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# Fund manager interview: maintaining a global focus

Global Equities | March 2021

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Portfolio Manager

## With economies looking towards a post-Covid world and concerns around inflation growing, we talk to the manager of the Global Focus strategy about what 2021 might have in store

**With the Global Focus strategy exposed to topics that have been fashionable over the past few years, are you wary of the bubble risk of valuations of some large tech stocks?**

We are not thematic investors, nor do we build portfolios from the top down. We prefer to assess individual companies on their own merits, looking for those that can compound-out growth consistently over a multi-year period. This naturally gives us exposure to certain secular trends – ecommerce, cloud computing, health care innovation etc – many of which proved successful in 2020. These themes will not disappear in 2021 and many have arguably been accelerated.

Take cloud computing as an example. Corporate IT spend in 2020 was more than $3.5 trillion[1], but only a small fraction of this went on cloud computing. But it is growing and its share of overall spend is only set to increase. This will benefit Amazon and Microsoft, the dominant players in cloud infrastructure – a market that is not easy to disrupt. So while valuations may be stretched in some names, we still have conviction that we can find great companies with a growth runway that more than justifies the current valuation.

**With economies likely to rebound in a post-Covid world, and a possible return of inflation, might you shift allocation towards more cyclical areas?**

Equity markets are pricing in an economic recovery at a rate faster than previously expected, something we also see reflected in the bond market. Improved economic sentiment is generally a boost for the average company that relies on economic growth to drive earnings growth, and so in turn benefits value as a style. However, the post-Covid world is likely to be characterised by low economic growth, low interest rates and a build-up of debt – something that is unlikely to benefit the average company. So while there will be companies for whom mass vaccination represents the potential end to a temporary headwind, for example travel

[1] https://www.gartner.com/en/newsroom/press-releases/2020-07-13-gartner-says-worldwide-it-spending-to-decline-7-point-3-percent-in-2020, July 2020

and consumer-related industries, there are many others for whom this is short-term support. While we have no intention to materially shift the portfolio, we do have exposure to a range of companies that should benefit from the reopening of economies, such as Mastercard, LVMH and HDFC.[2] Our focus remains on high-quality companies that we believe can compound-out returns over a multi-year time horizon.

### The portfolio is heavily exposed to the US. Will this change?

Our exposure to the US is not driven by a top-down view of that market. It just happens that we find a lot of great businesses in that part of the world. However, these are global businesses. If you look beyond company headquarters through to where they make their money, our US exposure drops to around 45%, which is broadly in line with the MSCI ACWI.[3] What you also notice is that our exposure to emerging markets (EMs) is the second largest. This is deliberate and comes from a mix of direct and indirect exposure. We have been adding selectively to EMs over the past few months, although not necessarily in big tech. Our focus has been more on the emerging platform businesses or financials, the latter being an industry that can be much less commoditised than its developed market counterpart.

### Your focus on such a broad investment universe is analysis- and research-intensive. How do you deal with this?

We benefit from a very deep research capability and a strong collaborative culture at Columbia Threadneedle. We have analysts across the globe, many of them portfolio managers in their own right, who can all potentially source ideas for us. This give us direct access to local market knowledge, which is incredibly important to us. It also helps that they share a similar belief in what makes a company great. However, with that level of resource it is important to have a disciplined philosophy and process. This is a high conviction global portfolio, so we want to understand that we are investing in truly the best company in its industry on a global basis.

### The strategy is well positioned in terms of sustainability. How important are environmental, social and governance (ESG) aspects in company valuations?

ESG is absolutely key to our process. It is one of the pillars that underpins our research framework and is inextricably linked to our focus on competitive advantage and industry structure. Just as we would question a management team that allocates capital poorly, so we would question those that don't consider their ESG profile. While governance is clearly key for every investment we make, we believe it important to focus on the material issues that impact a company when considering the environmental and social elements.

It is, in part, for this reason that we have developed our own proprietary RI rating system which focuses on industry materiality. This gives us conviction that we are asking the correct question and focusing on the data points that matter for that particular company. In our view, this targeted and integrated approach should be supportive of stable, long-term outperformance.

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[2] Mention of specific stocks should not be taken as a recommendation to deal
[3] Columbia Threadneedle analysis/MSCI, February 2021

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