

**SHINING A LIGHT ON THE.....
Morgan Stanley Global Brands Fund**

AT A GLANCE

Investment Objective	
The Fund aims to grow your investment over 5 - 10 years. The Fund's investment objective is to seek long term capital appreciation through investment primarily (meaning not less than 80% of the volume of the Scheme Property of the Fund) in equity securities of companies in the world's developed countries. The Fund will invest in a concentrated portfolio of companies whose success the Investment Manager believes depends on intangible assets (for example, but not limited to, brand names, copyrights or methods of distribution) underpinning a strong business franchise.	

Inception Date	3 rd February 2003
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=FOGBR04N5V

Management	
Manager Name	Start Date
William Lock	22 nd June 2009
Bruno Paulson	22 nd June 2009

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	66.64%
Large	29.52%
Medium	3.84%
Small	-
Micro	-

Top 10 Holdings		
Total number of holdings	29	
Assets in Top 10 Holdings	54.85%	
Name	Sector	% of Assets
Microsoft Corp	Technology	7.79%
Reckitt Benckiser Group PLC	Consumer Defensive	7.65%
Philip Morris International Inc	Consumer Defensive	6.71%
SAP SE	Technology	6.03%
Visa Inc Class A	Financial Services	5.23%
Unilever	Consumer Defensive	5.17%
Accenture PLC Class A	Technology	4.71%
Baxter International	Healthcare	4.12%
Danaher Corp	Healthcare	3.72%
Heineken NV	Consumer Defensive	3.71%

Volatility Measurements	
3-Yr Std Dev (volatility)	10.85%
3-Yr Mean Return (average)	15.40%

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FUND PERFORMANCE

Performance from 1st January 2013 to 30th September 2019:

	2013	2014	2015	2016	2017	2018	2019
Morgan Stanley Global Brands Fund	17.88%	12.11%	12.17%	25.51%	14.76%	3.52%	24.95%
FTSE World TR	22.36%	11.29%	4.34%	29.59%	13.34%	-3.10%	21.13%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Morgan Stanley Global Brands Fund	15.66%	54.55%	121.76%	761.28%
FTSE World TR	7.93%	42.22%	88.10%	484.88%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

This fund is similar in its aims as those strategies from Barings and JOHCM. The fund aims to provide reduced downside participation relative to the benchmark; since launch the downside participation is about 65%. In percentage terms this means if the market was down -11.6%, then the fund was down -7.6%. On the reverse when the market is up then it captures about 93% of the upside. Averaged out the fund should and does outperform the index.

The team are looking for high quality businesses. Although the fund is called Global Brands it is about focusing on strong global franchises. These fall into four categories; consumer staples, software and IT services, healthcare and other niches.

The companies they look for are those which can consistently compound shareholder wealth over time. They use a doughnut to highlight this looks; on the outside you have strong, sustainable intangible assets / dominate market positions, pricing power high gross margins recurring revenues, robust profits at low capital intensity, strong free cash flow and either re-investment in innovation and advertising to stay relevant or shareholder distribution (or both). Each business needs to pass each of these elements. Ultimately in the middle you have strong governance and management driving high returns and growth.

The ideal fund would be around 27 holdings, value at 20 times earnings and growing at 10% per annum. If that were the case, then nothing would change. This is a buy and hold strategy so turnover is low within the fund, but the reality is that stocks do come out for different reasons.

Altria is a US tobacco brand. The dynamics in the US are different to other parts of the world. In the US it takes 20 minutes to earn enough to buy a packet of cigarettes, in the UK it is an hour and in Australia 2 hours. However, the dynamics are changing and the opportunity for compounding is not as good as before, so they have recently sold out of this.

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Zoetis and L'Oreal are two where the holdings have reduced as the valuations have gone higher. They continue to like the businesses, but the discipline is to trim when valuations are high. They like Disney but have recently sold as they feel it has moved more towards a cyclical business. It doesn't mean they won't hold again but the shift in profile has meant it has moved away from the original profile of holding the business.

They are also looking to avoid those businesses which may be susceptible to downturns in the market; the likes of Netflix and Tesla would fall into this. These are companies with first mover advantage but there are new competitors coming in and they are no longer the only game in town. How they respond is important.

In turns of businesses they like this includes the likes of Microsoft, which is a brand, but more than that. It is a global franchise installed in computers across the globe. It has a loyal customer base and is constantly innovating.

Baxter is a healthcare business producing IV solutions and other products. The cost of developing would be relatively cheap but the compliance and getting to market is extremely prohibitive. BD is another company going down a similar route.

The fund is relatively dull. There will be companies that people don't know within the portfolio and they are happy that they are buying businesses which not everyone is interested in. It is a very simple strategy and if a company doesn't fit the doughnut, they won't hold it. We talked about holding stocks in Asia, especially India and China. Currently the fund does not have any holdings mainly down to corporate governance, but it doesn't mean they won't. Although the fund is split 66% North America, 16% Europe and 6% UK, in terms of revenue 21% comes from Emerging Markets, 49% North America, 13% Europe, 4% UK, 7% Japan and the balance in other Developed Markets.

If they could sum up what they want to achieve it would be to think in absolute rather than relative terms and strive to avoid the permanent destruction of capital. This is achieved by investing in global franchises where it is difficult to break the moat, and they can compound over time. This can be achieved through a concentrated and focused group of holdings.

In summary, this appears a good fund with a well-tested strategy. For those looking for a fund that will protect on the downside (but obviously it won't avoid short term losses), then this could be a strategy to consider alongside Barings and JOHCM. It is closest matched to Barings, who would argue their strategy provides greater flexibility in what they can hold. It is worth adding that although this is called the Global Brands, clearly this is a legacy name and it is perhaps more focused on global franchises which moves it closest to Barings. We believe both of these strategies are good with strong management teams and any potential investor would need to consider which is best for them, or whether a totally different option is better.

The source of information in this note has been provided by Morgan Stanley and is correct as at October 2019. 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. We would also recommend that you receive advice before following up on any decision.