

# Martin Currie Global Portfolio Trust

## Lower rates should be beneficial for performance

Martin Currie Global Portfolio Trust's (MNP's) performance was negatively affected in 2022 by the shift in interest rate expectations as US rates quickly moved up from 0.25% to 5.50%, in response to rising prices. Now, with inflation coming down, the consensus view is that US interest rates will soon be lowered, which should be beneficial for the valuation of long-duration growth stocks. Also, Zehrid Osmani, MNP's manager since October 2018, has a proven track record of successful stock picking during periods when the stock market is driven by company fundamentals rather than when investor focus is on macroeconomic developments. Hence, Osmani has a high degree of confidence that there are better times ahead for MNP's performance.

### Five-year NAV vs the benchmark negatively affected by higher interest rates



Source: LSEG Data & Analytics, Edison Investment Research

## Why consider MNP?

MNP has a portfolio of high-quality growth businesses with strong cash flows and robust balance sheets. The manager views the trust's current performance as a 'bump in the road' caused by a shift in interest rate expectations. This headwind to his growth style of investing is abating and investors are refocusing on company fundamentals, which have been the main driver of stock markets over the long term. MNP should be well positioned for this environment given Osmani leads a well-resourced team that undertakes deep, proprietary, fundamental company and industry research, including thorough ESG analysis. The manager stresses the importance of having a valuation discipline, which is borne out by MNP's significant underweight exposure to the dominant US market, which makes up around 65% of the benchmark MSCI AC World Index. The US is trading on a premium valuation of around 21x forward earnings, which is towards the high end of its 10-year range and at a premium to other markets.

An important theme in the portfolio is AI, which Osmani considers is in its infancy and has major long-term growth prospects. He chooses to capture this potential via the trust's semiconductor holdings, including its number one holding NVIDIA, which has been in the portfolio since 2021 and has performed very strongly since the beginning of 2023. MNP is a straightforward listed equity fund with no derivatives. Since 2013, the trust's board has employed a zero-discount policy, aiming to ensure that, in normal market conditions, MNP's shares trade close to NAV.

## Investment trusts Global equities

9 September 2024

**Price** 350.0p  
**Market cap** £230m  
**Total assets** £244m

NAV\* 357.8p  
Discount to NAV 2.2%

\*Including income. At 6 September 2024.

Yield 1.2%  
Ordinary shares in issue 65.7m  
Code/ISIN MNP/GB0005372411  
Primary exchange LSE  
AIC sector Global  
Financial year end 31 January  
52-week high/low 397.0p 299.0p  
NAV\* high/low 405.0p 302.4p

\*Including income

Net gearing (at 31 July 2024) 4.0%

### Fund objective

Martin Currie Global Portfolio Trust's objective is to achieve a total return in excess of the total return of the benchmark MSCI AC World Index. Prior to 1 February 2020 the objective was to generate a capital return in excess of the capital return of a less broad global index.

### Bull points

- Portfolio of global high-quality growth companies.
- Manager is committed to MNP's detailed, repeatable investment approach.
- ESG analysis is an integral part of the research process.

### Bear points

- MNP's performance is likely to struggle in a market led by value or cyclical stocks.
- Relatively concentrated portfolio means that the performance of a single holding can affect the whole fund's performance.
- Annual dividend has held steady for the last eight financial years.

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## **MNP: High-quality, high-return portfolio**

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MNP's performance should improve now that there is an increased chance of a reduction in US interest rates and investor focus returns to company fundamentals. If there is a period of US economic weakness, MNP's portfolio of high-quality reasonably priced growth companies should prove to be relatively resilient.

### **Osmani's perspectives on the current investment backdrop**

Recent inflation data points have been more benign, but the manager cautions that 'we are not out of the woods yet' as there are areas of sticky pricing. Also, some investors are expecting the US Federal Reserve to cut interest rates aggressively. If this does not happen, it is likely to lead to disappointment and stock market volatility. Central banks may take a more cautious stance towards looser monetary policy as it is difficult to extinguish inflation if it reignites.

The August Jackson Hole meeting showed a shift in focus by the Federal Reserve from inflation to growth, although the recent strong US GDP data could muddy the waters for investors expecting aggressive interest rate cuts. Consensus expectations are for 100bp lower interest rates by the end of 2024 from the three remaining Federal Open Market Committee meetings in September, November and December; however, Osmani is expecting a more moderate 25–50bp reduction in interest rates by year end.

If inflation data remain soft and interest rates start to come down, it should be beneficial for MNP's performance given that its portfolio is made up of high-quality, long-duration assets. These stocks struggled when interest rate expectations repriced aggressively in 2022. In an easier monetary policy environment, there should be more of a focus on company fundamentals rather than on macroeconomic developments, which should favour successful stock-picking strategies.

Stock market volatility in the last few months has centred around the risk of a US recession; recently, a couple of the major sell-side firms have increased their probability of recession from 15% to 25% and from 20% to 35%. The manager suggests that there is a 35% to 40% probability of a US recession in the next 12 months, but his central scenario is an economic slowdown rather than a recession. Osmani considers that if the US economy does weaken, MNP's investments in high-quality, high-return growth businesses should perform relatively well.

Shifting his attention to corporate earnings, the manager comments that the Q124 results season was very good, leading to a series of estimate upgrades across all geographies. However, he describes Q224 as less positive, with negative estimate revision trends in Asia and the UK, some estimate reductions in Europe, while in the US the earnings environment is not encouraging. Osmani notes that US large-cap technology company results are now more mixed and there have been other areas of disappointment. He cites US consumer stocks, which have not met consensus expectations, including lululemon, Nike and Starbucks. Luxury goods stocks such as Kering have struggled as US consumers caught a chill, European demand is lacklustre and Chinese consumers are absent.

### **MNP's portfolio breakdown and recent transactions**

At the end of July 2024, MNP's portfolio had 31 holdings, with the top 10 making up 49.9%, which was a lower concentration compared with 54.1% 12 months earlier. The new holding in the top 10 list is Novo Nordisk, which entered the portfolio in May 2024, and whose weight-loss franchise has been very successful. At the end of July 2024, MNP's portfolio had a high active share of 90.7% (0% is full index replication and 100% is no commonality).

**Exhibit 1: Top 10 holdings (at 31 July 2024)**

Company	Country	Sector	Portfolio weight %	
			31 July 2024	31 July 2023*
NVIDIA	US	Information technology	8.6	9.7
Microsoft	US	Information technology	6.2	6.3
Linde	US	Materials	5.3	5.8
ASML Holding	Netherlands	Information technology	5.2	5.1
Ferrari	Italy	Consumer discretionary	4.8	4.7
Moncler	Italy	Consumer discretionary	4.1	5.3
Mastercard	US	Financials	4.0	4.3
Atlas Copco	Sweden	Industrials	4.0	4.3
Novo Nordisk	Denmark	Healthcare	3.8	N/A
L'Oréal	US	Consumer staples	3.8	4.3
<b>Top 10 (% of portfolio)</b>			<b>49.9</b>	<b>54.1</b>

Source: MNP, Edison Investment Research. Note: \*N/A where not in end-July 2023 top 10.

Top position NVIDIA's share price declined after the company's recent earnings report. The manager thought that the results showed good growth, but the earnings beat versus consensus expectations was lower than in recent quarters, so there was some profit taking. Osmani considers that NVIDIA's share price does need to consolidate after performing so strongly again this year. He believes the company is very well positioned to harness the AI opportunity, as the major capex being spent on developing AI by big technology companies provides NVIDIA with a large growth runway. While there were supply issues that weighed on the company's margins during the launch of its integrated chip known as Blackwell, there is strong demand for this product, which combines a graphics processing unit with a central processing unit along with applications and networking tools.

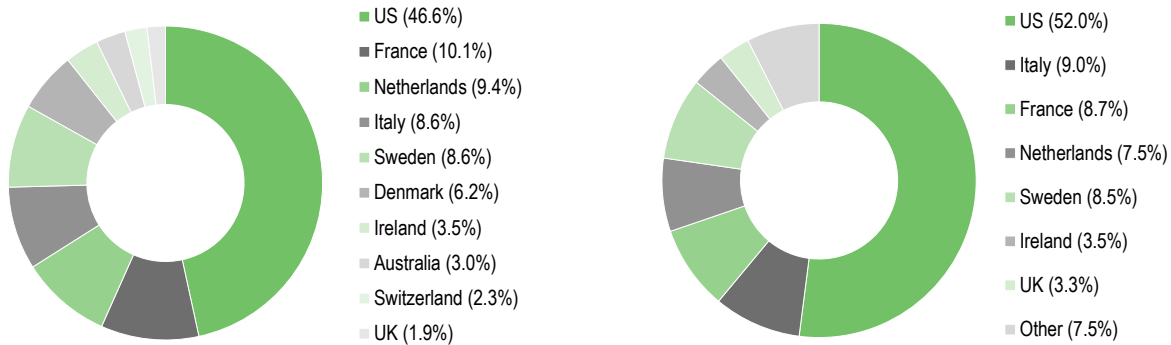
Although the manager thinks there will be questions about whether there is 'froth' in the market for AI stocks, he believes companies benefiting from the growth in AI will be successful. He highlights portfolio companies ASML Holding and NVIDIA, and also a new holding in **BE Semiconductor Industries**, which is a leader in hybrid bonding technology that extends the now expired Moore's law (doubling of transistor density every two years). A pullback in the company's stock price following an earnings release provided an opportunity to initiate a position.

The position in **Nike** was sold following a profits warning, with problems including US consumer weakness, a lack of innovation and Chinese economic headwinds. Osmani considers that it will take a while to fix the innovation issue, and that Nike could fail to grow its business over the next 12 months. The proceeds from the sale of Nike were recycled into **Moncler**, which has delivered decent results despite a difficult operating environment, and **L'Oréal**, which is performing better than its peer Estée Lauder – this company entered the portfolio in 2023 following a profits warning but is now suffering from weak demand and excess inventory levels in China. Estée Lauder has downgraded earnings guidance, but a new CEO will be appointed, which may be a positive catalyst for improved share price performance.

### Geographic and sector breakdowns

It should be remembered that the trust's geographic and sector allocations are a result of bottom-up stock selection. MNP's portfolio by geography is shown in Exhibit 2. A direct year-on-year comparison is not possible due to a change in the way the data are presented; at the end of July 2023, the smaller country weightings were amalgamated as 'other'. However, there are a few important observations: the US is by far the largest weighting in the MSCI AC World Index, 64.5% at the end of July 2024, meaning that MNP was underweight by 17.9pp, and during the prior 12 months the trust's allocation to US stocks declined by 5.4pp. MNP has no allocation to Japan, which is the second largest weighting in the MSCI AC World Index (5.3%).

**Exhibit 2: Geographic breakdown at 31 July 2024 (left-hand side) and 31 July 2023 (right-hand side)**



Source: MNP, Edison Investment Research. Note: Rebased for cash and gearing.

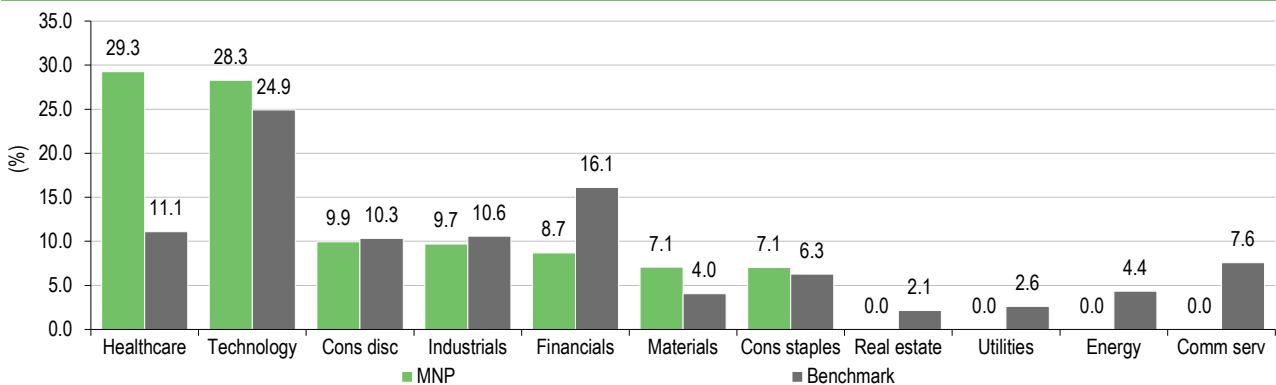
In the 12 months to the end of July 2024, the largest changes in MNP's sector weightings were a 6.6pp higher allocation to healthcare and a 3.7pp lower weighting in consumer discretionary stocks. As a result, healthcare, which is the largest active bet, increased to an 18.2pp overweight position. MNP's largest below-index weightings were communication services (-7.6pp) and financials (-7.4pp). The trust has a zero allocation to four sectors, which combined made up 16.7% of the MSCI AC World Index at the end of July 2024.

**Exhibit 3: Portfolio sector changes and active weights versus benchmark (% unless stated)**

	Portfolio end-July 2024	Portfolio end-July 2023	Change (pp)	Active weight vs index (pp)
Healthcare	29.3	22.7	6.6	18.2
Information technology	28.3	30.3	(2.0)	3.4
Consumer discretionary	9.9	13.6	(3.7)	(0.4)
Industrials	9.7	9.4	0.3	(0.9)
Financials	8.7	6.8	1.9	(7.4)
Materials	7.1	8.5	(1.4)	3.0
Consumer staples	7.1	8.7	(1.7)	0.8
Real estate	0.0	0.0	0.0	(2.1)
Utilities	0.0	0.0	0.0	(2.6)
Energy	0.0	0.0	0.0	(4.4)
Communication services	0.0	0.0	0.0	(7.6)
	<b>100.0</b>	<b>100.0</b>		

Source: MNP, Edison Investment Research. Note: Rebased for cash and gearing.

**Exhibit 4: MNP's sector weights versus the benchmark (at 31 July 2024)**



Source: MNP, Edison Investment Research. Note: Rebased for cash and gearing.

## Performance: Looking forward to brighter times

With a market cap of around £230m, MNP is one of the smallest funds in the AIC Global sector, which is home to some of the UK's largest investment trusts. Its NAV total returns are below average in the periods shown in Exhibit 5; however, longer-term performance is likely to have been negatively affected by a lack of gearing, which was the policy until November 2020. MNP also had a difficult period of performance between Q321 and Q422 when growth stocks struggled in an environment of rising interest rates.

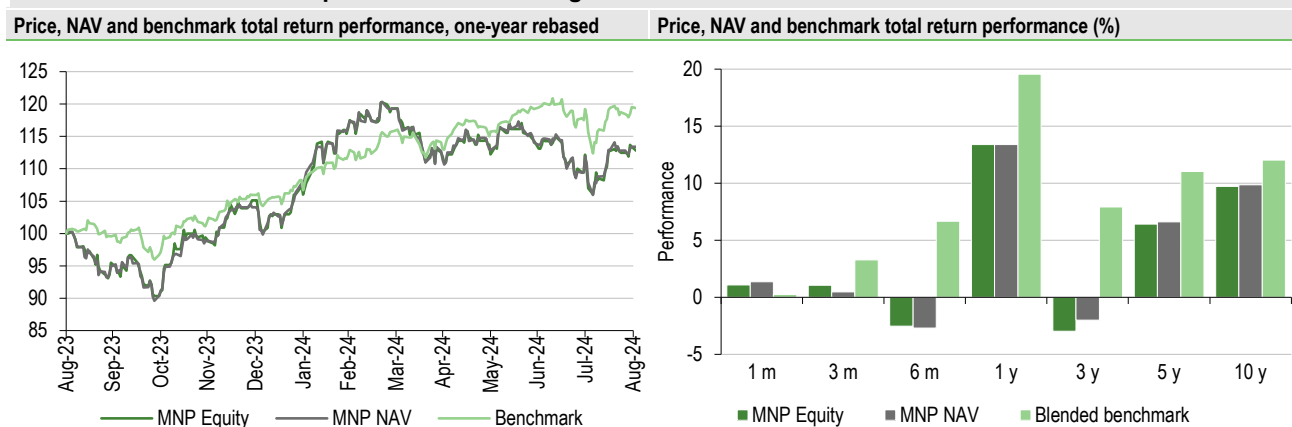
**Exhibit 5: AIC Global sector at 6 September 2024\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Martin Currie Global Portfolio Tr	229.8	8.5	(9.9)	30.4	142.6	(2.5)	0.6	No	103	1.2
Alliance Trust	3,253.8	14.2	19.2	60.1	185.5	(5.6)	0.6	No	104	2.3
AVI Global Trust	1,005.3	16.1	18.5	61.1	150.8	(9.9)	0.8	No	109	1.5
Bankers Investment Trust	1,246.0	11.2	8.4	38.9	151.8	(12.4)	0.5	No	102	2.5
Brunner Investment Trust	572.1	16.4	22.5	64.9	161.5	(2.9)	0.6	No	106	1.8
F&C Investment Trust	4,854.8	15.3	14.0	53.6	182.4	(9.6)	0.5	No	110	1.5
Keystone Positive Change Inv	127.2	(4.6)	(36.1)	(30.3)	(17.3)	(7.4)	0.9	No	109	0.2
Lindsell Train Investment Trust	155.8	4.3	(9.2)	12.5	302.8	(19.5)	0.9	Yes	100	6.6
Manchester & London Inv Trust	241.8	39.7	22.1	59.3	231.8	(21.0)	0.5	No	100	2.3
Mid Wynd International Inv Trust	369.9	11.6	1.8	45.5	209.3	(2.4)	0.6	No	100	1.0
Monks Investment Trust	2,263.4	13.0	(13.2)	40.4	184.0	(11.5)	0.4	No	107	0.2
Scottish Mortgage Inv Trust	10,204.0	5.2	(38.3)	65.8	287.5	(9.7)	0.3	No	115	0.5
Witan Investment Trust	1,540.4	15.3	6.3	35.6	125.4	(6.2)	0.8	Yes	100	2.3
<b>Average (13 funds)</b>	<b>2,004.9</b>	<b>12.8</b>	<b>0.5</b>	<b>41.4</b>	<b>176.8</b>	<b>(9.3)</b>	<b>0.6</b>		<b>105</b>	<b>1.8</b>
<b>MNP rank in peer group</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>2</b>	<b>9</b>		<b>8</b>	<b>9</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 5 September 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

At 6 September 2024, MNP had the second-narrowest discount in the AIC Global sector, which is unsurprising given the trust has a long-term zero-discount policy. The trust has an average ongoing charge (some of the much larger funds have a lower fee structure) and there is no performance fee. MNP has a lower-than-average level of gearing and, with a focus on capital growth, its dividend yield is lower than the sector average.

**Exhibit 6: Investment trust performance to 31 August 2024**



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Commenting on MNP's performance in recent months, Osmani says that only holding Microsoft and NVIDIA of the Magnificent Seven stocks, which make up c 20% of the MSCI AC World Index, has continued to be detrimental. The manager highlights the performance of all seven stocks in the first eight months of 2024: Alphabet (+18.3%), Amazon.com (+19.1%), Apple (+23.4%), Meta Platforms (+50.5%), Microsoft (+12.5%), NVIDIA (+147.8%) and Tesla (-13.8%).

Healthcare, which is MNP's largest sector exposure, has also been a headwind to performance, with stocks including Sartorius Stedim and Veeva Systems. The manager says that these are high-

conviction, attractively valued companies that faced difficult comparisons following the end of the global COVID-19 pandemic, but their businesses are now normalising. Other stocks that have struggled include those of consumer companies Kering, L'Oréal and Estée Lauder.

**Exhibit 7: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	0.8	(2.2)	(8.6)	(5.2)	(27.3)	(19.1)	(18.8)
NAV relative to benchmark	1.1	(2.7)	(8.8)	(5.2)	(25.1)	(18.4)	(17.7)
Price relative to MSCI AC World	0.8	(2.2)	(8.6)	(5.2)	(27.3)	(18.9)	(18.0)
NAV relative to MSCI AC World	1.1	(2.7)	(8.8)	(5.2)	(25.1)	(18.2)	(16.9)
Price relative to CBOE UK All Companies	0.3	(1.5)	(13.2)	(3.4)	(27.5)	(1.4)	39.2
NAV relative to CBOE UK All Companies	0.5	(2.0)	(13.4)	(3.4)	(25.3)	(0.6)	41.1

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end-August 2024. Geometric calculation. Benchmark is MSCI AC World since 1 February 2020, previously a less broad global index.

**Exhibit 8: Five-year discrete performance data**

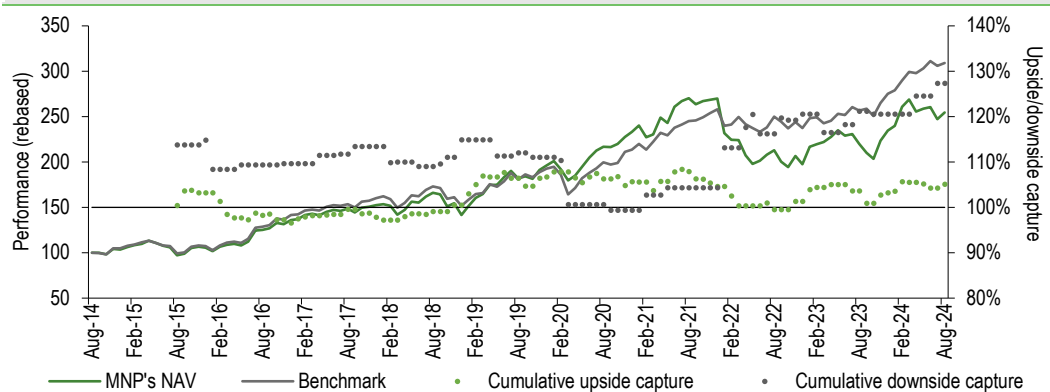
12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI AC World (%)	CBOE UK All Companies (%)
31/08/20	18.2	15.8	6.8	6.5	(13.5)
31/08/21	26.4	26.2	25.7	25.7	27.1
31/08/22	(24.3)	(23.0)	0.0	0.0	1.8
31/08/23	6.4	7.8	5.2	5.2	5.5
31/08/24	13.4	13.4	19.6	19.6	17.3

Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling. \*MSCI AC World since 1 February 2020, previously a less broad global index.

### MNP's upside/downside analysis

The trust's cumulative upside/downside capture analysis over the last decade is shown in Exhibit 9. Its upside capture rate of 105% suggests that the fund is likely to outperform a rising global equity market by around 5%. MNP's downside capture is much larger at 127%, implying that the fund is likely to underperform by more than 25% during periods of market weakness. The downside capture rate increased meaningfully during 2022, as rising interest rates hurt the performance of growth stocks.

**Exhibit 9: MNP's upside/downside capture over the last 10 years**



Source: LSEG Data & Analytics, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

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