Marlborough International

Q&A: Marlborough Multi-Cap Growth investment update

September 2020

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Richard Hallett

Marlborough Multi-Cap Growth Fund Manager Richard Hallett explains how he has been backing strong companies that have used the downturn to strengthen their position by acquiring competitors.

Where have you been identifying opportunities for the fund?

"What's been notable during the pandemic and the resulting downturn in economic activity is the large number of companies raising additional capital by issuing new shares through placings. Many of these have been companies in sectors such as high street retail, travel and aerospace raising cash simply to strengthen their balance sheets during a difficult period. We've generally avoided these.

"What's also happened though is there have been a number of fundraisings by companies that fit our demanding criteria and that have been raising cash not because they need it to weather the storm, but because they're looking to acquire competitors and strengthen their competitive position. That has created a number of interesting opportunities and we've been happy to support a number of these placings.

"Some have been by companies we already held and for others we've used the fundraising as an opportunity to add them to the portfolio for the first time.

"We took a new position in Sir Martin Sorrell's digital advertising and marketing business S4 Capital when the company announced a placing. It's a strong business in a sector benefiting from a powerful structural growth trend, the digitalisation of media and advertising, and since the placing the company has made two positive acquisitions.

"We also backed a placing by Ocado, which following the tie-up with Marks & Spencer, is now the largest dedicated online grocery retailer in the world. Here again, we used the placing as an opportunity to initiate a position in the company, which was raising cash to take advantage of growth opportunities as the pandemic accelerates the expansion of online retail.

"Network International is a digital payments company we already held, which came to the market to raise money to finance the acquisition of competitor DPO Group. We supported the placing. Network International, which has a particular focus on the Middle East and Africa, has been hit in the short term by reduced travel and tourism, but digital payments is an area of strong long-term growth and we think this is a very interesting company on a two-to-three-year view.

"Industrial software group Aveva, which is one of our top-ten positions, has also been on the acquisition trail, agreeing to buy US competitor OSIsoft for $5bn (just under £4bn). The deal will be partly financed by a rights issue later this year. We think the acquisition is a sensible one and that with more and more companies using digital technology to automate industrial processes, there's a strong structural trend supporting Aveva's growth.

"All of these companies meet the demanding criteria we apply when considering investing in a company. We look for businesses that have a sustainable competitive advantage, that are leaders in their chosen business area and that are benefiting from a long-term structural growth trend.

"They were all growing nicely before COVID-19 and the underlying growth trends underpinning their businesses have been further accelerated by the pandemic."

How much overseas exposure do you have in the fund?

"We're primarily a UK fund, but we're able to hold up to 20% in overseas companies. We use this additional freedom when we've identified a sector where there's a strong underlying growth trend and the best-in-breed company isn't listed in the UK. Currently we have around 15% of the portfolio in companies listed overseas.

"We hold Amazon and Microsoft and while their share prices have had a pretty eye-watering run this year, which has been followed by a pull-back recently, the fundamentals are strong and the trading updates from these two tech giants have been very powerful. We believe both companies are well positioned for substantial further growth over the medium-to-long term.

"In July, we bought into Swedish telecoms giant Ericsson. It's the number two global provider of 5G network technology, behind Huawei, and we think that with an increasing number of Western governments banning Huawei's 5G technology because of spying fears, Ericsson is in a very strong position.

"The global rollout of the 5G network is a huge project, which could take up to eight years, and we believe that Ericsson is on a comparatively low valuation at the moment when you consider the potential for the company to accelerate its growth and increase margins."

As an 'active' fund manager, has the crisis made it easier or harder for you to identify opportunities?

"While the period has been a challenging one for companies and for investors, it's also been useful for us as 'active' managers using a bottom-up stock-picking approach, because it's helped to differentiate more clearly than ever between the stronger businesses and those with weaker prospects.

"As I've mentioned, many well-managed businesses with strong balance sheets operating in areas underpinned by long-term structural growth trends have been using share price weakness as an opportunity for merger and acquisition activity to strengthen their competitive position.

"Other companies, perhaps in sectors that were already in decline, such as high street retail, are finding it a struggle simply to survive. When we were in a roaring bull market, it wasn't as easy to distinguish between companies with strong prospects and those with weaker ones. The crisis has put those differences into stark relief."

How would you summarise the investment outlook?

"We're remaining vigilant, but overall we're pretty bullish. Our sense is that globally we're getting to grips with the coronavirus. Mortality rates are falling, the US is dealing with a second surge in infections but still managing to get people back to work and US car sales are moving up, which is a major signal of confidence. In China, which went into the crisis first and was the first to emerge, air travel has been forecast to return to pre-COVID-19 levels this month (September).

"While the road ahead is difficult to predict, it's possible to imagine a world starting to return to some sort of normality in six months' to a year's time, with that potentially being accompanied by further positive progress by global stock markets.

"That's all in the context of very low interest rates, which are supportive for equity markets, and look likely to be with us for some time. The Fed, for instance, is now taking a more relaxed approach to inflation, so it's unlikely to raise rates in the US any time soon.

"Here in the UK, the economy faces the additional risk posed

by a negative outcome from Brexit trade negotiations, on top of navigating a recovery from the pandemic. It's important to remember though that the UK economy and the UK equity market are two very different things. Overall, the companies in the FTSE 100 derive around 70% of their earnings from overseas. The majority of the stocks we hold in Marlborough Multi-Cap Growth are truly global businesses and around 80% of the total earnings of our portfolio companies are generated overseas.

"So, while we're far from complacent, we believe the portfolio is well positioned for the road ahead and we're bullish on the prospects for the 40 or so high-quality companies we hold in the fund."

Richard Hallett 08/09/20

Risk Warnings

Capital is at risk. All views are the investment managers' own and do not necessarily represent the views or opinions of Marlborough Fund Managers. Richard Hallett is the Investment Manager of the Marlborough Multi-Cap Growth Fund, which holds some or all of the stock mentioned. The views expressed are for general information purposes only and should not be construed as investment advice. The following is a summary only of some key items in the Prospectus and more details can be found in the Prospectuses. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment.

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Investment in the Company should only be undertaken as part of a diversified investment portfolio. Investment in the Shares should be viewed as a medium to long term investment.

Shares may not be redeemed other than on any Dealing Day.

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