

## TRANSCRIPT: EPISODE 357

8 May 2025 (pre-recorded 28 April 2025)

*Please be aware that the accuracy of artificial intelligence-generated transcripts, such as those utilised in our interviews, may fluctuate based on factors like audio quality, subject matter complexity, and individual speaker enunciation. Consequently, these transcripts are unlikely to achieve 100% accuracy. However, it is important to note that, at FundCalibre, we do not consider the correction of automatically-generated captions to be an effective or proportionate use of resources.*

*Given the inherent limitations of machine-generated transcription, we strongly advise against relying solely on this transcript when consuming our content. Instead, we encourage you to use the transcript in conjunction with the accompanying interview to ensure a more comprehensive and accurate understanding of the topic.*

*Please remember we've been discussing individual companies to bring investing to life for you. It's not a recommendation to buy or sell. The fund may or may not still hold these companies at your time of listening.*

## [INTRODUCTION]

**Staci West (SW):** Welcome back to the Investing on the go podcast brought to you by FundCalibre. In this week's episode, we dive into valuation discipline, market dynamics, and how shifting geopolitical factors like tariffs are reshaping the investment landscape.

**Darius McDermott (DM):** I'm Darius McDermott from FundCalibre and I'm delighted to be joined by Bertrand Cliquet, one of the co-managers on the Lazard Global Equity Franchise. Good afternoon, how are you?

**Bertrand Cliquet (BC):** Good afternoon Darius.

## [INTERVIEW]

**DM:** So I've just spent a bit of time with you, so I think I have a good feeling on this fund, but this fund is different than your average global fund — we've got 550 some for people to choose from. An obvious area where your allocation is different is that approximate 40% in the US which is vastly different from the MSCI World index. What factors contribute to that substantial underweight, and are you always structurally underweight US?

**BC:** That's a very good point. If you look through the history of the strategy, we've owned just about 60% in the United States, so, you know, strong allocations. However it's important to highlight that the result is a 100% based on stock picking on fundamental analysis. And therefore, as you imagine 2023 and 2024 being strong markets that have led to the widening of valuation gap between US and Europe in particular, we've seen a tilt of the valuation opportunity away from the US. So it's not so much that fundamentals have deteriorated. It is, we like the price less and less.

## TRANSCRIPT: EPISODE 357

**DM:** And let's just stick with the US for a little bit. How do you feel about the US today? I mean, global managers will often make the case, US stocks are the best entrepreneurial, good listing regime and hence US should trade at a premium to other markets. With your global lens today, do you feel the US is exceptional at the moment with all that's going on? We're right in the mix as we're recording this of the tariff outcomes - we're in the 90 day suspension - so what do you think?

**BC:** Yes. Well, you are correct. The US had enjoyed a combination of strong currency, low interest rates very much only why Switzerland might enjoy so safe haven status. Well with drastic changes in policy and clearly a lack of visibility, this status is, I would say at least at risk. And we had seen as well a large pool of capital flowing into the US as a result of a self-fulfilling process of market of performance in the US and currency appreciation.

And so for us, we really look for those really good franchise companies, but we're very, very picky on valuation. And the combination that we've seen in overall several years is the opportunity set really drying up in the US and increasing elsewhere. When we value our companies, it's important to highlight that we do that on long-term fundamentals where we assess the long-term gross prospect inflation and those being consistent with the discount rate we use.

And what we currently see in the United States is rising uncertainty. And it would be foolish of me or anyone in our team to pretend we know the outcome. But what we have to do is to analyse what the most likely risk are.

Two things we want to stress and monitor is first the retaliation from other countries. We've seen China already implementing measures, but what will be the answer from Europe? So that's the first source of uncertainty. And the second one is how long will those tar last? Do we need to include them as a permanent feature...

**DM:** Like a tariff adjuster? Because we talked earlier about your country adjuster to your overall discount rate, maybe a tariff adjuster as part of the countries input?

**BC:** Exactly. But do you think those tariff will be in place for one term and this administration, or will this be a longer term feature of the relationship between the United States and its trading partners? So when we assess this, it's important that we take time that we really are trying to look at the fundamentals, but the discussions we have with our colleagues, economist at Lazard and elsewhere, is that it does change the picture with most likely a negative impact on real GDP 1% or 2%. And conversely a meaningful impact on inflation of 1% or 2% as well that presents for our company's meaningful challenges.

**DM:** Yeah. I think, you've touched on it, you are a valuation centric style of manager, and hence it's no great surprise that there's no Mag 7 in your top 10 or in the portfolio at all. Might those valuations be coming back to you on one or two stocks or higher sort of growth stocks? I know you like good companies, but you like good companies at a good price, and some of those stocks have been expensive and have you ever owned any of the Mag 7? Has there been a time when some of them have been in the right valuations for you?

**BC:** No, very good question because as you know, our process is really based on defining a very high integrity investible universe. We call it the franchise universe. They are really, really exceptional companies. They have a superior degree of earnings predictability. They are financially productive, but we want to be a steward on valuation and be prepared to pay a reasonable bill price for those investment opportunities. And as a matter of fact, we have owned over the year of the existence of this strategy, meaningful exposure to the

## TRANSCRIPT: EPISODE 357

tech sector and some of those large companies you mentioned. So back in 2017, for example, about 40% of the portfolio was in the technology sector closer to now when Alphabet sold off very sharp in 2022, we stepped back in December 2022. It was one of the largest contributor to returns in 2023 for the portfolio, but we sold it at the early part of 2024. So what...

**DM:** You can't say you're a value manager and then not occasionally sell too early, that's an inherent trait of value strategies. Some people will call it the curse.

**BC:** I agree a 100%. I think the approach is very much about finding companies that are inexpensive on a realistic but conservative scenario. In other words, we are trying to find asymmetries, tilt to the upside. If a stock is cheap on those conservative assumptions, the most likely outcome will be a positive surprise. What we are not prepared to do and sometimes it will hurt us in the most exuberant markets, is to invest on a basis of a blue sky scenario.

**DM:** Yeah, yeah. Well, I think there are some companies in the States, some retailers on very, very lofty valuations where I suppose you can make different arguments for an Apple or a Microsoft who are just cash, generative cash, strong balance sheets. But also more expensive than the broader market anyway. So ignoring the US - or overlooking the US - where are you finding the best opportunities today? And maybe if we could just talk a little bit as again, I've just seen your presentation, your value bars, and the number of companies with positive upside versus negative upside at the moment.

**BC:** Yeah, so I mentioned we are very, very focused on how much we pay for the stocks we buy. So think about our investible universe as a group of 230 companies. So what we do as a team, we have individual stock responsibility. We carry out our fundamental research and submit this research for the other members of the team to review. And the objective of this peer review process, think about it as a challenge among team members, is to agree on one view of intrinsic value or target price within a three year time horizon.

And then what we do is very simple. We rank those companies in order of upside. So you refer to what we call the value rank is a ranking of the stocks in the universe in order of declining upside. And that's important because we'd be prepared to own any of these wonderful businesses, but not at any price. And that's what the value rank brings in terms of discipline. Now, we still think that overall markets are on the expensive end. So we own 25 stocks today, which is the lower end of our 25 to 50 names.

**DM:** Presumably you're at the lower end because there's less stocks with the upside that you look for on that three year basis.

**BC:** A hundred percent. You know, we see valuation as a key risk to investment and certainly has been challenged over the years when markets have propelled valuation to new highs to, some stocks in terms of, of multiples. But we certainly believe that it is a discipline that will be rewarded in the long term.

**DM:** So where are you seeing the opportunity for those 25 stocks? Where are you more focused? Is it in Europe or are you in Japan and does this product do Asia at all, or or is this just ex-emerging markets?

**BC:** Yeah, so we are currently finding more opportunities in continental Europe, about 30% of the portfolio, 20% in the UK, which probably is quite unusual for a global portfolio at this stage. **[DM: Yep.]** Again, it's not because I really enjoy living in this country, which I do very much. But it's because we think that we

## TRANSCRIPT: EPISODE 357

have a number of stocks that present the valuation opportunity we're after, and it just happened to be domicile in the UK.

**DM:** So a fair overweight to the UK and then just where you're finding those value opportunities.

**BC:** We have in Japan as far as emerging market is concerned, we are looking at stocks on a global basis. But when we look at the different filters, we are attracted towards companies that are global leaders in their sector, very, very strong positions. We take a great deal around ESG components and companies that will from a governance standpoint, protect us...

**DM:** Which would naturally lead you away from emerging markets where governance standards are different.

**BC:** Exactly. We do have a number of companies that again happen to be domicile in emerging markets in our universe. But the integrity of the universe is very much of paramount importance for us.

**DM:** And I think we've touched on tariffs, but we're right in the middle of the tariff, whatever it is. Is it a tariff war or a tariff exchange or a tariff game of poker? I don't know how to categorise it, but it must have started to enter into your team's thinking on a stock basis. What are you making of it so far? Or is the jury still out until there is some certainty?

**BC:** Yes. I mean, I think it is one of those changes where we have to be really humble about, you know, knowing when the end game is gonna be and really assessing the risk with a degree of conservatism clearly an impact on growth, reducing gross prospect a negative impact on inflation. So increasing inflation so that will mean that companies will be challenged from a gross margin standpoint. **[DM: Yeah]**

They will seek to pass on to consumer, but what will be the demand response from that? Now, we're very fortunate that the portfolio positioning today is extremely defensive vis-a-vis the tariffs. So we own about 30% of the portfolio in monopolistic infrastructure companies. So they have no impact whatsoever from tariffs. So that's very good news. A number of essential services. So if you think about the tax preparation business as people say commonly, you know there are two certainties in life, tax being one of those, I'm afraid. So very, very robust businesses licensed or security services.

We have a number of companies, a small number of companies in the healthcare sectors that will be clearly impacted. Think about dense price, Sierra, that makes a range of medical equipments for dentists. They manufacture a lot in Europe and export to the US or Baxter as well in medical equipment. So again, the jury is still out there, but overall, looking at the portfolio, we're very, very well positioned in that respect.

**DM:** In previous podcast interviews that we've done with you, you've discussed a bit about behavioural biases and how they impact investment outcomes. How do you incorporate behavioural analysis into your thinking and making sure that you don't fall in those same traps?

**BC:** It's interesting because, behavioural biases, herd mentality, incurring of confidence and so on they tend to exacerbate stock price movements. So as a value focused manager, it can be frustrating and certainly test our patience at times. What we do have as a team is we think the peer review process brings a lot of value and removes a lot of the emotion from the investment process. Because the last thing, and you know, talking

## TRANSCRIPT: EPISODE 357

about tariffs when everyone has very, when emotion is running high, what we need, we think to best serve our clients is a process that removes the emotion. Try to look at the situation as objectively as possible and draw the right conclusions. So the peer review process in that respect is extremely important that we can challenge each other on every single security that make up the universe with a very high degree of vehemence, I would say, as an understatement. So that, that's extremely important.

Then as well, when you look at what that means you know, we will be able as well to exploit those more extreme movements from the markets. So when you have, you know, more of a herd mentality, the market will buy and sell the same stocks. That means that at times yes, valuation will become very stretched when the sell off starts the pendulum swings the other way, and we'll be able to buy really, really good businesses at discounted valuations.

**DM:** Great. Now as I said earlier, there's some 550 global funds to choose from yours is called Global Equity Franchise. Would you mind just explaining to the listeners what your definition of franchise means on this product?

**BC:** Yes. And it is important to clarify what we think those franchise businesses bring is helping us address two of the mistakes that fund managers make. The first one is a valuation mistake is a forecasting mistake. When we think a company is going to make a hundred earnings and whoopsie 50 turn up, well, you know, forecasting the future is very difficult. So and the second one is overpay. So you simply lack financial discipline. You pay too much for what you're buying. Now we've talked about valuation and the discipline when it comes to the forecasting risk that is the benefit of this franchise universe. So we want companies where we have an ability to predict future earnings and cash flows with a much lower margin of error than the broader market. So it means that we select companies that have something special about their business, that we help them forecastable earnings.

So think about natural monopolies. The National Grid or Severn Trent are some of those licensees will be in there. Companies have scale, so they derive from their scale research and development purchasing logistic. Something that will help them have superior financial productivity versus their peers and really strengthen their position. You can have network effects in the portfolio. One of the, you know, best example of Network fx. You can have companies that have brands on intellectual property. So craft Heinz for example you know, Colgate, you know, how come you go and buy two space, the expensive one in the shop, you know, that's the power of the brand. That gives you this pricing or switching costs when a company decides to remove Oracle from its organization, where it is not only costly, but it's extremely destructive. So you end up with businesses that will have quite a steady flow of business. And that's what we really, really want.

Now in terms of numbers, the forecasting risk of four companies is half or less than the one of the market. So when you look at expected earnings three years before the event, the forecasting risk is huge. And with the discipline we have, we're able to bring that down very, very meaningfully.

**DM:** So everything we've discussed has been bottom up stock selection, but we cannot overlook the macro inputs, whether it is the US president tweeting something which can send the market up or down 5% or potentially even more. But how do you incorporate interest rate movements, central bank behaviour? Does that, I know you wouldn't not pick a US stock because you thought the Fed might move the rates up or down, but how does that sort of overall macro thinking enter when you're picking a stock, maybe because I know you, it is all bottom up rather than the top down.

TRANSCRIPT: EPISODE 357

**BC:** Yes. Well, what's important is to have a valuation process that really brings this into a long term picture. So what we will not do is try and play the next interest rate decision because we think the value of a business is built over, you know, multiple years or decades of future cash flows. So what's important for us is really to look at earnings forecast in the longer term process, go back to the key questions of what do we think is a sustainable return capital in the long run? What growth do we think a business will achieve? And having a grower that is commensurate with long-term risk-free assumption. And that's really, really important when it comes to thinking about valuation because the minute we break this discipline, frankly, valuation becomes an irrelevant factor. And we certainly disagree with this. Valuation is one of the key features of investment and certainly one of the key sources of risk that we as fund managers need to understand and control.

**DM:** Bertrand, thank you very much for your time.

**SW:** Run by a four-strong team, this fund looks for companies that have an edge in their respective business sectors. It can invest in any business around the world, but because the managers are looking for industry leaders, there is a natural bias towards larger-sized companies. For more information on the Lazard Global Equity Franchise fund, please visit [fundcalibre.com](http://fundcalibre.com) – and don't forget to subscribe to the Investing on the go podcast, available wherever you get your podcasts.