

Access Active

INTERNATIONAL EQUITY TEAM | INVESTMENT INSIGHT | SEPTEMBER 2022

Falling markets, rising rates and inflation, pestilence, war, deglobalisation, drought, the energy crisis, acerbic politics and a less sanguine regulatory environment have our team glad of the benefits of our bottom-up stock picking approach. It affords cool heads and a clear focus where temperatures seem to be otherwise rising. The end of the summer in the Northern Hemisphere also heralds those “back to business” September winds; it therefore seems a good time to revisit our interpretation and the attractions of truly active investing.

What Active Management Means to Us

- **ACTIVE RESEARCH:** In addition to regular screens flagging companies with our preferred investment criteria, detailed initiation reports and models subject to the scrutiny of the whole team are supplemented with ESG (environmental, social and governance) risk analysis in our Material Risk Indicator reports.
- **ACTIVE DECISION-MAKING:** We interrogate the model and the investment thesis, cross-examining the proposal—not the proposer. We believe high quality decisions are more likely once any objections raised by others within the team are satisfied with research. Ultimately, even with diverse voices around the table, we are aligned behind the mission of identifying potential high quality compounders—companies with recurring revenues, sustainably high returns on operating capital, strong free cash flows, return of capital to shareholders, and all at reasonable valuations.

AUTHORS



BRUNO PAULSON
Managing Director



LAURA BOTTEGA
Managing Director

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- **ACTIVE ENGAGEMENT:** Meeting with company management matters. That means thorough preparation and a pragmatic use of the chance to meet CEOs, CFOs and Chairs of some of the world's leading companies, and an opportunity to test the hypothesis, gauge integrity and understand management's strategy, incentives, capital allocation and commitment to returns on operating capital.
- **ACTIVE PORTFOLIO CONSTRUCTION:** This doesn't mean high churn. In fact, with disciplined research up front and a penchant for saying no when stocks do not make the grade, annual turnover should be minimised in the order of 20%-30%. High quality companies are rare; the portfolio should be as concentrated as conviction allows. In addition, our portfolios are designed to generate a particular asymmetric return profile, potentially capturing less upside in booms, but aiming to reduce downside participation in tough markets like those we are experiencing in 2022.
- **ACTIVE MONITORING:** We employ a centralised research repository, real-time data and news dashboards to stay current and share news of developing corporate events. Independent risk teams also offer a second line of defence beyond the investment team—also providing reporting as necessary on our high active share portfolios.
- **ACTIVE TEAM BUILDING:** With 10 portfolio managers and four research analysts, in addition to a team of portfolio specialists, the investment team is well resourced to focus on what matters and cover the universe of opportunity. We navigate between scientific enquiry and artistic licence, quantitative analysis and creative expression, learning from experience and being open-minded to new ideas—all to create a culture where team members imagine working here until they retire. Meanwhile, several team members are actively involved in recruitment to ensure we always have access to the best talent.

- **ACTIVE CLIENT SERVICE AND COMMUNICATION:** Our goal is world-class investment strategies matched by world-class communication with clients. Portfolio managers and portfolio specialists are available to update you with in-person meetings around the world and through a host of publications, webinars and events.

High quality is by its nature less exposed to potential adverse events. We cannot influence or even predict the macroeconomic or political or regulatory environment, but we can aim to ensure that the stocks we hold are the most robust we can find—and that the companies we select are under managements that are more likely anticipating, mitigating and managing resiliently through adversity. Active portfolio managers that own stocks for the long term rather than just rent them are used to filtering out short-term noise and data for relevant and material drivers of long-term return.

Meanwhile, regulators are getting active too, which will bring new challenges for companies. As governments around the world consider the impact of the changes of the last decade—technological, social and environmental—the threat of regulation has grown. Beyond this, we believe that markets have yet to fully reflect the phalanx of issues that will make the going tougher for companies from here on, and the fact that, longer term, all companies are likely to face greater structural cost pressures that may well pressure their earnings. As such, and as we have been signalling for some time, earnings resilience and pricing power are likely to become ever more significant assets. With our portfolios' primary skew to quality defensive sectors, it gives us some comfort going forward that the portfolios' earnings are likely to hold up better than the market as a whole, and that investors who choose active will be vindicated.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect global franchise companies and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. **Stocks of small- and mid-capitalisation companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **ESG strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

DEFINITIONS

Annual turnover measures the percentage of securities within the portfolio that changed during the most recent fiscal year.

IMPORTANT INFORMATION

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

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