

SHINING A LIGHT ON..... BARING GLOBAL RESOURCES FUND

At a glance

Investing in resources can be cyclical, and therefore there are periods when it is in favour and periods when it is not! As an example in the last five years, investing in an ETF All Commodities Fund would have delivered a return of -27.10% to the end of February 2015. So this is a good benchmark to follow. For this reason it is an area many investors will avoid.

One fund, the Martin Currie Global Resources Fund over the same period returned 1.10%, which showed despite negative sentiment in the sector it is possible to deliver positive returns albeit fairly weak!

The Martin Currie Fund was launched in October 2003, however the significant change occurred in December 2005 when Duncan Goodwin took over the management of the fund. He was widely acknowledged as the key architect of what happened of the next near ten year period. Redesigning the product and effectively making the strategy his. The five years up to when he left in 2014 delivered positive returns of 31.60% against the ETF which was down 9.28%.

Duncan left Martin Currie to take over the Baring Global Resources Fund and has adopted the same process. Since taking over the fund on 6 January 2014 and up to 28 February 2015 the Baring Fund is down 0.76% against the index which is down 13.88%.

The point is that for those looking for a Global Resource Fund, these changes may have been missed by potential investors and therefore this fund becomes a consideration for potential investors. In this update we will touch on two things – firstly why investors might want to invest in this sector and why this fund.

Who are the team behind the fund?

Duncan Goodwin is the lead manager. He started his career with Shell International in 1994 and joined Lehman Brothers in 1998 as an Associate and Analyst. In 2000 he joined Citigroup in equity research and was a vice president before moving to Merrill Lynch Europe in 2002 as a Director and Senior analyst for European oil companies. He joined Martin Currie in 2005 as a sector manager in the global resources team and was responsible for researching and recommending stocks in the energy sector. Duncan joined Barings in 2014.

He is supported by James Goven who manages the Global Agriculture Fund and Peirs Aldred and Clive Burstow both of whom are specialist Global Resource managers.

Fund highlights?

Duncan explained that the sector has had a torrid five years and investors perhaps are unwilling to invest, and those already locked in don't know whether to hold on to gain some upside from any recovery.

His view is that the market will correct but he believes investors need to be careful. In the past much of the returns have been driven by big macro calls, now he feels it is about selective stock picking. It

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is this style of management which ensured his previous fund delivered positive returns when the market was down.

This broader approach is the reason why investors may see a correction in this sector but it is about choosing the right companies.

He describes the fund as a global fund, operating in the global sector but with a resource bent. The fund looks to hold 60% in energy and 40% in materials. It looks to hold about 40 companies with a true conviction on each stock, rather than holding five companies investing in gold if he wants to invest in this sector he will look for one company which he believes can add value. He is also prepared to wait to get the right time to invest.

Currently he doesn't hold the likes of Shell, BP, Rio etc simply because he sees no upside in these companies. We touched on Shell and he explained that they are at the top end of the cost curve and can't afford their dividends, so in theory the risk is that they will cut these at some point in the future. Whereas he started to add BHP to the fund in January for the opposite reason and that is it is at the lower end of the cost curve and therefore has the potential to grow.

One of the largest holdings is an American Paint Company (PPG), as oil prices dropped this benefited the company. So it is about searching for companies where there is upside potential and not just picking the usual resource stocks.

Other stocks he lies include Monsanto where the management is targeting doubling earnings over the next 5 years and has the number one market share in US corn seed. Holcim who are a leading global materials company and currently merging with Lafarge which should drive strong and easily achievable synergy gains, and Petra Diamonds who are a leading diamond producer.

We talked about his style of management in more detail – there are three factors they cover when looking at stocks. Quality which helps drive sustainable, steady results, growth which provides a long term platform for outperformance and upside.

So we talked about what this meant. A lot of what he does on a daily basis is due diligence, so if you are looking at the capital of a business what are they doing with that and what does it mean for the industry. When you are looking at the drop in oil prices what does this mean for producers, he recently travelled to the US to understand more about what firms are doing and identify potential opportunities.

With oil he believes that unless OPEC stop supply the price will likely stay below \$100 for some time to come. More likely it will hover around \$65. Many US producers are holding out turning on production until the price rises to \$65 a barrel, the assumption is that at this point the prices will rise further. However, if everyone does this it floods the market and drives the price back down. It is therefore about avoiding these companies and looking at oil services companies and other beneficiaries.

In summary Duncan has a proven track record and he has taken his process into Barings who have a good pedigree in global resources. It is early days as he needs to reengineer the fund to match his style and a lot of the recent work has been to drive these changes through. For investors there are risks, firstly can resources reverse, secondly if this is a global fund albeit with a resource bent why not choose a global fund and finally can Duncan repeat what he has done in the past. The fund will have greater volatility and currently investors are not being rewarded for this volatility.

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Fund performance

We have excluded performance as past performance does not reflect the new mandate of the fund. Investors need to carefully consider what Duncan has done in the past at Martin Currie and whether he can repeat that.

Conclusion

This fund is in a period of transition. It has a good manager with an excellent track record but there is no guarantee he can repeat past achievements.

The source of information in this note has been provided by Baring and is correct as at March 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.