SHINING A LIGHT ON THE……
Brook Emerging Markets Equity Fund

AT A GLANCE

Investment Objective
The objective of the strategy is to capture the best growth opportunities in the emerging markets in terms of capital appreciation and to materially outperform the market despite having a lower risk profile.

Launch date	TBC
Fund Factsheet Link	-

Management	
Manager Name	**Start Date**
Robert Marshall-Lee	TBC

UPDATE….

This is a new strategy that is due to be launched on 1 June. The manager successfully managed a similar strategy at BNY Mellon/Newton, being in the top 1% of performance over 1, 3, 5 and 10 years (note this is date from Brook). His team from BNY Mellon/Newton will also be joining him, with Sophia Whitebread becoming the assistant portfolio manager. For those who know the previous strategy they will already be aware of the style.

As an overview the approach is benchmark agnostic, searches out thematic tailwinds, focuses on superior corporate governance and aims to invest in less risky companies. His performance demonstrates how he has been able to be ahead of the game when investing and he is happy to stick with stocks to deliver the right outcome.

He aims to have a high tracking error, low turnover (around 5 to 7 year holding period), high active share and a concentrated portfolio of between 30 and 40 names. The aim is to invest in companies where they can capture both growth opportunities and compound returns with lower absolute risk.

The move to Brook was more about a change in direction at Newton, which he felt restricted what he could do. At Brook he can run a tighter portfolio, zero in on the best opportunities and allocate capital to companies that deserve it.

His focus is on capturing structural emerging market growth where the compounding impact is far clearer over the long-term. He believes that only a small number of companies will capture the lion's share of value creation. Some of the growth areas that he sees are education, emerging market healthcare, electric vehicles, renewable energy, asset management and financial protection, Indian consumer, travel and entertainment, online platforms, and digitalisation.

Examples of holdings include a lithium business in Chile, another is Samsung SDI which they invested in when the batteries in the galaxy phones were catching fire, solar companies in China, and discretionary spending in India include cars, pizzas, and cinema). They were early investors into Tencent and still have some exposure to online platforms.

The approach they take means they can be very selective on what they invest in and they have around 200 companies on their watchlist – these all have a good thematic fit, superior corporate governance and strong balance sheets.

Much of the work centres around their proprietary matrix, which looks at areas like minority alignment, invested capital, compounding value, governance, management, thematic drivers, sustainable competitive advantage, margin of safety, compounding cashflows, and scenario view (base, bear, and bull case). Samsung SDI also highlights that controversies can be good and sometimes provides opportunities.

This approach enables them to lower the risk because they understand businesses through areas like revenues, governance, and competitive advantage. They also look to avoid cyclical businesses. This helped them during March / April 2020 where they could quickly assess the holdings they had and only two flagged as potential negatives. As a result, they sold a travel company but kept an Indian Cinema chain.

The largest weightings will make up between 40 to 60% of the portfolio, medium around 20 to 40% and then smaller around 10 to 20%. Robert explained that the focus should not be on the top ten as this will not tell the whole story. This is a portfolio of the very best companies, and therefore risk will come from stock selection.

In addition to the likes of Tencent and Samsung SDI, other examples include Longi Green Energy who are a Chinese manufacturer of photovoltaics and a developer of solar projects, and Hindustan Unilever which is an Indian consumer goods company and subsidiary of Unilver covering products such as foods, beverages, cleaning agents, personal care products, and water purifiers.

In summary, clearly Robert has moved because he felt restricted in his previous role and this new opportunity enables him to do what he has done in the past. Bringing his team across is important when managers leave and start again. On the face of it, this feels like a manager with a proven track record, and we have deliberately avoided looking at that past track record as this can be dangerous (just look at start managers who have left and failed at new ventures). We would add this to a watch list and would be interested to view holdings and how these change over time, and then performance across different market scenarios. The latter might be harder but it should become clear over the next 3 years.