

SHINING A LIGHT ON THE..... Morgan Stanley Funds (UK) Global Brands Fund

AT A GLANCE

Investment Objective
The Fund aims to grow your investment over 5 - 10 years. The Fund invests at least 80% of its assets in shares of companies in developed countries on a global basis.

Inception Date	3 rd February 2003
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04N5T

Management	
Manager Name	Start Date
Nathan Wong	19 th July 2017
Alex Gabriele	30 th September 2017

FUND PERFORMANCE

Performance from 1st January 2016 to 30th September 2021:

	2016	2017	2018	2019	2020	2021
Morgan Stanley UK Global Brands Fund	25.51%	14.76%	3.52%	25.39%	9.18%	13.39%
MSCI World NR	28.24%	11.80%	-3.04%	22.74%	12.32%	14.60%

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

	1 year	3 years	5 years	Since Launch
Morgan Stanley UK Global Brands Fund	13.04%	43.69%	92.00%	970.00%
MSCI World NR	23.51%	40.07%	83.40%	586.68%

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.

Tracking Error	Information Ratio	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
8.85	0.11	91.51	83.61	63.50	47.22	0.72	4.39	Blend/Large

Volatility Measurements	
3-Yr Std Dev (volatility)	12.74%
3-Yr Mean Return (average)	12.84%

Investment Style Details	
Giant	53.37%
Large	40.33%
Medium	4.52%
Small	0.00%
Micro	0.00%

Top 5 Holdings – 30 Equity Holdings		
Microsoft Corp	Technology	9.77%
Philip Morris International Inc	Consumer Defensive	8.69%
Reckitt Benckiser Group PLC	Consumer Defensive	6.01%
Visa Inc Class A	Financial Services	5.22%
Danaher Corp	Healthcare	4.94%

Top 5 Sectors	
Consumer Defensive	31.55%
Healthcare	23.57%
Technology	21.89%
Financial Services	10.35%
Industrials	7.21%

Top 5 Regions	
United States	75.82%
United Kingdom	10.80%
France	5.82%
Germany	4.88%
Netherlands	2.09%

UPDATE....

We have reviewed this fund a few times. The performance has been mixed over the last 12 months, so this was an opportunity to understand how this happened. The strategy looks to follow the Benjamin Graham principle of compounding wealth:

Rule 1: Don't lose money

Rule 2: Don't forget RULE 1

The team strive to avoid the permanent destruction of capital. The key is downside capture and also participating in the upside. In 2020, when markets went down the fund was down -11.69% vs the index which was down -20.19%. Running the figures up to 9 November (vaccine Monday) the fund was up +12.65% against the index which was up +8.42%. So, up to this point the fund was doing what it was supposed to do.

It is also worth just highlighting the volatility of this compared to the index. This is less than the index but over three years delivering higher returns. All of this leads to the aim to deliver a strategy that is something that can be tucked away and carry less worry over the long term. What we mean by this is that although there may be periods when markets go down, this over time aims to grow wealth slowly.

It does this by identifying quality companies at a fair valuation. This means the strategy is not a growth or value strategy but really a blend between the two.

The strategy was caught out on two fronts. Firstly there was a growth bubble in IT and this fund does not hold the stocks that were caught up in that bubble. Then we saw value swing when vaccine Monday hit. The three areas they cover are healthcare, consumer staples and IT software and services, and all of these were the weakest performers over the past 12 months.

On the value side the best performers were materials, financials, consumer discretionary and industrials, and on the growth IT semis and IT hardware. The strategy is not immune to periods of underperformance (2004, 2012, 2013, 2016 and 2020) but where it has really come into its own has been down periods in 2008, 2011 and 2018.

Although they look to be holders of companies for long periods of time, they are active and have seen their weighting to consumer staples fall back from a peak of 70%, and an increase in exposure to IT.

We talked about Microsoft as a holding, and they explained they have trimmed this and added to other stocks. However, they came in early and see this as a well-managed company with high barriers to entry, and the power of the cloud strengthens the business.

We also discussed Philip Morris and they explained that this is not an exclusionary strategy. They hold this because they are leaders in lower risk products. They use “heat not burn” technology which looks to convert existing smokers to less harmful products rather than trying to attract new addicts.

They have added Estee Lauder as a new holding and sold Unilever and Fox Corporation. They have also added to Roper Technologies, Pernod Ricard, Thermo Fisher and Becton Dickinson.

Although this is not an ESG Fund, they do have a lens which looks at universal risks, industry specific risks, company specific risks and ESG opportunities. We would expect to see this where the focus is on quality businesses who can compound earnings. In terms of engagement, they have engaged 250 on ESG matters over the last twelve months and voted against the board 28% of the time.

In summary, this strategy aims to build a concentrated portfolio of the highest quality global companies. They look to strong management who will allocate capital in the right way, ensuring these companies can grow. And this is not about overpaying, this is about paying the right price which means some holdings may be perceived as value and some might have a growth tilt, but as a whole it comes together as a blend.

It has underperformed because it did not hold the runaway growth winners, nor did it hold the value stocks which relayed towards the end of 2020 and the start of 2021. This should be a sleep easy strategy which over time will outperform the index. The incremental outperformance means that this grows the longer the strategy is held.

Importantly the strategy is built to protect on the downside and deliver lower volatility. In a period where we are likely to have shorter cycles and more recessions, this may be the type of strategy that investors would want to hold.

The source of information in this note has been provided by Morgan Stanley and is correct as of October 2021. 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.