



# Martin Currie Global Portfolio

MNP's exposure to strong secular growth may make it an attractive long-term opportunity...

Update

13 April 2022

## Overview

Martin Currie Global Portfolio (MNP) offers investors a highly concentrated, low-turnover approach to global quality-growth investing. The trust is managed by Zehrid Osmani, whose portfolio continues to be underpinned by what he believes are the most promising megatrends present within global economies, such as resource scarcity and demographic changes. Zehrid believes in turn that his companies should be able to demonstrate superior long-term growth trajectories, given the huge opportunities these megatrends represent. However, Zehrid will also ensure that each company has all the hallmarks of a high-quality business, so as to avoid the speculative end of the market, a process we outline further in the **Portfolio section**.

As we point out under **Performance**, MNP has seen a recent period of underperformance against wider markets due to the rapid rise in inflation as well as the crisis in Ukraine, which has created a risk-off environment and disproportionately impacted growth stocks. However, Zehrid tells us the long-term investment case for his holdings have not been impacted by this, and so he has made few changes to his portfolio.

Zehrid's confidence is due to both his granular understanding of portfolio risk and his conservative valuation approach, which allow him to ensure he is well positioned for an increasingly risky environment. He also maintains this confidence through market cycles, and is fully aware that his style of investing can fall out of favour for short periods of time. Thanks to the board's zero-discount policy, MNP's **Discount** has remained stable during the current market, currently trading on a 0.8% discount.

Sustainability also remains a key feature of MNP, with Zehrid taking an equally detailed approach to **ESG** analysis. MNP is in fact not only ranked as the most sustainable trust in the AIC Global sector according to Morningstar, but is also in the top 1% of all global equity strategies (both open- and closed-ended).

## Analyst's View

Thanks to Zehrid's sophisticated and consistent investment approach, we believe MNP remains a good option for any investor looking to gain exposure to quality growth stocks or looking to increase their overall equity exposure, given the trust's global remit. However, it is important to note that growth investing does come with certain risks, as we are currently seeing in today's markets. Yet MNP's underperformance during periods of rising interest rates is perhaps not unexpected, given its inherently high underlying valuations. We are also encouraged by Zehrid's levelheadedness during these periods, as the manager has avoided the temptation to compromise his style at times when the market becomes difficult.

In fact, if investors share Zehrid's views around the nature of market cycles and our current position in them, then this may be an attractive entry point into what is a long-term strategy, given the recent falls in the trust's shares. We note that shareholders are shielded from the widening discounts which similar growth strategies have seen, although there are some risks to growth investing which investors need to be able to stomach.

We also believe MNP is an excellent choice for any ESG-conscious investor, given Zehrid's commitment to ensuring the comprehensive integration of ESG into his investment process. This is reflected in MNP's sector-leading **ESG** credentials.

### Analysts:

David Johnson

david@keplerpartners.com



Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

### BULL

Recent growth-stock sell-off may offer an attractive entry point

Top-percentile ESG metrics amongst global equity strategies

The manager remains committed to his style, despite the current environment

### BEAR

Gearing can amplify losses

Increasing inflationary pressures could prolong sell-off

The inherently high volatility of growth investing may not be suitable for cautious investors



## Portfolio

Martin Currie Global Portfolio (MNP) follows a process designed to create a concentrated portfolio of high-quality and high-growth equities from across the world. Zehrid Osmani took over as co-manager on 30 June 2018 and sole manager on 1 October 2018, and has demonstrated a consistent, dedicated approach to quality-growth investing, in spite of the changing market environment seen since. Outside of Zehrid's high-conviction approach to investing, MNP is also characterised by its sector-leading ESG credentials – not only amongst its closed-ended peers but also amongst the wider open-ended global equity fund peer group, as we discuss in more detail in our ESG section.

Despite rising inflationary pressures and the apparent rotation into value stocks, Zehrid remains absolutely committed to growth and is fully confident in the long-term potential in his portfolio, which is underpinned by strong sectoral growth themes. When analysing companies, Zehrid takes an ultra-long-term view, with at times a decade-long investment horizon. He looks through shorter-term economic noise to focus on the growth potential that can be derived from his companies' thematic opportunities, rather than focussing on the short-term fluctuations in share prices that can result from fickle market sentiment.

Zehrid's process is broken down into three stages: 1. idea generation, 2. fundamental analysis and 3. portfolio construction. One of the common themes across all three stages is his granular understanding of all aspects of his companies and portfolio. This is not merely an understanding of obvious factors like thematic exposures, but also of the less obvious like the nature of the end consumers of his companies' products, whether they be corporates, consumers or governments. This in-depth understanding of his holdings has been a key advantage for MNP during what has been a difficult period for both quality and growth investing, as it allows Zehrid to have a complete understanding of any company's operational weaknesses. This in turn prevents him from holding any company whose long-term outlook will be materially impaired by rising inflation. Importantly, despite MNP's positions in expensive high-growth companies, Zehrid's focus on earnings momentum means that he avoids the speculative end of the growth market. In practical terms, he tends to avoid the zero-earning companies that have become increasingly synonymous with growth investing, and are the most susceptible to an increase in interest rates. Zehrid currently only holds one company that is not profitable, in the form of the disruptive online fashion retailer Farfetch. Zehrid believes it is on a path to profitability within the next year or two thanks to its rapidly increasing returns on invested capital, which will be between 10% and 20% in the next two years. Another

part of Zehrid's detailed analysis is the forecasting of his companies' potential performance during extreme market downturns, or what he calls 'Dark Sky' scenarios. While this was incredibly important during the COVID-19 pandemic, it is still a key cornerstone of the process, helping to ensure that MNP's companies can survive both increasing prices and the disruption caused by the current sharp rise in geopolitical tensions.

It is worth remembering that portfolios which are dedicated to a single style of investing will inevitably have periods where their styles fall out of favour. Even if companies have strong long-term growth potential, they will be affected by changing market sentiment, such as we have seen in recent months. Even before the outbreak of the war in Ukraine, increasing concerns around rising inflation had led markets to scorn highly valued high-growth companies in favour of cheaper, more cyclical companies. In our recent conversations with Zehrid he has shown a keen awareness of the current rotation in the market, and crucially he views this as part of the natural market cycle, and not an external shock which will jeopardise the investment case for his holdings.

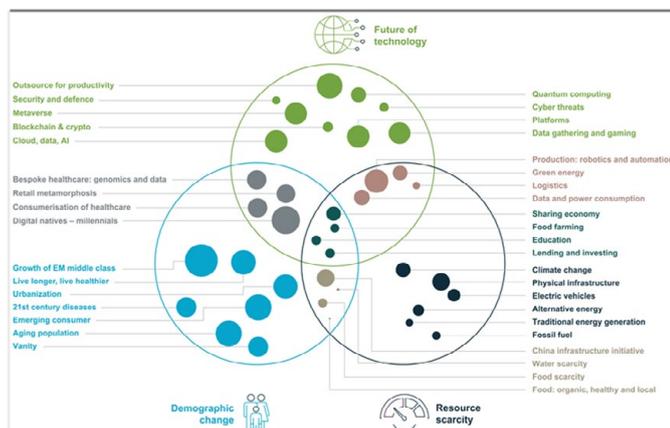
Zehrid believes that over the past quarter, we have been moving from the recovery part of the economic cycle, and are now more likely to be moving into the slowdown phase of the cycle, rather than expansion, due to the risk of downward revisions to macroeconomic forecasts, as a result of the rising geopolitical risks, pandemic relapse risk in China, and the Ukraine/Russia conflict. He thinks that during the transition period from recovery, monetary policy will begin to normalise – as we are currently seeing with the potential for interest rate rises – and that there will also be a spike in market volatility as investors adjust to the changing environment. What is important is that the recovery phase of the market makes MNP an inherently out-of-favour strategy, with all of its major factor exposures (i.e. growth, earnings momentum and quality) out of favour. More importantly though, if the economic cycle moves into slowdown from here, there is typically a growing emphasis on companies with strong earnings momentum or high-growth companies with potentially strong future earnings, and quality characteristics, like those in MNP's portfolio. Zehrid also acknowledges that the recent crisis in Ukraine, while hopefully a short-term issue, has increased the likelihood of lower global economic growth. He now believes that the probability of global stagflation (the devastating combination of low-to-zero growth and rising inflation) has increased to a low but not negligible 10-15% likelihood in the near term, particularly in Europe. Such an event would cause global economies to resolutely move quickly through the expansion phase and into a possible slowdown, which he believes would favour MNP's investment style even more in relative terms.



Despite the rapidly fluctuating markets, Zehrid has made almost no changes to his portfolio in recent months, being confident in the long-term potential of each of his stocks and retaining the high active share (96.4%) that has long characterised his approach. He remarks that despite the rise in inflation, he has always used a very conservative discount rate of 8% when valuing his companies. This means that even if interest rates on government bonds were to rise to 4%, there would be a substantial cushion in the discount rates he uses, meaning that in his mind his companies would remain attractively valued. We also note that MNP has no direct Russian holdings, and thanks to Zehrid's granular understanding of his holdings, he also indicates that MNP has a negligible c.1% underlying revenue exposure to Russia as well.

Aside from stocks, a recent change has been made to the underlying themes that Zehrid is actively capitalising on, as he has added the 'metaverse' as a new sub-theme within his 'future of technology' theme. This, 'demographic changes' and 'resource scarcity' are the three major themes in the portfolio. A snapshot of the current themes within MNP can be seen below, with the size of each dot reflecting the relative exposure of MNP. The metaverse represents the use of augmented and virtual reality to create a new system through which individuals and businesses can work, play and interact with one other. Zehrid is particularly excited by the business applications of the metaverse because it can transform practices like industrial design, whereby engineers will be able to create perfect virtual replications of their products in the metaverse, thus speeding up development and reducing the costs of prototyping a product. Yet as with some of the other themes that Zehrid currently observes such as renewable energy, he believes there is too much competition in the metaverse platform space, which has driven down the profits that could be generated. Instead, he prefers the 'pick and shovel' approach, investing in the companies which supply the necessary components for the facilitation of the metaverse, such as semiconductor manufacturers.

**Fig.1: Thematic Exposures**



Source: Martin Currie, as at 28/02/2022

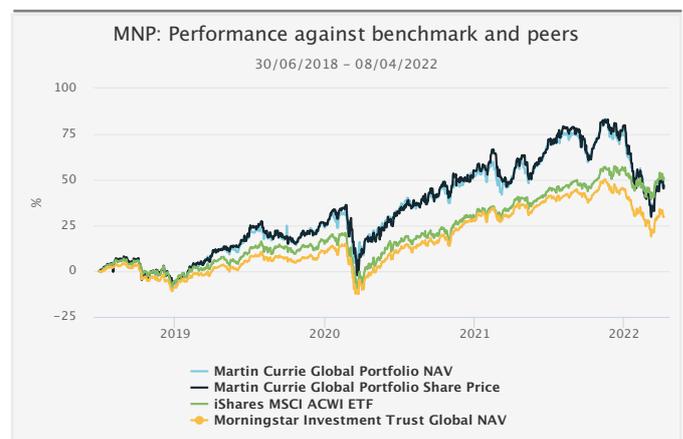
## Gearing

On 23/11/2020 MNP's board announced the introduction of gearing. Prior to that MNP had operated without it, but now the trust has a £30m loan in place. MNP's gearing is structural in nature, and is expected to be maintained (in nominal terms) into the future. Gearing is utilised evenly across the portfolio, increasing the trust's overall exposure to the market, rather than to purchase new holdings. MNP's net gearing is 10% of NAV (as of 28/02/2022), higher than the 5% simple average of its peers. The board believes that the use of gearing is a better utilisation of the closed ended structure over time, and should therefore make MNP more attractive to investors as a result.

## Performance

Since Zehrid began managing MNP on 30 June 2018, the trust has generated an NAV total return of 45.4% and a share price return of 46.9%, thus slightly underperforming the 50.9% total return of its benchmark the MSCI ACWI (proxied by an ETF here). However, MNP has outperformed its peers in the AIC Global sector, which generated a simple average NAV total return of 29.8% (figures as at 08/04/2022). It is important to note that prior to the recent market downturn MNP had substantially outperformed its benchmark since Zehrid took over management, returning 74.2% between 30 June 2018 and 31 December 2021, compared to the 55% return of its benchmark. While Zehrid's track record is now approaching the four-year mark and he has already experienced multiple market cycles, we remind investors that Zehrid's investment time horizon is well over five years, with an average annual turnover of 29% over the last three years (equal to an average three and a half-year holding period). Zehrid's long-term views around secular growth opportunities, as well as his moral views around investing and his commitment to sustainability, mean it is unlikely he will rotate his portfolio with short-term changes in market

**Fig.2: Performance Since Change Of Manager**



Source: Morningstar

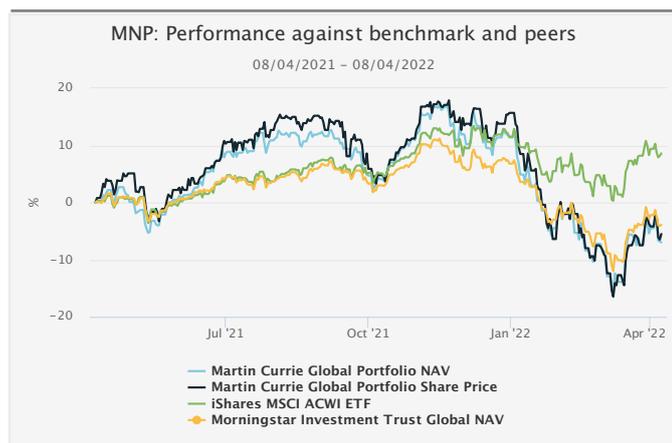
**Past performance is not a reliable indicator of future results.**

sentiment. Were he to do so, it would compromise his approach and potentially indicate style drift, in our view something that is never welcome in investment managers because it reduces their reliability.

The last 12 months have been a roller coaster for equity markets, condensing wildly different trends into a short period which included the tail end of the value rally in Q1 2021 as well as a period of growth-stock outperformance during Q4 2021. But by far the most influential factor over this period – arguably even rivalling the influence that the COVID-19 growth rally had on MNP’s performance – has been the sharp rise in global inflation expectations combined with the outbreak of the war in Ukraine, both of which have acted as major sources of risk. While this has caused a market sell-off, as can be seen in the below graph, it has impacted growth stocks particularly hard because any expected rise in interest rates will lead to the market applying a greater discount rate to any company’s future earnings. Over the 12 month period, MNP has generated an NAV total return of -7.0% and a share price return of -5.5%, compared to the 8.6% of its benchmark and the -3.9% simple average NAV total return of its peers (as at 08/04/2022).

As with the initial COVID-19 crisis, extreme market dips have the potential to be short-lived. If investors are of the same mind as Zehrid, then they may view the present time as an opportunity to ‘buy the dip’. If short-term inflationary pressures dissipate and we see a resolution to the Ukrainian crisis, then that could act as a powerful source of positive market sentiment which could potentially lead to a strong rebound.

**Fig.3: 12-Month Performance**



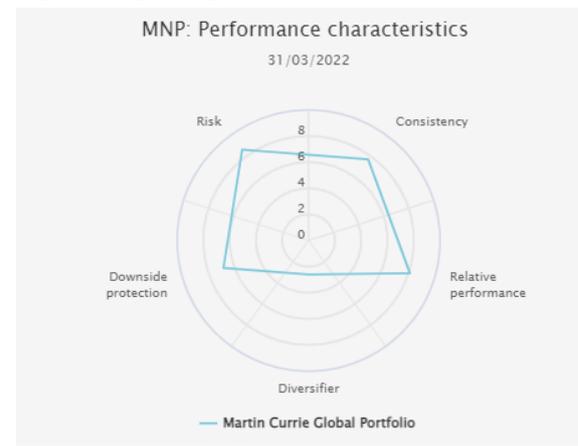
Source: Morningstar

**Past performance is not a reliable indicator of future results.**

In our proprietary spider chart below, we show how MNP has performed versus an expanded peer group of all global, global small-cap and global equity income trusts over the past five years in some key categories. Each category is scored out of ten based on rolling 12-month

returns over the last five years, and scores are normalised to the peer group. As this data reflects the performance characteristics investors would have experienced over the last five years, the chart does capture a short period when MNP was managed by its previous manager, although mostly it reflects Zehrid’s performance. Despite the recent sell-offs, MNP still ranks highly for relative performance as well as consistency, the expected hallmarks of a long-term approach to quality-growth investing given the past outperformance of the style. This is a reflection of MNP’s comparatively high alpha (a measure of value-add by a manager versus a benchmark) and also its high hit rate, which measures the number of consecutive periods of positive returns. MNP does nevertheless rank poorly for diversification, although this is the result of growth stocks being the primary drivers of global equity performance over the sampled period, which inherently reduces MNP’s diversification potential.

**Fig.4: Kepler Spider Chart**



Source: Kepler Partners, Morningstar

**Past performance is not a reliable indicator of future results.**

Over the last five years MNP has generated an NAV total return of 57.3%, compared to the 64.8% of its benchmark and 48.5% simple average NAV return of its peers (as at

**Fig.5: Five-Year Performance**



Source: Morningstar

**Past performance is not a reliable indicator of future results.**



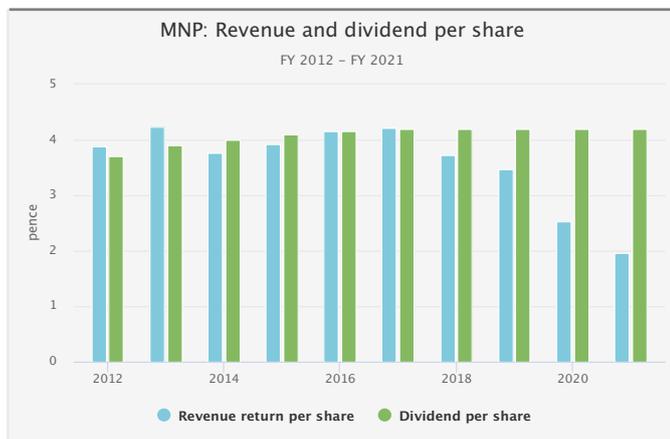
08/04/2022). We note that prior to Zehrid’s tenure MNP was managed by Tom Walker, who followed a global core style of investing.

## Dividend

MNP’s sole objective is that of capital growth, and as a result Zehrid does not amend his investment process for for the provision of income. However, MNP does pay a quarterly dividend, with its FY 2021 dividend of 4.2p per share in line with that of the prior financial year. MNP’s board have a record of at least maintaining the dividend since 1999. MNP has a current dividend yield of 1.2%, below the 2% simple average of its peers (as at 08/04/2022).

Zehrid’s quality-growth style of investing has meant revenue generation has progressively declined since he took over. That said, the board does have sizeable reserves to tap into to shore up the dividend. The board is able to utilise both revenue reserves and a special £70m reserve to fund the dividend, and as such we estimate that MNP has a reserve coverage ratio of 20 times its most recent full-year dividend. It is important to note that the special reserve is not solely used to support the dividend and can also be used to buy back shares, a key factor in maintaining the zero-discount policy.

**Fig.6: Revenue And Dividend Per Share**



Source: Martin Currie

## Management

MNP has been solely run by Zehrid Osmani since October 2018 when he replaced Tom Walker, who had run the trust for the previous 18 years. In addition, Zehrid also heads the open-ended Global Long-Term Unconstrained strategy at Martin Currie (which is a subsidiary of Franklin Templeton).

Zehrid joined Martin Currie from BlackRock, where he was a senior portfolio manager responsible for the management of several pan-European equity funds, with a specific focus on unconstrained high-conviction long-term portfolios, in addition to being the head of European equities research.

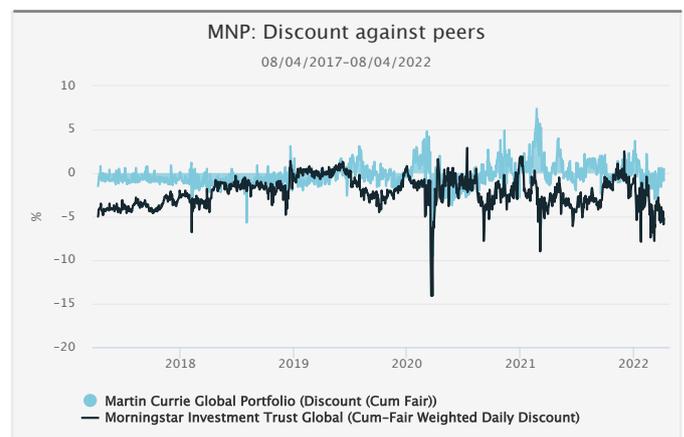
In July 2020 Legg Mason, which is the parent company of Martin Currie, was purchased by Franklin Templeton. Nonetheless, there has essentially been no change in the way in which Zehrid runs the strategy or in the operation of the wider team, and we do not expect this to change moving forward.

## Discount

As highlighted in the graph below, MNP has predominantly traded close to its NAV over the last five years. Currently the trust trades on a 0.8% discount, compared to its peer group’s simple average 6.2% discount (as at 11/04/2022). Over the last five years, MNP has traded on a simple average discount of 0.3%, which is also narrower than the peer group’s 2.2% five-year simple average discount. We note that having either a narrow discount or a premium is a key feature of MNP as the board operates with a zero-discount policy, repurchasing and issuing shares to keep MNP’s share price as close to its NAV as possible. This policy has shielded MNP’s shareholders from the widening discounts that other growth-focussed strategies have seen in recent months.

Over the last 12 months the board has been a net issuer of shares, having sold 1.2m shares from treasury, equal to 1.3% of the current number in circulation. While maintaining a zero-discount policy can seem like an onerous task, and especially during periods of heightened risk, the board is well able to sustain this policy thanks to a £70m special reserve to fund share buybacks when needed. In our recent conversations with the team, they have pointed out that MNP has seen little selling pressure

**Fig.7: Five-Year Discount**



Source: Morningstar



during the last 12 months despite the sharp downturn, which is potentially a reflection of investors being aligned with Zehrid's long-term approach to investing.

## Charges

As a sign of the Martin Currie's commitment to growing the trust, MNP's fee structure was changed in February 2021 with the abandonment of the performance fee and the introduction of a simpler two-tiered management fee. Currently MNP has a 0.5% management fee per annum on the first £300m of NAV, with a secondary tier of 0.35% per annum on anything above this threshold. MNP's most recent ongoing charges figure (OCF) is 0.65%, in line with the AIC Global peer group's simple average of 0.63%. MNP's current KID RIY is 1.12%, lower than the 1.33% simple average of the peer group; however, we caution that calculation methodologies can vary.

## ESG

Since Zehrid took over the management of MNP, sustainability and ESG have been centre stage in his investment process. Rather than utilising a company-wide approach or relying on external data, Zehrid approaches ESG in an entirely proprietary fashion, having created his own highly detailed approach to it. Zehrid's approach is applied meticulously to each company he analyses, and his analysis is based around a long list of over 50 individual risk criteria, with each factor being assigned a score of one to five. The use of a quantitative scoring system allows Zehrid to translate what can at times be a very qualitative process into one which can be easily compared across all companies. This is advantageous for a global equity strategy, as each region can have wildly different regulations and attitudes to sustainability and ESG. Zehrid also utilises the UN's Sustainable Development Goals to assess his companies, with MNP having a largely positive contribution to each of the 17 goals, indicating that the trust is in aggregate conducive to improving global sustainability.

Zehrid is continually developing his approach and has added a subset of criteria around 'social exploitation', a reflection of his increasing awareness of the 'S' in ESG and its importance to his process.

While Zehrid's use of ESG analysis goes hand in hand with the other factors he analyses, there have in fact been occasions where companies have ended up being excluded or sold out of based primarily on insurmountable ESG risks. As an example, Zehrid sold out of Unilever based on concerns around the oversight of its African operations. Evidently, he does not merely sit idly by when ESG risks arise in his holdings, as active engagement around ESG factors is also a hallmark of his approach. In 2020 alone Zehrid or other members of his team led 681 private engagements across the world, and Zehrid believes that one-third of companies are not even targeting the correct ESG objectives, let alone making meaningful progress on the correct targets. The PRI (the Principles for Responsible Investment organisation) places the MNP team amongst the top 9% of investment organisations for active engagement.

Thanks to Zehrid's sophisticated and proactive approach to ESG, MNP ranks incredibly highly for sustainability when compared to both its closed- and open-ended peers. Morningstar has given MNP a sustainability rating of 'high' when compared to its wider global equity peers, and it is the only trust within the AIC Global sector to have achieved this accolade. MNP's sustainability credentials are so high that it ranks amongst the top 1% of all 7,200 products within Morningstar's global equity large-cap sector. MNP has also been awarded the 'low carbon' designation by Morningstar.



## Disclaimer

---

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

**Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.**

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

