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OPPORTUNITY KNOCKS: GLOBAL EQUITIES

A SUMMARY FROM ANU NARULA, HEAD OF GLOBAL EQUITIES, AND PAUL MIDDLETON, PORTFOLIO MANAGER

Our recent positioning changes in the Mirabaud – Global High Income Fund and Mirabaud – Equities Global Focus Fund

Cautious at the beginning

We began the year by being much more cautious about valuations and this meant we didn't have excessive beta in our global equity portfolios. We also moved marginally from 'attack' to 'defence'. When the pandemic broke out, we looked for opportunities to upgrade. We already had a very clear plan on the companies within our wish list, and the levels that we wanted to initiate positions at within our global strategies. These were marquee names that we've always wanted to own in the past, but whose valuations were previously too high.

Opportunity knocks: Mirabaud - Global Equity High Income Fund

In the Mirabaud - Global Equity High Income Fund, we took the opportunity to buy Starbucks, Home Depot, Colgate and Procter & Gamble. Since initiating positions in these companies in March, they have all benefited from rising stock prices.

We sold two UK names: Compass and Croda. We thought that Compass was in the eye of the storm while Croda is a very cyclical company. We have always liked the secular story around personal care and cosmetics but we do think it will be more challenging this time around in this current environment.

Sizeable Shift

Procter & Gamble recently raised its dividend by 6%. Most of the companies we own in the strategy have now reported dividends – and so they have delivered their income. The exception is Taylor Wimpey, which suspended its dividend and as a result, we are evaluating this position.

Our UK weighting in the Fund has fallen while our US weighting has increased significantly. Indeed, our US weighting is now in line with the All Country World Index at over 50%, which is the highest we have ever been. Even though pay-out ratios are lower in the US, we think their dividends will be more sacrosanct. Not only will we have a higher probability of hitting those dividends, where many of these companies already have share buy backs (these will be the first to go), but, in our view, we will also get better dividend growth once things normalise because these companies have a better growth potential as well.

In the Fund we've seen some of the themes we've been invested in for a long time accelerate, such as Explosion of Data. This has benefitted some of the existing holdings – especially those that are plugged into 'the stay at home' economy. Examples include Cogent – 70% of the business is in corporate fibre broadband, while 30% is carrying other people's internet traffic. TV subscriptions such as Netflix and the new Disney plus channel will accelerate this trend and all this traffic will go through Cogent. Digital Reality is also receiving a tailwind from the explosion of data theme. It's a leading global data company that helps companies shift to the cloud faster. Other themes include Health and Wellbeing, which is also benefiting from 'the stay at home' economy.

In short, we want to ensure that our income targets are being hit while also maintaining upside capture. We want to deliver capital and yield.

Focus it is: Mirabaud – Equities Global Focus Fund

We have made a handful of changes in the Fund. We bought Nike, which came out with strong earnings and is also benefitting from the Health & Wellbeing theme. We also bought Nvidia, which is involved in graphics processing units around gaming. We also built a position in American Tower, which will benefit from 5G capital expenditure and the stock recently hit an all-time high. We also used the market pull-back to buy Teleperformance, which specialises in call centres and will benefit from the 'the stay at home' economy. CSL, meanwhile, is a leading global healthcare plasma provider. It is the largest player in this space, twice the size of its nearest competitor, and it has grown by 6 to 8% each year.

We exited from Mastercard, which the Fund has owned for the past four years. We believe the company is not as protected as other investors think because of the challenges with travel – the business model won't be as defensive. Instead, we prefer PayPal, which we retain in the portfolio, because it is benefitting from the growth in online retailing and payments.

We also took the decision to come out of Ulta Beauty. We took the view that with the current lockdowns and social distancing measures, there could be many store closures. And as people stay at home, they will use less make-up, which will dampen sales.

Being nimble is important in fast-moving markets

In summary, we have a small team that provides us with the capability to make decisions quickly and efficiently. Our move to a higher US weighting was part of this. We believe that larger asset management firms are taking longer to adapt to this new world and this we feel is a point of differentiation for the Mirabaud global equities team.

Our themes also remain intact. However, some of our themes have had an additional catalyst from the current crisis, notably those benefitting from the 'stay-at-home economy' – such as Explosion of Data and Health & Wellbeing.

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