but, you know, medical practitioners do tell us that we need to catch up as well gradually. And we are really playing this catch up with this stock.

[9:42]

RLB: Okay, and moving completely sideways now, one of the other companies you've got is H&R Block. It's an American tax company for those who don't know it. It's had again, a bit of a rocky period, but do you think that perhaps looking at a bit from of slightly sideways angle the increased need for H&R Block as a company with consumers worried about cryptocurrency. It's also being one of the big headline grabbers of the year with the tax implications of that, do you think there's a bit of an angle there for them?

BC: Yes I think there is. So this is a, a business that you know, certainly has been challenged with some of the moves towards you know, computer based tax returns. It's worth noting that the core of their business, which is the assisted tax return, it is important for their you know, for 80% of their assisted tax return customers. The money they get back from the government is about 20% of their disposable income. So in other words, you know, you really need this service to avoid getting it wrong because it's such an important part of the household income.

You know, there are two things benefiting them this year. First is two tax events because last year, the tax year was postponed. You have as well the stimulus money coming through. The crypto is interesting cause, you know, you have you know, it does trigger a number of capital gains. They are taxable events and it certainly helps their business. Fundamentally for us what we focus on is the fact that their product offering you know, has significantly improved, they are getting share again. And this is a business where, you know, you have a single digit PE level for a net cash business.

And you can only justify it on the basis that the business becoming derelict essentially. And if you if the market gains confidence that there is growth in this business you know, this is a superb opportunity.

[11:42]

RLB: Okay. And then I think we'll give you a bit of a freelance at the end. What would you say is the sort of the one stock in the portfolio that excites you the most?

BC: I think Nielsen, so Nielsen is, I think the one I said, you know, the three ways we make money for investors, you know, this is clearly one of the businesses that was challenged. So Nielsen historically had two businesses. One was audience measurement. So who's watching what on TV, listening to what's on the radio. And the other one was this scanner data. So the Nielsen's scanner data - who's buying what at the supermarket and this business has been sold. And there was clearly a challenge from a growth standpoint as consumer goods companies were really turning the screw on expenses. So they were left with you know, this what they used to call the watch business. And the market had a question mark about the relevance of this business in the digital world. And so we did significant research on to how the business was adapting to a multi-platform format and how they could address a critical need, which was providing highly reliable measurement because their service ultimately prices advertising. So it's extremely important that you know, there is a broad recognition that this is an adequate assessment of you know, where people spend their time.

Now, the back end of last year, they presented an offering, which is called Nielsen One, which is a multichannel offering. And you see that they are able with an increased use of technology to assess, you know, when you were shopping on the BBC iplayer, on Netflix, or you're, you're watching TV on the you know, more regular or, you know, old-school television. And that is for us really interesting cause we had, you know, poster child of what we do. We had a business where there was a question mark, you know, is it still a good business? Is it still a franchise business? Our research you know, convinced us that, yes, it was a good business that yes, they could address this challenging you know, ahead and the disruption in the industry. And therefore you know, you would have these you know ability to earn a very high return on capital going forward and the market was completely ignoring it.

RLB: Well on that very interesting note Bertrand, I think we'll leave it there. Thank you very much for your time today.

BC: Thank you Ryan.

RLB: And if you'd like to know more about the Elite Rated Lazard Global Equity Franchise fund, please visit our website fundcalibre.com and for more from our Investing on the go podcast, please subscribe via your usual channels.