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# MIRABAUD – EQUITIES GLOBAL FOCUS FUND UPDATE

## A CHALLENGING FIRST QUARTER IN 2020

**Anu Narula – Head of Global Equities**

At the start of this year, we observed that starting valuations were back to levels last seen in 2015 and 2018. Both these years were more challenging for markets. Last year, global markets were entirely driven by re-rating globally. This made us more sceptical about the market as we thought it had already priced in a lot of good news. What we need is significant economic acceleration, which we've yet to see in this cycle. Subsequently, after the initial breakout of the virus in China, there were signs that it was reaching a peak in mid-February. However, this all changed with the outbreaks in Italy and elsewhere in Europe, and the virus went global.

We then had the events in the oil market, which created a lot of damage. Next, we saw the interaction between credit markets and equity markets, and CDS spreads started to blow out as they did in 2008. We then had a number of 'limit down' and 'limit up' days and then the US Federal Reserve cut interest rates to zero, which triggered another big move out of equities. Indeed, Treasury yields were moving up, even as they were being bought, and there were signs that the market mechanics were broken.

Furthermore, low volatility risk parity trades unwound and as a result, there was significant force selling – a dash for cash, similar to what we experienced in 2008. Back then it was a financial event when working capital dried up and Lehmans went bankrupt. This time, it is an economic event that has had huge ramifications in global markets.

In response, there has been unprecedented central bank action around the globe and monetary stimulus. More generally, central banks have been very quick to try and plug the gaps of the last crisis. The unprecedented buying by the Fed has been more than in 2008. There has also been a fiscal response – approximately 10% of global GDP. The risk is that it's too late and we are seeing secondary and tertiary effects. For example, if you are a hotel or a commercial building you are not waiting for a government pay-check before you lay off people. As a result, we are seeing unprecedented levels of unemployment. We also need to see the virus peaking.

In terms of the market sell-off, what's different this time compared with 2008 is that it's been driven by machines and ETFs. This is one of the structural risks we have warned about over many years.  All assets were sold together, including gold and treasuries at one point. So there was a dash for cash. I was a fund manager in 2008 and then as now we are seeing a solvency issue.

The companies we invest in have strong balance sheets – it's an integral part of our process. Also, new themes emerge from every crisis. So we try and learn from the past, but at the same time we play each pitch differently. One of the big themes we've

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seen from this crisis is ‘the stay-at-home’ economy. A number of our best performers like **Tencent** (Platform theme) and **Electronic Arts** (Millennial theme) have been beneficiaries of the market sell-off.

**How have we responded?**

First, we are taking the opportunity to upgrade. What I mean by that is where there are stocks we like, that were previously too expensive, but the market weakness has presented us with a good opportunity – so we are buying a handful of select new names. At the same time, we have quickly sold names in ‘the eye of the storm’ or that were potentially weaker than the market expects. For example, in late February/early March, we sold **Compass Group**, one of our ‘defender’ stocks. (We split our stocks down by defenders, midfielders and attackers.) Once we’ve done all our fundamental analysis, we have a thematic, focussed portfolio. We then risk budget the stocks. Defenders have less benchmark volatility, midfielders are more benchmark like and attackers are a bit more volatile.

**Compass** was the leader in outsourced catering, growing revenues in 2008 and 2009 and was a defender. However, a lot of the events they supplied catering for are no longer happening. A large part of their business was also supplying to airlines. We sold it when it went down 6%. It is now down over 40% and it has subsequently issued a profit warning.

We also sold **Texas Instruments**, which had significant auto/industrial exposure - over two thirds of the business, which we believe will be particularly impacted in this environment. We also sold **Ulta Beauty**, one of our Millennial consumer stocks, as people tend to wear less makeup at home, and we foresaw that stores would be closed. Furthermore, we exited **Mastercard** because its cross-border revenues may be down over 60%. We’re also trying to ensure we don’t duplicate our exposure with our holding in **PayPal**. Similarly, on the exchanges, we own **Deutche Borse** and **CME**. But we have decided to stick with CME, which has a quasi-monopoly on interest rate futures. So we have sold five names in total.

**Harnessing new opportunities**

We have added the following new names. First, we bought **American Tower**, which is a leading global REIT that benefits from 5G. It is a play on the increase in mobile data traffic, which fits into our explosion of data theme. It is very defensive and has held up incredibly well in the current environment. The second was **Aon**, which is a leading global insurance broker. It will be a number one player after its recently announced purchase of Willis Towers Watson. They advise corporates on how to manage and mitigate risk. For example, cyber security is a growth area for them.

Our next new name is **Teleperformance**, a leading European call centre operator. It has a 70% market share. It has a high cash generating model. We also bought **Nike** on what we call ‘a greedy fill’. The stock is up to 20% since purchase and it fits straight into our Health and Well-being theme. Although there was a shutdown in China, their fitness App drove online sales. Health and Well-being is a huge theme as more and more people are exercising at home.

We also invested in **Nvidia**, which has key exposure to gaming and machine learning and is part of our automation theme. And finally we invested in **CSL**, a global leader in plasma and those with auto-immune disorders. It’s in a highly consolidated market growing at 6 to 8% annually. It’s twice the size of the next biggest player. It is also one of the companies working on a drug stimulus.

### Why our multi-thematic approach is key

We believe our thematic approach towards investing has never been so pertinent. We have eight themes in total and many of them have proved to be strong catalysts. Platform companies and those harnessing the 'explosion in data' theme have been the biggest beneficiaries. More working from home means more pressure on Wi-Fi infrastructure and different forms of entertainment at home. Health and Wellbeing is another strong theme that we believe will benefit from what we are seeing today. We invest in 20 to 25 stocks that we know very well.


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