

GLOBAL EQUITIES

Dividend growers power Narula's double fund turnaround

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'A few of the stars have aligned,' says Mirabaud Asset Management's Anu Narula (pictured), reflecting on a year in which both of his funds have delivered more than double the sector average return.

Narula has been head of global equities and lead manager on the Mirabaud Equities Global Focus fund since 2013. After a difficult period of performance in 2016, the fund bounced back sharply and he was brought onto the group's Global Equity High Income fund. Last April he overhauled the investment process underpinning it to bring it more in line with the focus fund, initially working alongside the then manager Kirill Pyshkin, who later left at the end of 2017.

Narula says the funds' heavy value bias, which had been out of favour, had been a major cause of their underperformance, while also stymying dividend growth in the income fund.

'I made the changes last May. The [Global Equity High Income] fund was really focused and had got more correlated with the MSCI World High Dividend Yield index, rather than the MSCI All Countries World, which was its benchmark,' he says. 'That old correlation was broken and this came about by having more dividend growers and not just high-dividend names. We were keen to increase the dividend growth without sacrificing the overall yield.'

Sweeping change

The Global Equity High Income fund had been run as a concentrated 40-stock portfolio and the changes in May saw 14 stocks either bought or sold in one fell swoop. Several more stocks have also been traded since then, but turnover has now fallen considerably as Narula has shaped the fund to how he wanted it.

A number of changes around the investment process were also introduced. Sector over- or underweights were capped at 5% on the focus fund and 3% on the

income mandate in order to ensure that stocks rather than factors were driving returns.

The early signs are encouraging, with the Mirabaud Global Equity High Income fund up 12.1% over one year to the end of May, compared with the sector average return of 5.8%. The Mirabaud Equities Global Focus fund is up 20.2% over 12 months versus the peer group's 9.4% average gain.

Key global themes

Narula and Paul Middleton, who is now co-manager on the funds, take a thematic approach to investment and recently added two new themes – the millennial consumer and automation – taking the total they have identified up to 10.

These provide a starting point to boil down their universe of 5,000 stocks through a combination of qualitative screens, analysis and company meetings to identify a core ideas list of around 200 names. The focus fund typically has 25 holdings, with the high income fund having between 40 and 50.

Although the approach is thematic, in the income fund Narula is investing in mature businesses that are cash generative and leaders in their field in areas with significant barriers to entry, rather than earlier stage firms.

'We look at themes and these are structural rather than cyclical. It's enabled us to hold stocks for longer and our turnover has come down – that's another factor that's helped us,' he says.

'Clearly themes have never been as pertinent as they are today. We are looking to

find leaders in secular growth which are taking more market share, as smaller companies struggle with technology. Companies need their own secular drivers. If you have topline growth that can be converted into earnings and payouts. Without topline growth you are very reliant on cost-cutting and asset disposals for growth.'

Talking about the new themes, he says automation has always been on the radar, but is now a broader theme in itself, incorporating artificial intelligence (AI).

He cites Google as an example, being the frontrunner in deep learning, and highlights Waymo, the company's self-driving car project. He also holds Accenture. 'It doesn't have to be pureplay automation: if a company wants to automate they call in the likes of Accenture.'

The generation game

The theme of the millennial consumer, aged 21 to 37, is focused on the different ways in which this cohort buys goods.

'The Estée Lauder CEO said "millennials need to be pulled in, whereas generation X needs to be sold to". He's saying that millennials want to be part of an ecosystem. They have also put a lot of investment into natural products as well. With their data now they can track how much of their spending goes on millennials,' he says.

'We own Croda, which is a supplier into Estée Lauder. It is highly cash generative and very big in active cosmetics.'

The other themes include platform technology, health and wellbeing and the explosion of data.

Health and wellbeing covers the likes of rising obesity and the increased focus on exercise and diet. 'In health and wellbeing we own Danone, which has the best topline growth in the sector. They've invested a lot in wellbeing and bought WhiteWave Foods, which has really driven that.'

Examples of platform technology companies, which can really capture consumers and ideally generate subscription revenue, include Tencent and Microsoft. 'Tencent has WeChat, which is effectively a distribution product. It might still be in the earlier stages of its growth cycle and is not paying a dividend yet,' he says. 'Microsoft has diversified very well buying Skype, Azure and it is a much more mature business.'

The other themes are the end of globalisation, ageing population, deflation, stabilising oil and real estate and infrastructure. ●

