EDISON

Martin Currie Global Portfolio Trust

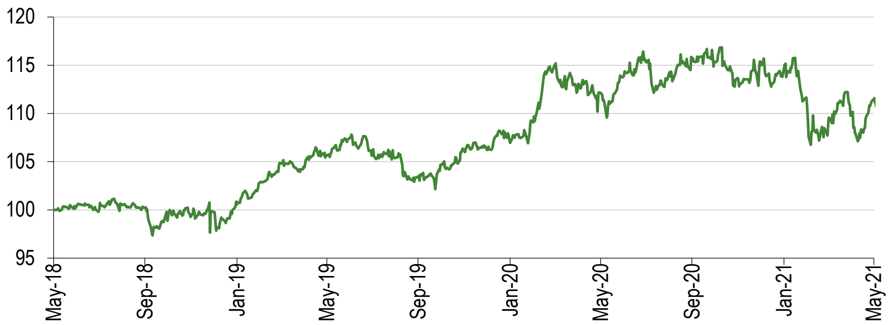
Manager adhering to his high-conviction approach

Investment trusts
Global equities

10 June 2021

Martin Currie Global Portfolio Trust's (MNP's) manager Zehrid Osmani aims to deliver above-market returns over a rolling five-year period. He is confident in the prospects for the trust's high-quality growth portfolio and will continue with his disciplined investment process despite value stocks leading the market during the early stages of an economic recovery. The manager believes that this approach will generate a superior outcome for shareholders over the long term. His view is that following the coronavirus pandemic, high-quality, sustainable growth companies will become even more relevant to investors. MNP affords exposure to a concentrated portfolio of listed companies that have strong environmental, social and governance (ESG) credentials and the fund's charges are competitive. The introduction of gearing in November 2020 provides an additional lever that Osmani can utilise to potentially improve performance.

NAV versus the benchmark (current manager tenure since 1 October 2018)



Source: Refinitiv, Edison Investment Research

The analyst's view

MNP's relative performance has improved since Osmani was appointed as lead manager in October 2018; its NAV is ahead of the benchmark over the last three, five and 10 years, and modestly behind over the last year. The manager's unconstrained approach is illustrated by the trust's meaningful overweight exposure to the healthcare sector and underweight exposure to the US. While the focus on companies' ESG track records is something of a hot topic now, these factors have been incorporated into MNP's investment process for many years. The manager is a firm believer that a company scoring highly on ESG metrics is likely to generate above-average returns.

MNP's shares regularly trade close to NAV

The trust's board employs a zero-discount policy aiming to ensure that, in normal market conditions, MNP's shares trade close to NAV. Its current 1.4% premium compares with the range of an average 0.4% premium to a 1.7% discount over the last one, three, five and 10 years. Due to the trust's significant distributable reserves, the board was able to maintain MNP's dividend at 4.20p per share in FY21 despite a 22% decline in revenue due to the negative effects of COVID-19. The trust currently offers a 1.1% yield.

NOT INTENDED FOR PERSONS IN THE EEA

Price		**385.0p**
Market cap		**£327m**
AUM		**£322m**
NAV*		379.7p
Premium to NAV		1.4%
*Including income. As at 11 May 2021.		
Yield		1.1%
Ordinary shares in issue		85.0m
Code/ISIN		MNP/GB0005372411
Primary exchange		LSE
AIC sector		Global
52-week high/low	397.0p	299.5p
NAV* high/low	383.7p	303.2p
*Including income		
Net gearing*		9.4%
*As at 30 April 2021		

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

- Improved investment performance under current lead manager.
- Portfolio of high-quality, attractively valued global equities.
- Detailed, repeatable investment process.

Bear points

- Modest dividend yield.
- Annual dividend has held steady for the last five financial years.
- The global equity market's forward P/E multiple is at a meaningful premium to its long-term average.

Analysts

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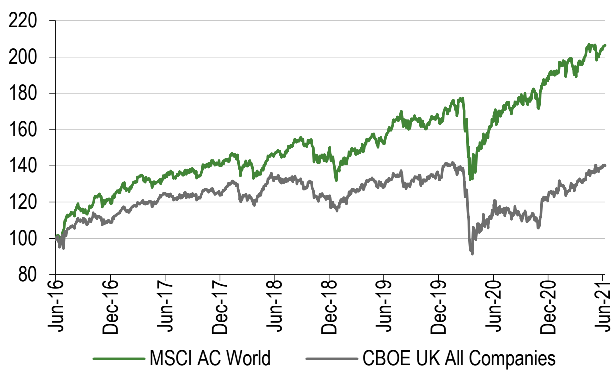
Market outlook: Selectivity warranted

Share prices, particularly those of global rather than UK companies, have rallied very strongly following the coronavirus-led market sell-off in Q120 (Exhibit 1, left-hand side) and the valuation backdrop looks unappealing. The Datastream World Index is currently trading on a forward earnings multiple of 18.3x (Exhibit 1, right-hand side), which is towards the high end of the 10.0x to 19.8x 10-year range and a 27% premium to the average over this period, while the valuation of the Datastream US Index is even more stretched. Although there are reasons for optimism as the COVID-19 vaccine rollout gains momentum and economic growth resumes, investors should remain vigilant. There is potential for a market pullback if company earnings fail to live up to expectations, or heightened inflation expectations suggest that central banks will need to moderate their easy monetary policies.

Exhibit 1: Market performance and valuation

Global and UK indices (£ total return) last five years



Valuation metrics of Datastream indices (as at 9 June 2021)

	Last	High	Low	10-year average	Last as % of average
US					
P/E 12 months forward (x)	22.4	23.9	11.2	16.6	134
Price to book (x)	4.7	4.7	1.7	2.9	166
Dividend yield (%)	1.3	2.7	1.3	2.0	65
Return on equity (%)	13.1	15.1	9.8	13.4	98
World					
P/E 12 months forward (x)	18.3	19.8	10.0	14.4	127
Price to book (x)	2.6	2.6	1.4	1.9	140
Dividend yield (%)	1.8	3.4	1.8	2.5	72
Return on equity (%)	9.4	13.4	7.2	10.8	87

Source: Refinitiv, Edison Investment Research

The fund manager: Zehrid Osmani

The manager’s view: Economic growth and moderate inflation

Osmani is positive about the prospects for world economic growth, believing that the expansion phase of the cycle will last longer than originally envisaged due to the magnitude of fiscal stimuli, which is equivalent to c 18% of global GDP. He suggests that US President Biden’s proposed $2.3bn+ infrastructure spending programme could add 1pp pa to US economic growth; these projects are long-lasting, which adds to the manager’s conviction that the economic cycle will be extended. Osmani believes that inflation will pick up given easy comparisons with the low points in H120 due to coronavirus-led lockdowns. Although this will give the illusion that prices are rising rapidly, the manager says this is just due to low base effects. He notes that central banks’ sophisticated models are indicating that inflationary pressures are transitory – one of the largest contributors to inflation is rising wages and this is not currently apparent. Hence, on a medium- to longer-term view, Osmani’s default assumption is ‘a positive economic cycle with a benign inflation environment’. He says that disruptive pressures are omnipresent, such as ongoing technological development, and it is unsurprising that there are areas of higher prices as parts of the economy reopen at different times.

The manager reports that recent discussions with company managements reveal that businesses are bouncing back rapidly as economies improve from forced recessions due to lockdowns. There has not been a significant reduction in supply and production lines are back operating, while on the demand side of the equation household balances are healthy, and in aggregate have improved during lockdowns, as there have been fewer opportunities to spend, leading to pent-up demand.

However, as production lines have not shrunk, despite higher demand there should be limited inflationary pressures, although some companies are reporting an element of higher input costs, which they are endeavouring to pass on to their customers.

Consensus earnings expectations are rising: for the MSCI World Index estimated earnings growth for 2021 has increased from 25% in mid-February to 35%, with growth of 22% anticipated for 2022. Osmani notes there were positive surprises in Q121 earnings reports, helped by better-than-expected top-line growth (both in terms of volumes and pricing) and lower costs (as an example, there is a lack of corporate travel). However, there are some frictional tensions that are leading to supply shortages and bottlenecks in the supply chain, including semiconductors, autos and the construction industry, which is leading to higher house prices.

Looking at the three megatrends represented in MNP's portfolio – the future of technology, demographic changes and resource scarcity – the manager says that the number of mid-term opportunities has increased as a result of the pandemic. Infrastructure spending is important and includes green initiatives such as projects to decarbonise the economy, renewable energy, greener and more efficient buildings, and transport, including high-speed railways and electric vehicles. Osmani believes that healthcare infrastructure will be an important focus due to the pandemic; governments will be looking to upgrade their healthcare systems both physical (such as hospitals and intensive-care units) and via increased digitalisation, which should lead to a more efficient patient throughput and improved remote patient monitoring. Robotics and automation are other growth areas; due to resource scarcity, including human capital, corporations require a higher level of automation and more robust supply chains. Demand for cloud computing has increased as a result of the pandemic as companies have had to migrate their businesses online, while the need for cyber security has become more important given ongoing attacks. There is also growth in online education and gaming, and hygiene is an important area of innovation both for food preparation and in premises at personal and professional levels. The manager notes that within the three megatrends there is an increased focus on sustainability; corporates and governments need to act in a sustainable and responsible way, and he says that these trends are accelerating.

Current portfolio positioning

MNP's top 10 positions are shown in Exhibit 2. At the end of April 2021, they made up 43.4% of the portfolio, which was a modestly higher concentration compared with 41.4% a year earlier; four positions were common to both periods.

Exhibit 2: Top 10 holdings (as at 30 April 2021)

Company	Country	Sector	Portfolio weight %	
			30 April 2021	30 April 2020*
Taiwan Semiconductor Manufacturing Co	Taiwan	Information technology	5.1	N/A
Microsoft	US	Information technology	4.7	4.8
Masimo	US	Healthcare	4.4	5.3
Atlas Copco	Sweden	Industrials	4.4	N/A
Kingspan Group	Ireland	Industrials	4.3	N/A
Linde	US	Materials	4.2	3.6
Visa	US	Information technology	4.2	4.2
Moncler	Italy	Consumer discretionary	4.1	N/A
Hexagon	Sweden	Industrials	4.1	N/A
WuXi Biologics (Cayman)	China	Healthcare	3.9	N/A
Top 10 (% of portfolio)			**43.4**	**41.4**

Source: MNP, Edison Investment Research. Note *N/A where not in end-April 2020 top 10.

Over the 12 months to end-April 2021, MNP had a higher emerging markets weighting (+5.3pp) and lower exposures to North America (-2.8pp) and Europe (including the UK) and Asia ex-Japan (both -1.2pp). The largest active weights were North America (-21.2pp), broadly offset by Europe (including the UK, +19.9pp).

Exhibit 3: Portfolio geographic exposure vs MSCI AC World Index (% unless stated)

	Portfolio end-April 2021	Portfolio end-April 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
North America	40.0	42.8	(2.8)	61.3	(21.2)	0.7
Europe (inc UK)	36.5	37.7	(1.2)	16.5	19.9	2.2
Emerging markets	14.6	9.3	5.3	12.8	1.8	1.1
Asia Pacific ex-Japan	6.7	7.9	(1.2)	3.1	3.6	2.2
Israel	2.2	2.2	0.0	0.2	2.1	14.0
Japan	0.0	0.0	0.0	6.2	(6.2)	0.0
Total	**100.0**	**100.0**		**100.0**		

Source: MNP, Edison Investment Research. Note: Adjusted for gearing and cash. Numbers subject to rounding.

In terms of MNP's sector exposure, over the 12 months to end-April 2021, the largest increases were information technology (+1.9pp) and consumer discretionary (+1.7pp), while the biggest reductions were healthcare (-2.6pp) and financials (-2.3pp). All stocks are selected on a bottom-up basis, but in aggregate the manager particularly favours the healthcare sector (+15.2pp versus the benchmark). There are three sectors where the trust continues to have a zero weighting: energy, utilities and real estate, which in aggregate made up 8.6% of the benchmark at end-April 2021.

Exhibit 4: Portfolio sector exposure vs MSCI AC World Index (% unless stated)

	Portfolio end-April 2021	Portfolio end-April 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Information technology	28.2	26.3	1.9	21.5	6.8	1.3
Healthcare	26.5	29.1	(2.6)	11.3	15.2	2.3
Consumer discretionary	18.0	16.3	1.7	12.8	5.2	1.4
Industrials	10.8	9.5	1.2	9.8	0.9	1.1
Consumer staples	5.4	5.9	(0.5)	6.9	(1.4)	0.8
Materials	3.9	3.6	0.4	5.1	(1.1)	0.8
Communication services	3.6	3.4	0.2	9.6	(6.0)	0.4
Financials	3.5	5.9	(2.3)	14.3	(10.8)	0.2
Real estate	0.0	0.0	0.0	2.6	(2.6)	0.0
Utilities	0.0	0.0	0.0	2.8	(2.8)	0.0
Energy	0.0	0.0	0.0	3.2	(3.2)	0.0
Total	**100.0**	**100.0**		**100.0**		

Source: MNP, Edison Investment Research. Note: Adjusted for gearing and cash. Numbers subject to rounding.

Osmani highlights changes in the portfolio over the last few months. In November 2020, two new positions were initiated: WuXi Biologics and Kingspan Group. China-based **WuXi Biologics** is benefiting from shifts in drug development and production, which are favouring life science and tools companies. The manager can see long-term structural growth opportunities for this company for more than the next 10 years. WuXi Biologics is a leading player in the development of early-stage clinical trials and has a platform enabling it to scale up new drug production. It is also benefiting from the growth in single-use technology. The company can be considered as a one-stop shop offering important services in a sector that has high barriers to entry in terms of both regulatory requirements and the high costs involved for its customers wishing to switch suppliers. Osmani forecasts revenue growth of 38% pa, profit growth of 44% pa and return on invested capital (ROIC) rising from 10% to 28% over the next five years.

Kingspan Group is an Ireland-based building materials company that was in the headlines at the end of 2020 due to the Grenfell Tower enquiry, which caused its share price to fall and provided the manager with a buying opportunity; the position was increased following further share price weakness. Osmani believes that Kingspan's management team has taken the correct remedial steps to ensure better tracking of its products in terms of where they are fitted, and that its shares were unduly punished (they have subsequently rallied c 50% from the February 2021 low). The company's products are linked to greener buildings given that it provides insulation panels; it has a dominant share in a fragmented industry and has a history of successful innovation, while regulatory changes have led to an upgrade cycle. Osmani forecasts revenue growth of 10% pa, profit growth of 14% pa and ROIC rising from 12% to 18% over the next five years. These two new holdings were funded from sales of **Canadian National Railway** (a lower-conviction holding) and Switzerland-based dental equipment and supplies company **Straumann**, which reached the manager's price target.

Osmani and his team systematically look at initial public offerings (IPOs) seeking undervalued sustainable, quality growth companies. The manager explains that firms coming to market have a shorter financial history so critical detailed financial analysis is required; he believes that his team's accounting expertise offers a competitive advantage. Osmani participated in the January 2021 **Dr Martens** IPO; he says this UK footwear company has a very strong brand heritage. The firm has a high number of repeat customers, and its business is underpenetrated providing plenty of growth opportunities, while its products tend to be less cyclical than those of its peers. Osmani forecasts revenue growth of 15% pa, profit growth of 26% pa and ROIC rising from 20% to 43% over the next five years.

In March 2021, the manager initiated a position in US graphics chip company **Nvidia**. While its share price had already performed well, Osmani is 'very excited' about the firm's prospects. He forecasts revenue growth of 28% pa, profit growth of 33% pa and ROIC rising from 47% to 87% over the next five years. Nvidia's business has low capital intensity and its recent results exceeded consensus expectations (there have been a series of upwards earning revisions). The manager says the company has good exposure to positive growth trends in computer gaming and data centres and also benefits from higher crypto currency activity. Having performed well, the position in Ireland-domiciled computer services company **Accenture** was sold, as Osmani believed there was limited further share price upside.

Performance: Outperformance in tricky FY21 period

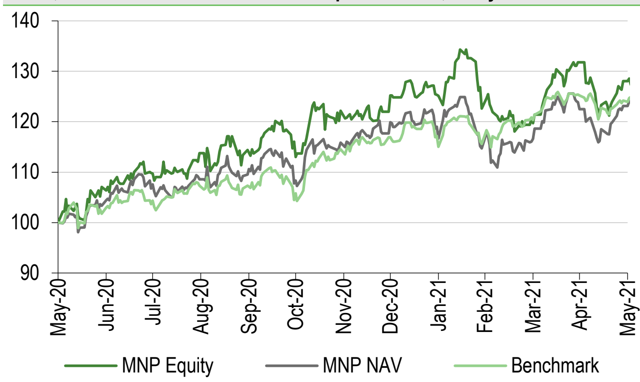
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI AC World (%)	CBOE UK All Companies (%)
31/05/17	32.9	31.8	33.0	33.2	24.4
31/05/18	7.0	7.8	8.7	9.1	6.6
31/05/19	13.8	11.0	5.1	4.8	(3.4)
31/05/20	9.3	15.2	8.5	8.0	(12.0)
31/05/21	28.0	23.1	23.9	23.9	23.4

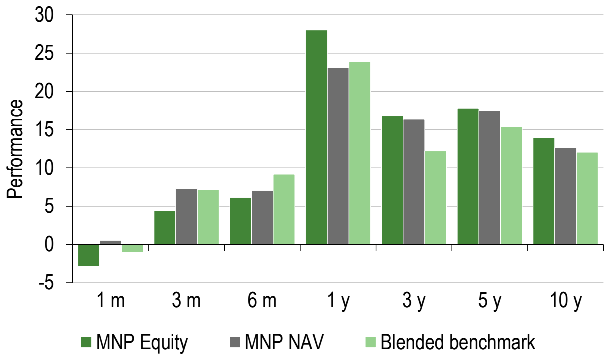
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *MSCI AC World since 1 February 2020, previously a less broad global index.

Exhibit 6: Investment trust performance to 31 May 2020

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Data from MNP show that from the trust's inception in March 1999 to end-April 2021, its net asset value (NAV) and share price total returns of +492.6% and +671.4% respectively are ahead of the benchmark's +406.1% total return. Since Osmani became lead manager on 1 October 2018 to end-

April 2021, MNP's NAV and share price total returns of +46.6% and +54.0% have outperformed the benchmark's +33.1% total return.

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

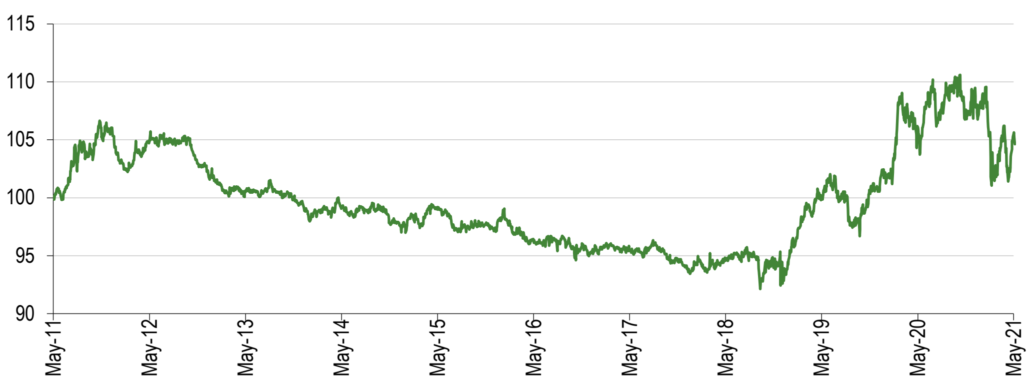
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	(1.8)	(2.6)	(2.8)	3.3	12.7	10.9	18.5
NAV relative to benchmark	1.6	0.1	(1.9)	(0.6)	11.5	9.6	5.5
Price relative to MSCI AC World	(1.8)	(2.6)	(2.8)	3.3	13.6	11.2	21.2
NAV relative to MSCI AC World	1.6	0.1	(1.9)	(0.6)	12.3	9.8	7.9
Price relative to CBOE UK All Companies	(4.2)	(5.2)	(8.0)	3.8	52.0	63.0	99.7
NAV relative to CBOE UK All Companies	(0.9)	(2.6)	(7.2)	(0.2)	50.4	61.1	77.8

Source: Refinitiv, Edison Investment Research. Note: Data to end-May 2021. Geometric calculation. Note: Benchmark is MSCI AC World since 1 February 2020, previously a less broad global index.

In FY21 (ending 31 January), MNP's NAV and share price total returns of +20.2% and +20.5% respectively outpaced the benchmark's +12.3% total return. The trust's relative returns are shown in Exhibit 7. Its NAV is ahead of the benchmark over three, five and 10 years, while its share price has also outperformed over the last year. MNP has also outperformed the broad UK market over three, five and 10 years in both NAV and share price terms, demonstrating the potential benefits of investing overseas.

Commenting on MNP's year-to-date performance the manager says that positive contributors include Kingspan (building products), Atlas Copco (diversified industrial company whose ROIC has exceeded its cost of capital regardless of the stage of the economic cycle) and Assa Abloy (a global leader in the provision of digital locks). The new positions in Dr Martens and Nvidia have also performed well in a short space of time, while not holding Apple and Tesla have been beneficial for the trust's relative performance. Osmani explains that healthcare stocks have lagged the broader market this year as the global economic cycle has gained momentum, so MNP'S holdings in CSL (biotechnology), Massimo (medical technology) and ResMed (medical equipment) have underperformed. Other positions that have lagged this year include Kerry Group (food products – consumer staples stocks have been out of favour), Adidas (a sports apparel company whose business has been negatively affected by European lockdowns) and Ferrari (luxury performance sports cars – the CEO left, and some model launches have been pushed back although the manager believes that the company remains well positioned).

Exhibit 8: NAV total return performance relative to benchmark over 10 years



Source: Refinitiv, Edison Investment Research

Peer group comparison

There are currently 17 funds in the AIC Global sector following a variety of investment mandates (Exhibit 9). MNP is one of the smaller funds, ranking 11th. Its NAV total returns are above average over three, five and 10 years, ranking fourth, fifth and fourth respectively, while lagging modestly over the last 12 months. The trust's results have primarily been achieved without the use of gearing as MNP only drew down its new debt facility on 24 November 2020. It should be noted that the averages are distorted by Scottish Mortgage, as its growth bias and unlisted exposure has generated outsized returns over all periods shown. On 9 June 2021, MNP was one of five funds trading at a premium, it has a competitive ongoing charge and an above-average level of gearing (ranking second), while given its focus on capital growth rather than income, the trust's dividend yield is below average.

Discussing how MNP stacks up versus its peers, Osmani says that some of the other funds in the sector have higher US and technology weightings or can invest in unlisted companies. He highlights an analysis of MNP's investee companies showing where they sit in terms of their ROIC versus five-year earnings growth and divided into six categories. The manager says the trust has a balance in four of these: mature companies generating high levels of free cash flow, high-growth/high-return companies, 'steady value creators' and 'future disruptors', while avoiding the 'danger zone' and 'value destroyers' categories. Osmani says this exercise illustrates how MNP offers investors a good balance of quality growth businesses. He believes that the trust's relatively concentrated portfolio has the potential to outperform in both rising and falling markets.

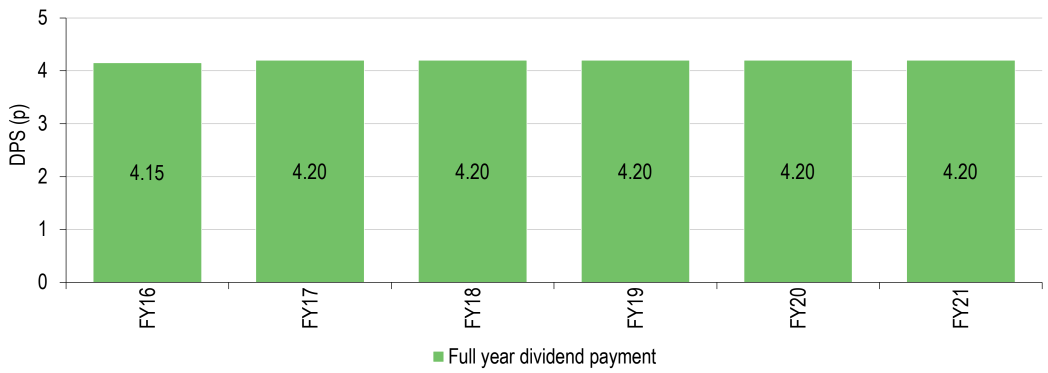
Exhibit 9: AIC Global sector at 9 June 2021*

% 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	327.1	22.4	57.9	124.1	245.7	0.6	0.6	No	109	1.1
Alliance Trust	3,094.2	24.5	37.6	100.7	194.9	(5.8)	0.7	No	107	1.5
AVI Global Trust	1,031.7	40.0	37.0	114.3	143.5	(6.8)	0.9	No	101	1.7
Bankers	1,503.2	18.9	34.8	101.5	209.3	0.4	0.5	No	103	1.9
Blue Planet Investment Trust	13.1	12.7	(10.3)	0.3		(22.1)	4.0	No	120	8.4
Brunner	422.7	20.1	31.0	87.7	179.9	(9.9)	0.6	No	105	2.0
EP Global Opportunities	105.7	6.7	0.9	44.6	114.5	(8.6)	1.0	No	100	2.1
F&C Investment Trust	4,559.8	22.1	35.6	100.3	213.6	(4.8)	0.5	No	109	1.4
JPMorgan Elect Managed Growth	289.5	28.8	31.3	88.6	191.7	(2.8)	0.5	No	100	1.6
Keystone Positive Change Inv	176.5	1.0	(16.5)	(2.1)	64.7	(6.9)	0.5	No	100	3.9
Lindsell Train	286.5	18.4	71.8	207.4	578.8	15.5	0.8	Yes	100	2.9
Manchester & London	234.7	6.0	31.8	143.3	93.6	(10.6)	0.8	Yes	100	2.4
Mid Wynd International Inv Trust	450.4	23.9	52.2	123.9	233.5	2.2	0.7	No	100	0.8
Monks	3,163.8	35.0	64.1	174.2	258.0	0.2	0.5	No	101	0.2
Scottish Investment Trust	548.3	7.8	1.4	46.9	106.9	(9.1)	0.5	No	107	2.8
Scottish Mortgage	17,217.6	75.2	152.8	403.0	787.1	(4.4)	0.3	No	106	0.3
Witan	1,845.9	29.9	24.5	79.8	182.8	(7.4)	0.8	Yes	111	2.3
Average (17 trusts)	**2,074.7**	**23.1**	**37.5**	**114.0**	**237.4**	**(4.7)**	**0.8**		**105**	**2.2**
MNP rank in peer group	**11**	**8**	**4**	**5**	**4**	**3**	**10**		**4**	**14**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 8 June 2021 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).

Dividends: Commitment to stable/progressive payouts

Exhibit 10: Dividend history since FY16



Source: Bloomberg, Edison Investment Research

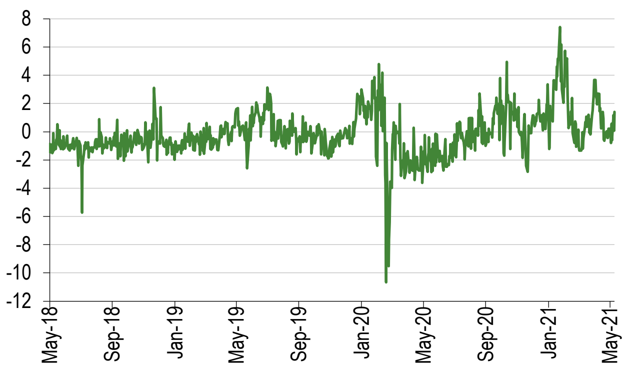
In FY21, MNP's revenue declined by 21.8% to 1.97p per share. The annual dividend of 4.2p per share (c 0.5x covered) was held steady for the fifth consecutive financial year. At the end of FY21, the trust had revenue reserves of c £1.4m and special distributable reserves of c £70.0m, which in aggregate represent c 20x the last annual distribution. MNP pays quarterly dividends in July, October, January and April. Based on its current share price, the trust offers a 1.1% dividend yield.

Valuation: Zero-discount policy

Over the last 12 months MNP's shares have traded in a range of a decade-high 7.4% premium (on 22 February 2021) to a 3.6% discount. The current 1.4% share price premium to cum-income NAV compares with a 0.4% average premium over the last year, and average discounts of 0.2%, 0.4% and 1.7% over the last three, five and 10 years respectively.

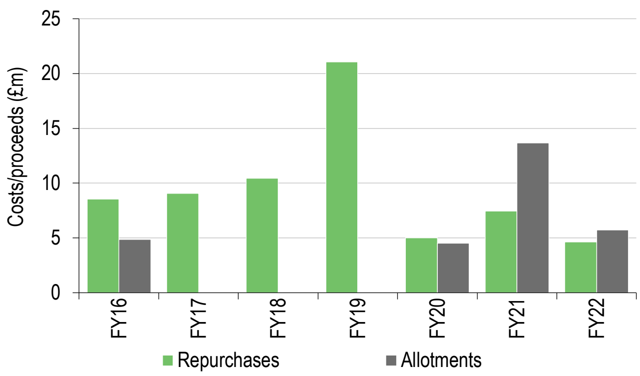
MNP's board has employed a zero-discount policy since 2013, aiming to ensure that, in normal market conditions, the trust's shares trade close to NAV. Renewed annually, the trust has authority to repurchase up to 14.99% of its shares and allot up to 10% of its issued share capital in order to manage a discount or premium. In FY21, c 2.4m shares were repurchased (c 2.9% of the share base) at a cost of c £7.5m, while c 3.8m shares were reissued from treasury (c 4.6% of the share base) valued at c £13.6m.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: High-conviction global equity portfolio

Launched in March 1999, MNP is listed on the Main Market of the London Stock Exchange. Zehrid Osmani, who has 23 years of investment experience, has been lead manager since 1 October 2018 and has significantly improved the trust's relative performance. He was formerly a senior portfolio manager and head of European equities research at BlackRock, with a proven track record in fundamental research and unconstrained investment, and is head of Martin Currie's global long-term unconstrained (GLTU) team.

Martin Currie is now a division of Franklin Templeton Investments following the acquisition of its former parent Legg Mason on 31 July 2020. The company will maintain its autonomy and its investment philosophy and processes will remain unchanged.

Since 1 February 2020, MNP's objective has been to generate a total return in excess of the total return of the MSCI AC World Index (previously a capital return in excess of a less broad global index). The trust's concentrated, high-conviction portfolio held 31 global equity positions at the end of April 2021. While there are no limits on its construction, the combination of stocks in the fund must not lead to an unintended reliance on a particular macroeconomic factor such as interest rates or commodity prices. Gearing of up to 20% of NAV is permitted; at end-April 2021, net gearing was 9.4%. The board monitors MNP's success via three key performance indicators:

- NAV performance versus the benchmark over a rolling three-year period – achieved in FY21, outperformance of 19.4%.
- Top-third share price performance versus the peers in the AIC Global sector over a rolling three-year period – achieved in FY21, fourth out of 15 funds.
- Ongoing charges (ex-performance fees) of less than 0.70% pa – achieved in FY21, 0.58%.

Investment process: Three-step, bottom-up approach

Osmani is head of Martin Currie's nine-strong GLTU team and is supported by a wider group of 43 investment professionals who meet more than 900 companies every year. He aims to generate a total return above that of the MSCI AC World Index by focusing on high-quality, undervalued growth stocks with the potential to outperform consistently. The manager has an unconstrained, high-conviction approach and invests with a long-term, five- to 10-year horizon; the fund typically holds 25–40 stocks with company market caps above $3bn. There is a systematic three-step investment process that builds conviction at each stage:

- **Idea generation**: the total universe of c 2,800 listed global stocks is screened down to an investible universe of c 500 companies and then a research pipeline of 90+ names is prioritised to identify companies with a combination of quality, sustainable growth and an attractive valuation. The GLTU team believes that companies that can generate a high and sustainable return on invested cash, above their weighted average cost of capital, can generate above-average total returns over the long term.
- **Fundamental analysis** is based on eight key criteria: industry analysis, a company's growth drivers, returns, financial strength, accounting, corporate ethos, ESG profile and valuation. Businesses are assessed on a scale of 1 (lowest risk) to 5 (highest risk) across a wide range of measures. As part of the process there is a systematic risk assessment focusing on industry risks, company risks, governance and sustainability, and portfolio risks. Companies considered for inclusion in the portfolio are likely to have a dominant position and pricing power in a market with high barriers to entry. The manager seeks businesses with structural growth prospects, high returns on invested capital, strong cash flow generation and a quality management team with a strong corporate culture. To ensure a consistent approach, a proprietary research template is compiled for each company reviewed, and each is given a conviction rating between 1 (strong buy) and 5 (sell).
- **Portfolio construction**: each position is weighted appropriately, aiming to ensure a meaningful contribution to the fund's returns. Osmani and his team break down the portfolio by geographic revenue and profit rather than where a company is listed, to understand the fund's exposure by economic value (it is overweight developed and underweight emerging markets). The portfolio is also assessed in terms of end-user exposure at a tier one level – the consumer, business and government – and then at a more detailed tier two level focusing on individual sectors and industries. Stocks may be sold when they have reached their price target, if they are nearing their price target and there are better risk/reward opportunities elsewhere, or if the high-conviction investment case no longer holds true.

MNP's portfolio has a high active share (99.2% at end-April 2021); this is a measure of how a fund differs from its benchmark, with 0% representing full index replication and 100% showing no commonality. Compared with the MSCI AC World Index, in aggregate, the trust's holdings have higher forecast revenue, earnings and dividend growth, and higher valuations in terms of forward P/E and EV/EBITDA multiples. The portfolio has a higher ROIC and a stronger balance sheet compared with the index. These relative metrics reflect MNP's biases towards growth and high-quality companies. Portfolio turnover is typically c 20% pa, implying a holding period of around five years. It was higher than average during 2020 due to market volatility, which saw the fastest bear market followed by the fastest bull market since World War II.

The portfolio reflects three overarching themes, which Osmani believes will span multiple decades and should be amplified in a post-pandemic world: the future of technology, demographic change and resource scarcity. Within these he sees a wealth of investment opportunities including increased infrastructure spending, such as on 5G networks, healthcare and railways; green initiatives including renewable energy and electric vehicles; robotics and automation; increased demand for cloud computing and online services; and cyber security.

The manager says that the GLTU team's approach is to keep in constant touch with portfolio companies, along with other relevant contacts, thereby gaining deeper knowledge. He highlights that the group has 'great access to senior managers' despite having a relatively modest amount of assets under management. Osmani reports that the team undertook more than 400 meetings in 2020, including regular communications with investee companies.

There has been additional analysis undertaken on portfolio companies to ensure that they have sustainable business models (in terms of decarbonisation of the economy, businesses are aiming to be net zero by 2050). Some sectors are challenged in this regard such as energy and utilities and are not represented in MNP's portfolio. The manager and his team have analysed the trust's holdings in terms of each company's carbon intensity, their sustainable development goals and where they in in relation to these. Osmani says this allows for more meaningful engagement with MNP's portfolio companies.

MNP's approach to ESG

ESG factors have been an integral part of MNP's investment process for many years. Martin Currie has held a triple A+ rating for the last four years for strategy and governance, incorporation and active ownership, which are the three categories in the United Nations Principles for Responsible Investment (UN PRI). The company first became a UN PRI signatory in July 2009.

Martin Currie believes that good ESG practices are a fundamental component of a high-quality company. Factors considered by Osmani and his team typically include shareholder rights, accounting standards, remuneration, board structure, supply chain, data protection, pollution/hazardous waste policies, water usage and climate change policies. Their findings may influence important financial assumptions about a company such as its cost of capital, revenues or costs and therefore an estimate of its intrinsic value; a poor ESG track record may indicate wider sustainability issues within a firm. Osmani strongly believes that including ESG analysis in investment decisions delivers improved returns for MNP's shareholders. On a practical level the manager and his team evaluate, measure and score 52 individual assessments for every company that they research. These include social issues including analysis of a company's exploitation and therefore reputational risks, such as its production bases, relationships with suppliers and wage, age, racial, gender and ethnic discrimination. The manager says that this analysis is relevant for developed market as well as emerging market companies, citing the negative headlines surrounding UK-based fashion retailer Boohoo Group in 2020.

Gearing

Gearing of up to 20% of NAV is permitted but had not been employed since 2008. However, on 23 November 2020, the board announced that it had entered into a £30m three-year unsecured sterling term loan facility with Royal Bank of Scotland International. This was fully drawn down the following day at a fixed interest rate of 1.181% pa, and equated to c 10% of MNP's NAV. At end-April 2021, MNP had net gearing of 9.4%. While recognising that the use of gearing can increase the trust's NAV volatility, the board has confidence in the manager's ability to generate annual investment returns above MNP's cost of debt over the long term. Osmani is comfortable with the trust's level of structural gearing given his expectation of an economic upswing and benign inflation.

Fees & charges

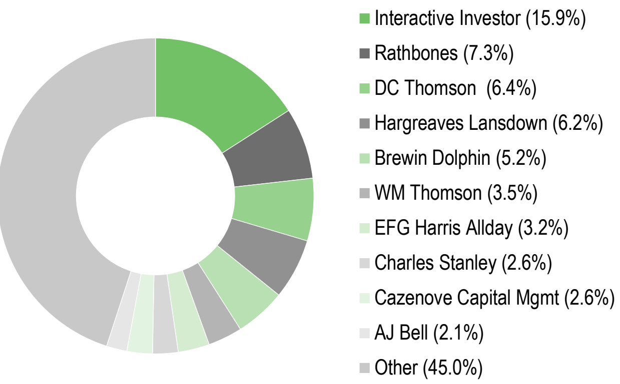
In FY21, MNP's investment management fee was 0.40% pa of ex-income NAV, calculated and payable quarterly. A performance fee of c £2.8m was paid (32% higher than c £2.1m in FY20). Ongoing charges were 0.58% (3bp lower year-on-year) and 1.62% including performance fees (11bp higher year-on-year).

With effect from 1 February 2021, MNP's performance fee was discontinued, and the investment management fee was changed to 0.50% pa on the first £300m of ex-income NAV and 0.35% of ex-income NAV above this level, calculated and payable quarterly. The board believes that the removal of the performance fee brings simplification and makes the fee structure more competitive and increasingly attractive for investors.

Capital structure

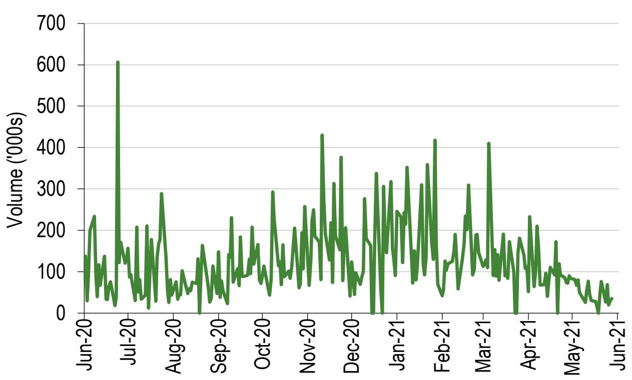
MNP is a conventional investment trust with one class of share. There are currently 85.0m ordinary shares in issue, with a further 13.7m held in treasury. Over the last 12 months, MNP's average trading volume is c 125k shares.

Exhibit 13: Major shareholders



Source: Bloomberg, as at 31 May 2020

Exhibit 14: Average daily volume



Source: Refinitiv. Note 12 months to 9 June 2021.

The board

Exhibit 15: MNP's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Neil Gaskell (ex-chairman)	Retired on 30 April 2021	£38,000	60,500
Gillian Watson (current chairman)	1 April 2013	£25,500	3,329
Gary Le Sueur	1 December 2016	£25,500	31,735
Christopher Metcalfe	19 September 2019	£25,500	8,600
Marian Glen	1 December 2016	£30,000	Nil

Source: MNP

Following the retirement of Gaskell on 30 April 2021 (he stepped down as chairman on 1 February 2021), there are now four rather than five non-executive, independent directors on MNP's board, although this situation will be kept under regular review. In FY21, the fees paid were non-executive directors £25,500 pa, the audit committee chairman £30,000 pa and the chairman £38,000 pa. After a consideration of peers' remuneration and the board's increased regulatory and compliance burden, from 1 February 2021 the non-executives' fees will increase by £1,000 pa, the chairman's fee by £2,000 pa and the chairman of the audit committee's fee by £3,000 pa.

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