

# Global Growth and Income for a Volatile World

The Brunner Investment Trust  
March 2019



Value. Shared.



**Allianz**   
Global Investors

## Introducing Allianz Global Investors



**Lucy Macdonald**, CIO Global Equities  
Allianz Global Investors and Portfolio Manager of  
**The Brunner Investment Trust**

**1** Focused on active investment with a culture of risk management

---

**2** **Allianz Global Investors:** Total assets under management of EUR 505 billion

---

**3** **Brunner Investment Trust:** A GBP 318 million global, actively managed equity portfolio managed by Allianz Global Investors

## Agenda

01

The Investment Climate

02

Digital Challenges and  
Opportunities

03

What is the Brunner  
Investment Trust?

04

Summary

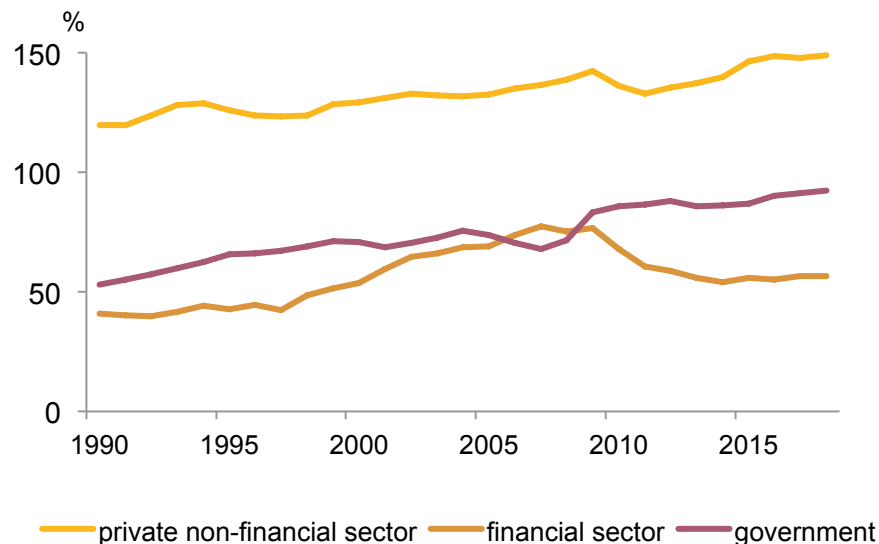
# 01

## The Investment Climate

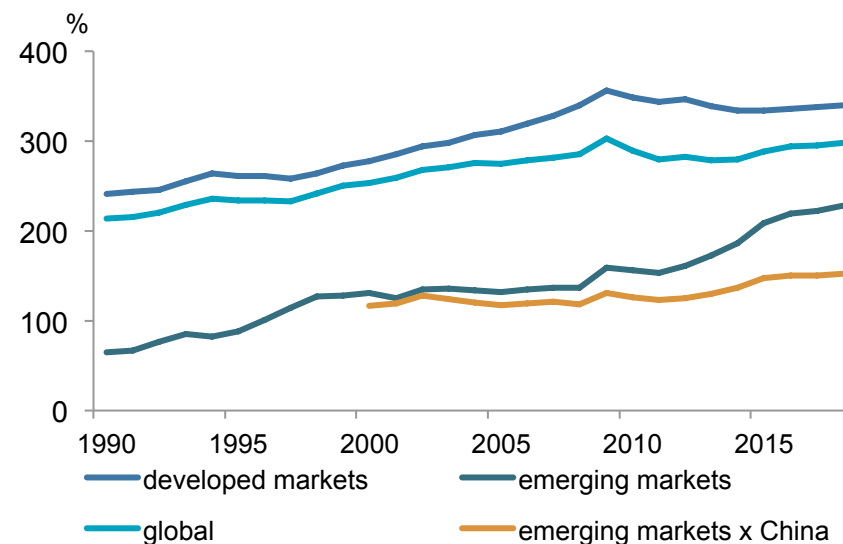


## Ten years after the Great Financial Crisis, how much debt is in the system?

**Global debt to Gross domestic product\* (GDP) by sector**



**Global debt to GDP by region**



Global debt has risen for decades, fuelled by disjointed monetary policy and financial market deregulation.

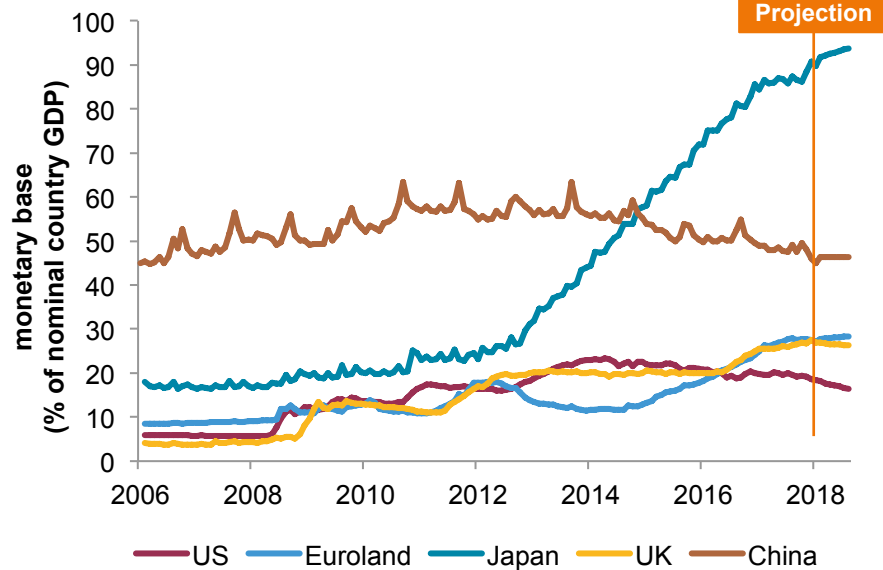
\*GDP is the market value of all final goods and services from a nation in a given year.

Source: Allianz Global Investors Global Economics & Strategy, BIS, Datastream, data as at Q1 2018.

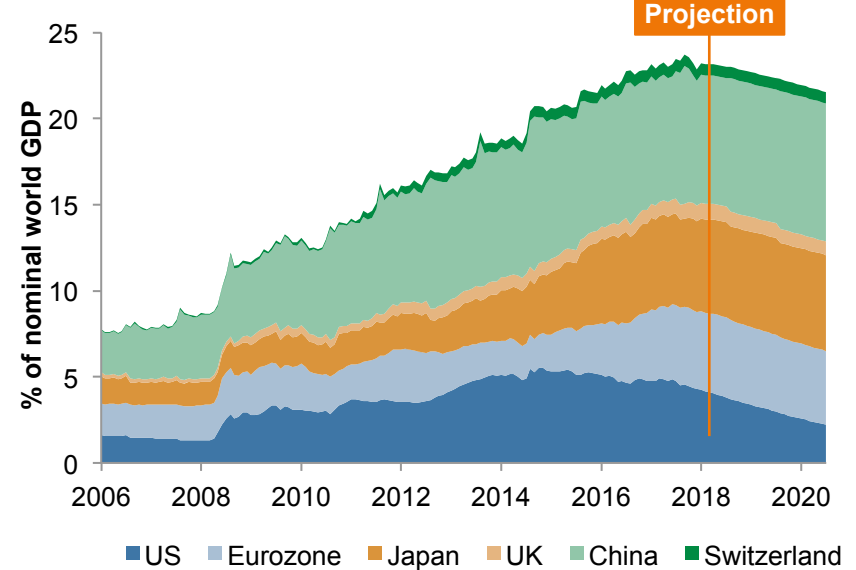
## Liquidity: close to the peak

Liquidity refers to the extent to which assets can be bought and sold at stable prices.

Central bank liquidity stimulus expected to...



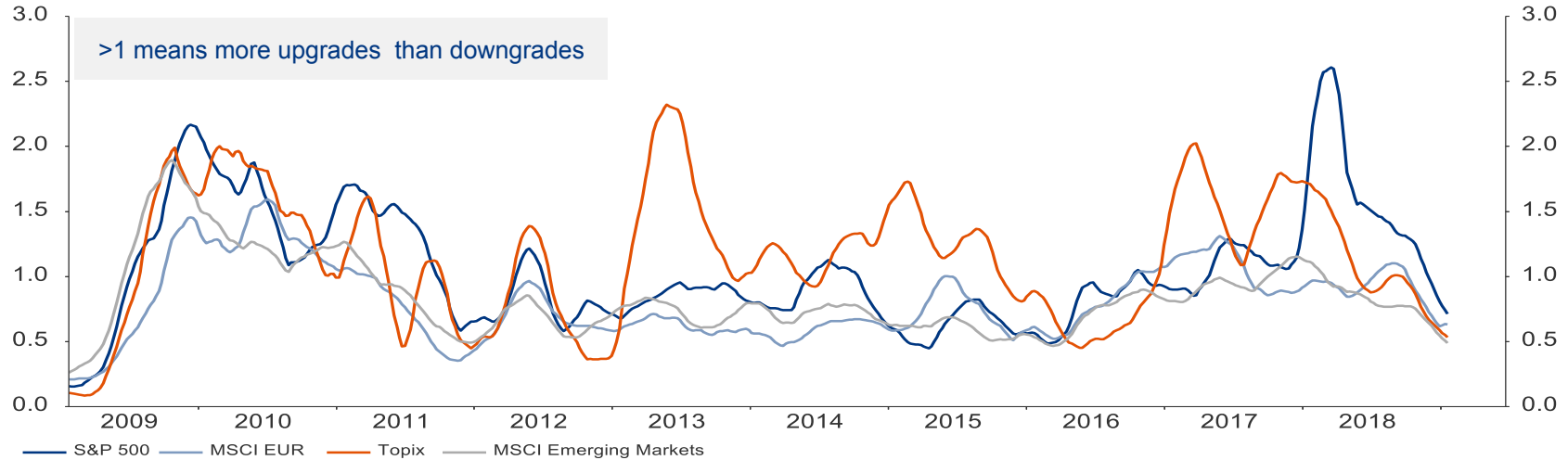
Reach a climax in 2018 (“liquidity peak”)



A decade of central bank purchases is coming to an end.

## Growth: earnings estimates are slowing

### Earnings estimates momentum (ratio of up/down estimates, 3months moving average)



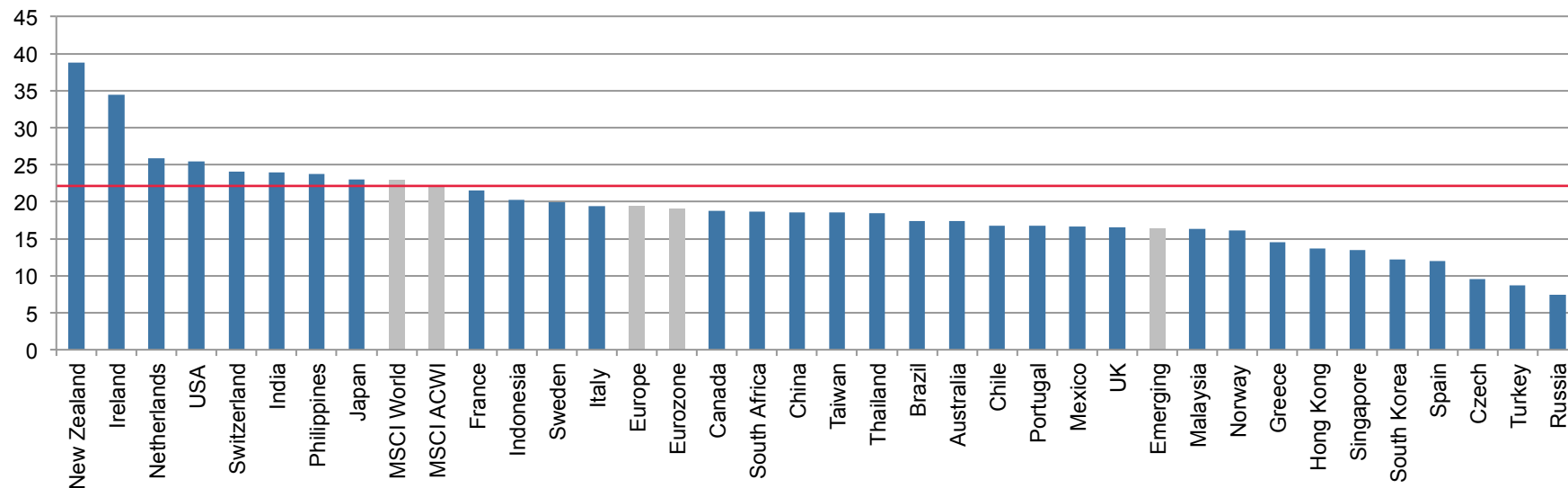
Source: Thomson Reuters Datastream, AllianzGI Economics & Strategy 1/24/2019

Analysts are reducing earnings estimates as US tax cut impact fades and leading indicators cool.

# Valuation: Cyclically Adjusted Price to Earnings Ratios (CAPE)

The CAPE ratio is a valuation measure that uses real earnings per share over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle.

## Index price to 10 year average real earnings per share



Valuations across the globe are below recent peaks. Europe and Emerging Markets are on notably low multiples



## Quality in stocks is more important as liquidity reduces

### MSCI Quality vs. MSCI World – 5 years



**NB:** The MSCI Quality index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.  
Source: Bloomberg, as of February 18, 2019. Past performance is not a reliable indicator of future results.

## Investment Climate summary

- Global stockmarket returns are lower and more volatile
- Active management is even more important in uncertain times
- Focus on quality companies

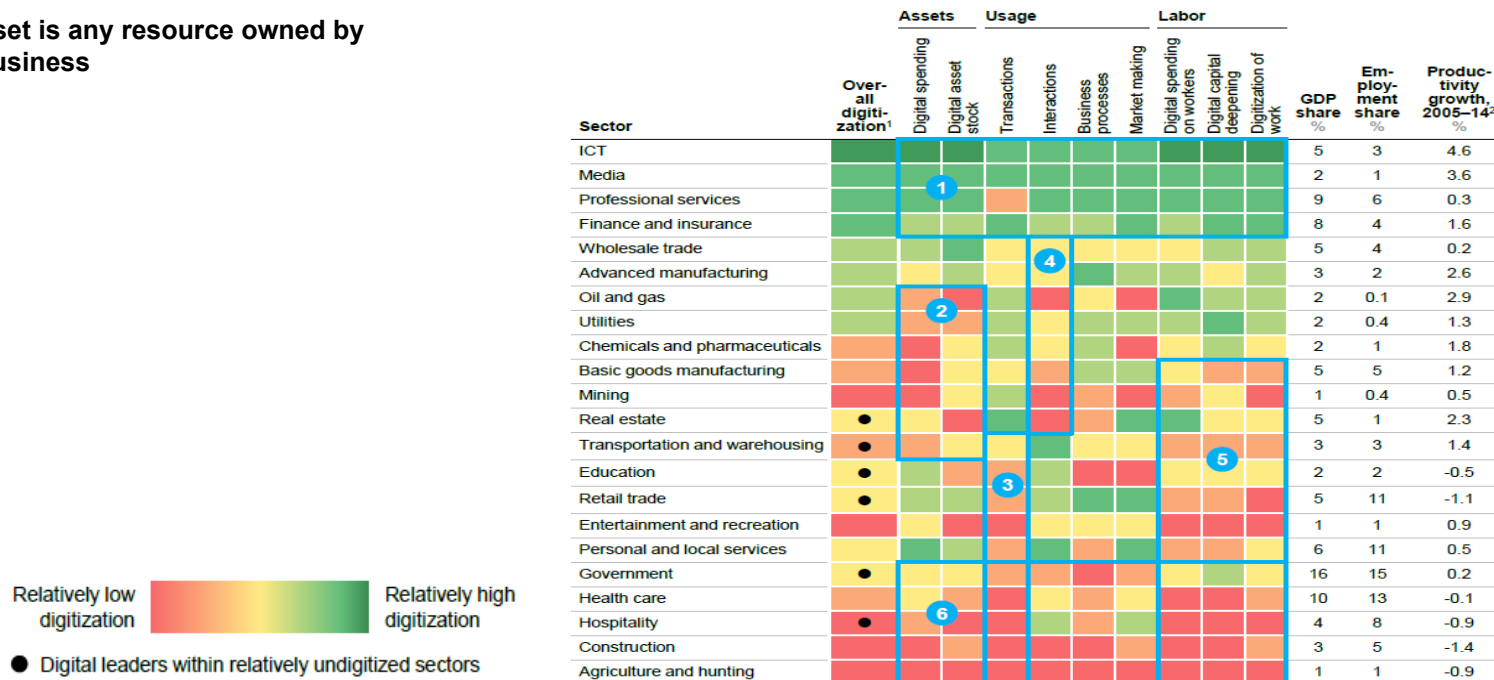
# 02

## Digital Challenges and Opportunities



# Digital assets have doubled over the past fifteen years

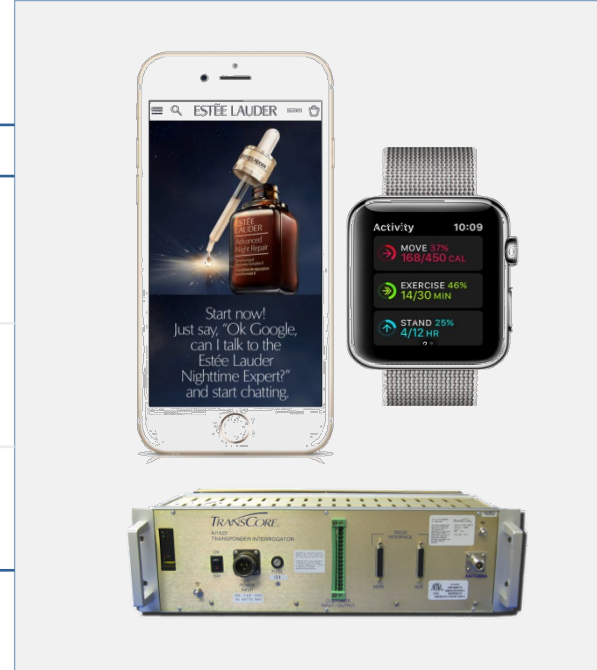
An asset is any resource owned by the business



The strongest sectors in terms of digital labour metrics — such as the use of digital tools and the number of new digital occupations — increased by x8, whilst the rest of the economy barely improved.

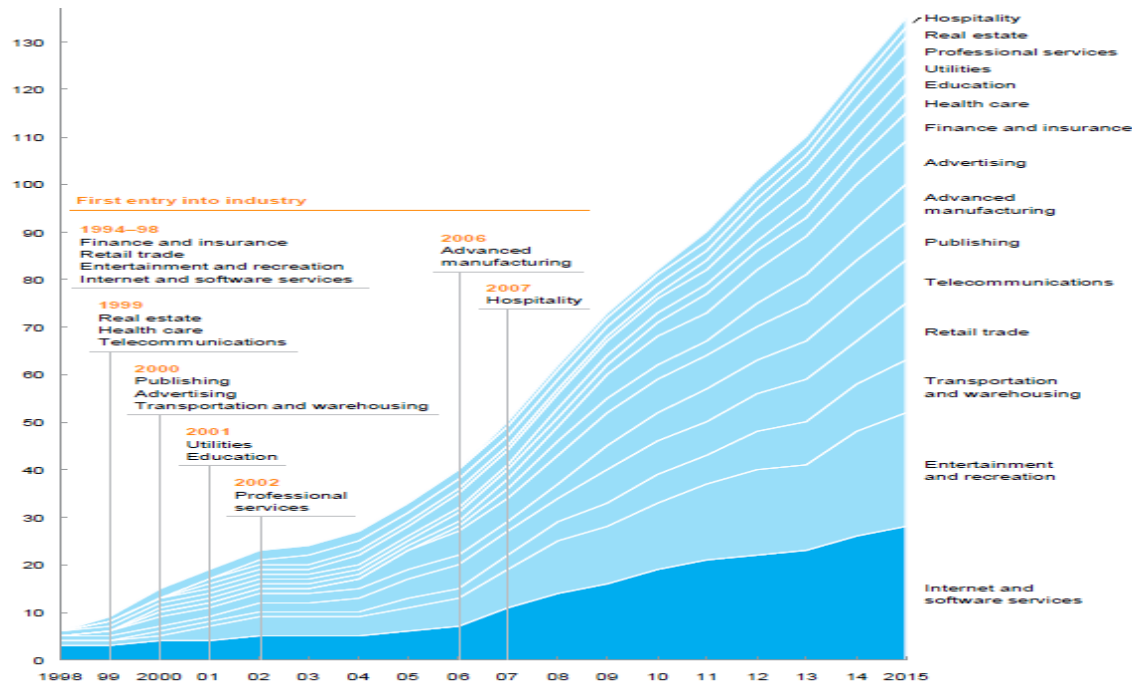
# From Digital to Post Digital?

	Digital	Post Digital
<b>User Model</b>	Business to Consumer (B2C) Sales via the funnel/conversion model	Business to Consumer (B2C) and Business to Business (B2B) Sales & Retention via “the product as experience”
<b>Customisation</b>	Targeting/Programmatic Search Engine Optimisation (SEO)	Stock keeping Unit (SKU) to SK “You” Personalisation, Key Opinion Leaders (KOLs) / Influencers
<b>End Goal</b>	Product sales Increase “dwell time” (addiction model)	Life time experience “Time Well Spent”



## Industry boundaries are blurring

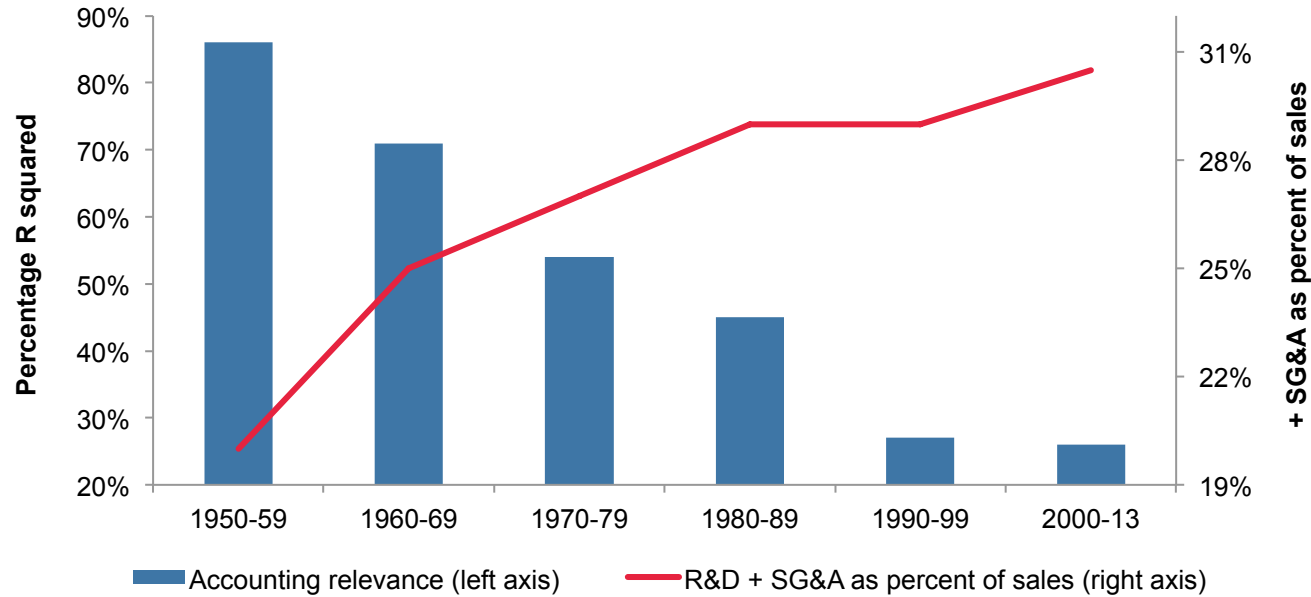
### Product launches across sectors by major digital platform providers (1998-2015)



When Amazon, Apple, Facebook, Google and Microsoft enter an industry, incumbents have to respond with a tech-based offering.. e.g. Amazon has forced retailers to invest in ecommerce.

# The challenge of accounting post digitalisation

Ratios of market values regressed on earnings & book values of companies entering the public market in successive decades



- Published accounts **increasingly misleading** as digitalisation spreads
- Acquired and created **intangible assets** treated differently
- Investors require **deeper research** capabilities to identify value

## Digital Challenges and Opportunities

Digitalisation an all  
pervasive structural  
trend

Investment research  
needs to evolve

Stock dispersion giving  
opportunities for active  
management

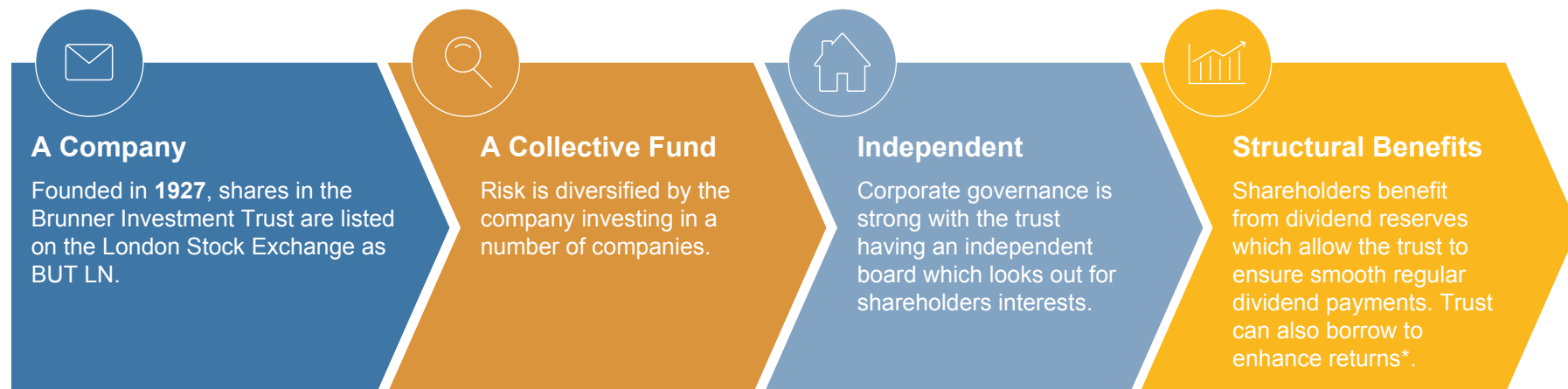


# 03

## What is the Brunner Investment Trust?



# What is an investment trust?



\*borrowing or gearing means returns are enhanced but downturns in the market can also be enhanced.

## Introducing The Brunner Investment Trust



A global, actively managed equity portfolio run by  
**Lucy Macdonald, CIO Global Equities.**

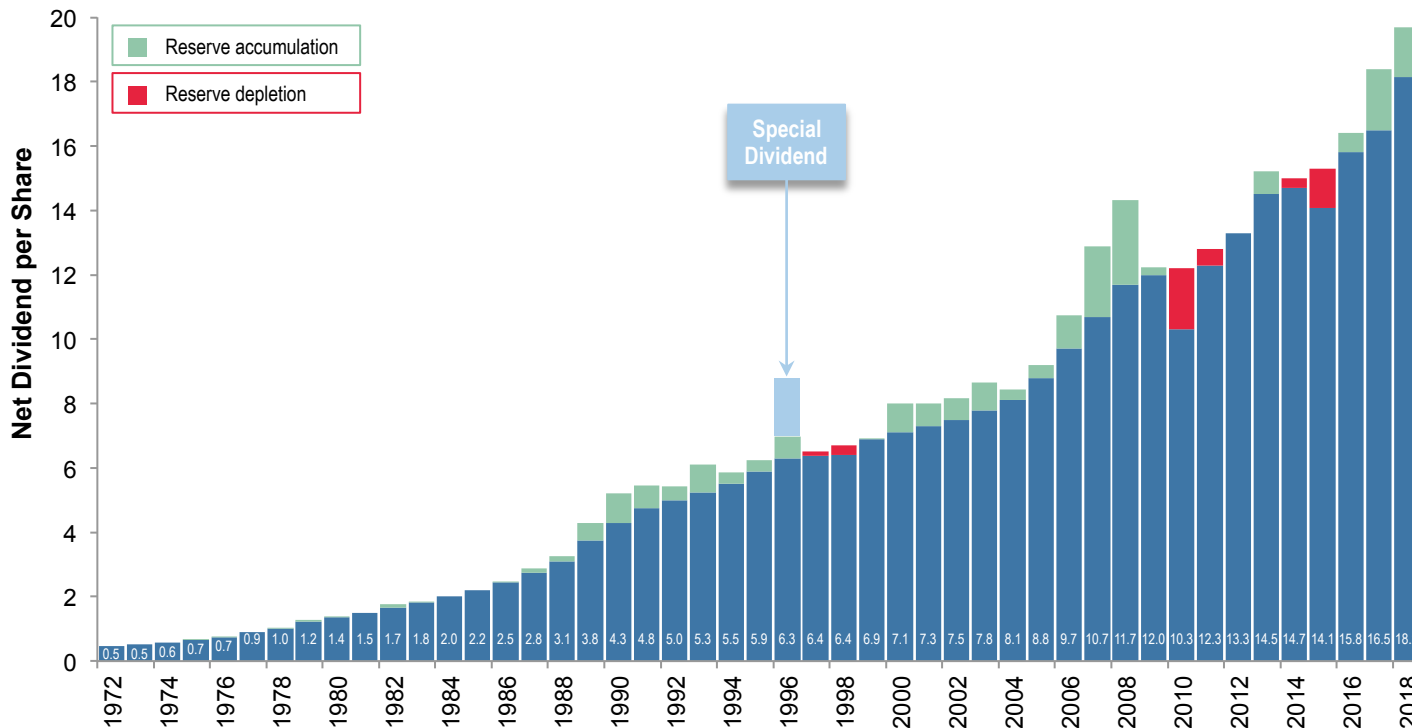
**Objective:** “To provide growth in capital value and dividends over the long-term by investing in a portfolio of high quality global securities.”

- 1** A high conviction global equity portfolio with the potential for discount reduction
- 2** One of the highest yields (2.42%\*) in its sector\* with 46 years of real dividend growth and enhanced dividend cover
- 3** Long-term outperformance vs benchmark

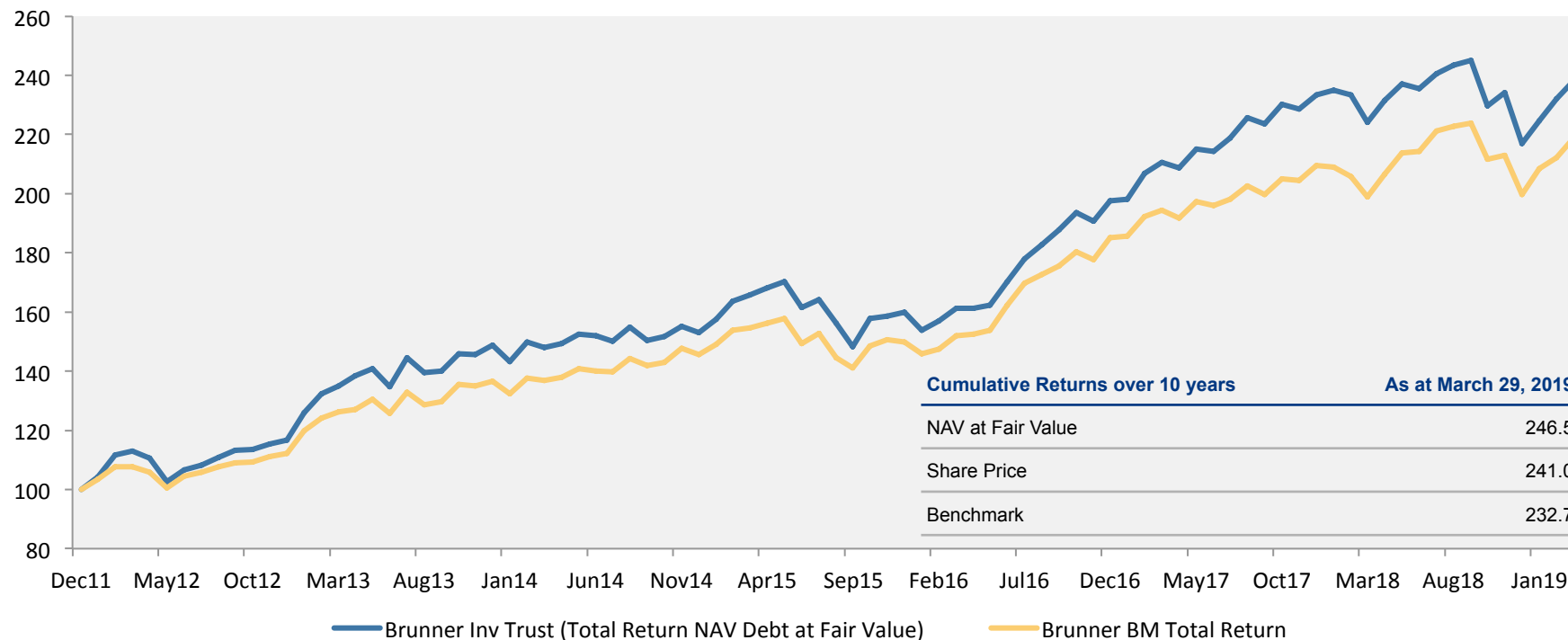
## Consistent dividend growth

### 46 Years of Rising Dividends.

- One of the sector's **highest yielding** trusts at **2.42%\***
- Pays out **quarterly** dividends
- Prudent capital allocation to ensure **consistent** dividend growth
- Strong revenue reserves of 25.4p per share
- Board is minded to grow the dividend in **excess of inflation**

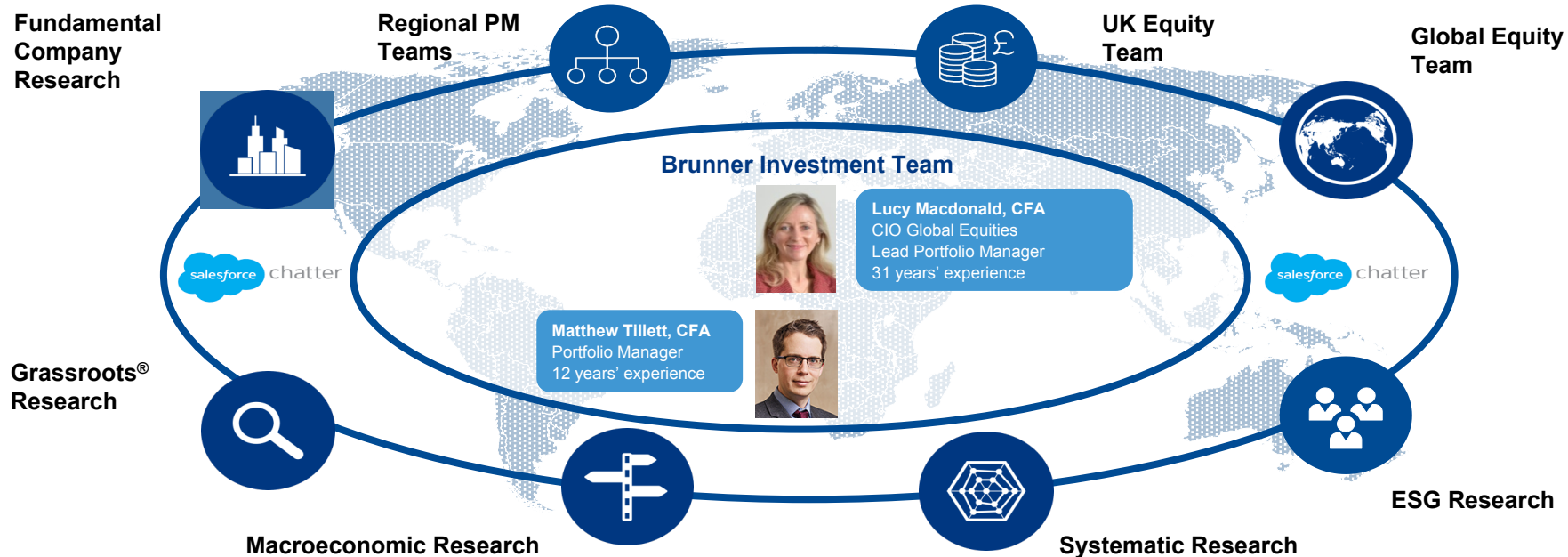


# Track record of performance



Source: AllianzGI UK/ DataStream, as at March 29, 2019, GBP. Total Return. Cumulative returns. Benchmark is 30% FTSE All-Share and 70% FTSE World (ex UK) Index (£), (was 50/50 up to 21/03/17). Past performance is not a reliable indicator of future results. This is no recommendation or solicitation to buy or sell any particular security.

## Global investment resources

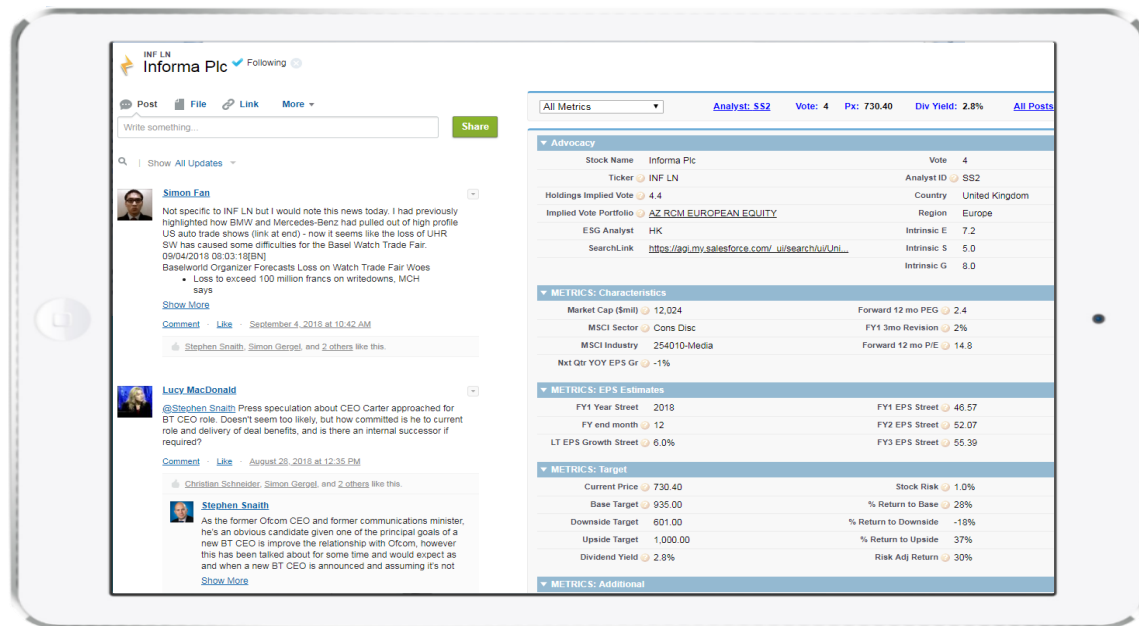


Collaboration across the investment platform facilitated via Chatter, our social enterprise network

# Salesforce Chatter: Our global online investment discussion platform

## Salesforce Chatter:

- A 21<sup>st</sup> century, cloud-based, multi-platform discussion network.
- Hundreds of people can discuss thousands of stocks, in a personalised and manageable way.
- The cumulative activity of the firm becomes a structured and fully searchable knowledge base – nothing is lost.
- Benefits include:
  - exposing formerly hidden investment discussions
  - increased PM engagement
  - improved communication of themes across regions and industries



## A clear investment philosophy

### Quality: Stable above average returns

- Long term competitive advantage
- Strong balance sheets
- High barriers to entry
- Management
- Capital discipline
- Sound on ESG criteria

### Secular growth

- Addressable market growth
- Advantaged business model
- Brand strength
- Technology edge



We seek to identify this universe through fundamental research

### Value, not just “cheap”

- Reverse Discounted Cash Flow
- Enterprise Value vs. Cash returns
- Price/Book vs. Return on Equity

 Avoiding low quality, earnings disappointments and over-valuation



# Grassroots<sup>SM</sup> Research Case Study: Adidas

## Objectives

- Assess global demand for Adidas apparel by speaking to 95 retailers in the US, UK, France, Germany & China
- Supplement qualitative research with web-scraping data from Zalando and FootLocker on over 35,000 products
- Use combined research to determine the extent and effect of discounting in sports apparel

## Grassroots<sup>SM</sup> Research Findings (published October 29 & 31, 2018):

- Adidas sales appear slightly weaker, however supply is being constrained driving margins higher and reducing inventory risk.
- Adidas discounting practices are moderate relative to peers, with minimal discounting in Germany and the US, but more so in the UK.
- Overall athletic shoe sales increased for the majority of retailers in Q3 2018 due to strong fashion, leisure and sport demand.



## Source Comments:

*"Adidas is not selling its attractive Originals series to us any longer, because we are an athletic shoe store, not a lifestyle store (where customers are willing to spend much more). Adidas has been our best-selling brand in previous years, but customers are purchasing them elsewhere if we cannot offer the Originals."*

## Analyst Feedback:

*"Adidas has become more strict and no longer sells its popular Originals models to sports shops but only to fashion-driven retailers. This means supply has been constrained and there is no inventory risk. Thus, sales may slow down a bit in Q3 but a healthy margin would compensate for this. Our web-scraping study also shows that Nike has discounted less in Q2 and Adidas is now narrowing the pricing gap."*

# Investment Process Example: Ecolab

## Liquidity Check

- ✓ Listed on NYSE
- ✓ Over \$1billion market cap
- ✓ Average daily traded volume over \$10mn

## Idea Generation

- ✓ **August 2012:** Chemicals analyst William James initiates with a 4 (buy) rating
- ✓ Stock is also reviewed by the Water Fund investment team

## Team Stock Selection

- ✓ **February 2014:** Christian Schneider sponsors an investment in Ecolab
- ✓ Investment case stresses:
  1. Structural growth markets
  2. Sustainable high returns
  3. Premium valuation
- ✓ Stock is voted and approved, noting historically high valuation

## Portfolio Construction

- ✓ **December 2014:** A 1% position is initiated
- ✓ Following good performance, the stock is hit by dramatically weaker oil prices in 2015-16.
- ✓ Yet Ecolab's longer-term investment case remains intact
- ✓ Use the weakness to increase holding to ~3%
- ✓ Strong performance has brought Ecolab to 4%
- ✓ Profits taken to maintain 4% position.

## UnitedHealth Group

### Leading provider of integrated healthcare



**Description:** UnitedHealth Group is diversified healthcare company based in the US. The company combines three strands of business: providing health care coverage, delivering benefit services; and using technology and data analytics to improve daily health care operations.

**Quality:** The company an industry leader in terms of its scale and diversification across the health care spectrum. Its combination of a core health business and data analytics provides good earnings visibility and high returns.

**Growth:** Structural growth in membership as the company caters to the needs of aging populations. UnitedHealth is also a champion of “value-based care”, which benefits from government-sponsored health plans shifting health care management to private insurers.

# 04

## Summary



## Summary

- Investment climate changing
- Digitalisation a structural trend
- Global growth and income offers diversification of risk and return

## Why Brunner?



One of the highest yielding trusts in its sector with over 46 years of consecutive dividend growth

Long term outperformance vs benchmark

Optimal balance of global diversification and high conviction stock selection

An experienced team with a robust investment process

A discount offers access to the underlying companies at a cheaper cost. The discount has potential for further reductions



## Disclaimer

**This is no recommendation or solicitation to buy or sell any particular security. Any security mentioned above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.** Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

The Trust seeks to enhance returns for its shareholders through gearing in the form of long-term debentures. Gearing can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

A trust's Net Asset Value (NAV) is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities. In line with current industry best practice NAVs are now shown that take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount. It is the capital NAV that is shown, which excludes any income.

**Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.** The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail. Past performance is not a reliable indicator of future results.

The Trust is a UK public limited company traded openly on the stock market. **A ranking, a rating or an award provides no indicator of future performance and is not constant over time.** You can purchase shares through a stock broker. Shares in the Trust can be held within an ISA and/or savings scheme and a number of providers offer this facility. A list of suppliers is available on our website.

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/Main, registered with the local court Frankfurt/Main under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht ([www.bafin.de](http://www.bafin.de)). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, which is subject to limited regulation by the Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)).

**All data source Allianz Global Investors as at 28 February 2019 unless otherwise stated. Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY**

**Active is:**

Allianz Global Investors