An aerial photograph of a winding asphalt road along a rocky coastline. The water is a vibrant turquoise color, and the land is covered in sparse green vegetation and grey rocks. A single white car is visible on the road. The image is split vertically by a diagonal line, with the left side being a solid blue gradient and the right side showing the aerial view.

Direct Equity Portfolios

Diversification through individual stock selection

BM

BROOKS MACDONALD

Introduction



Andrew Prosser
Senior Investment Manager
Brooks Macdonald International



BROOKS MACDONALD

Direct Equity Strategy

Overview and methodology



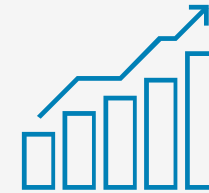
BROOKS MACDONALD



Direct Equity Strategy concept

- An objective based strategy, not a risk based strategy
- 20-30 stocks – a concentrated portfolio
- Three separate strategies – GBP, USD, and EUR – 75% minimum in base currency
- All three are different portfolios with different stocks – not one portfolio in three currencies
- Team of six investment managers monitor stocks daily, meeting once a month
- All portfolios are tagged to the central ‘best ideas’ model

Caters for the needs of clients requiring:



Rising
income



Growth
potential



Lower volatility
(than a full global
equity offering)

Stock selection methodology



Universe: FTSE 350, S&P500, EuroStoxx 300 and SMI Swiss market index



Total of 1,180 stocks. Excellent representation of developed equity markets



Criteria result in higher exposure to consumer oriented sectors and lower exposure to cyclical sectors

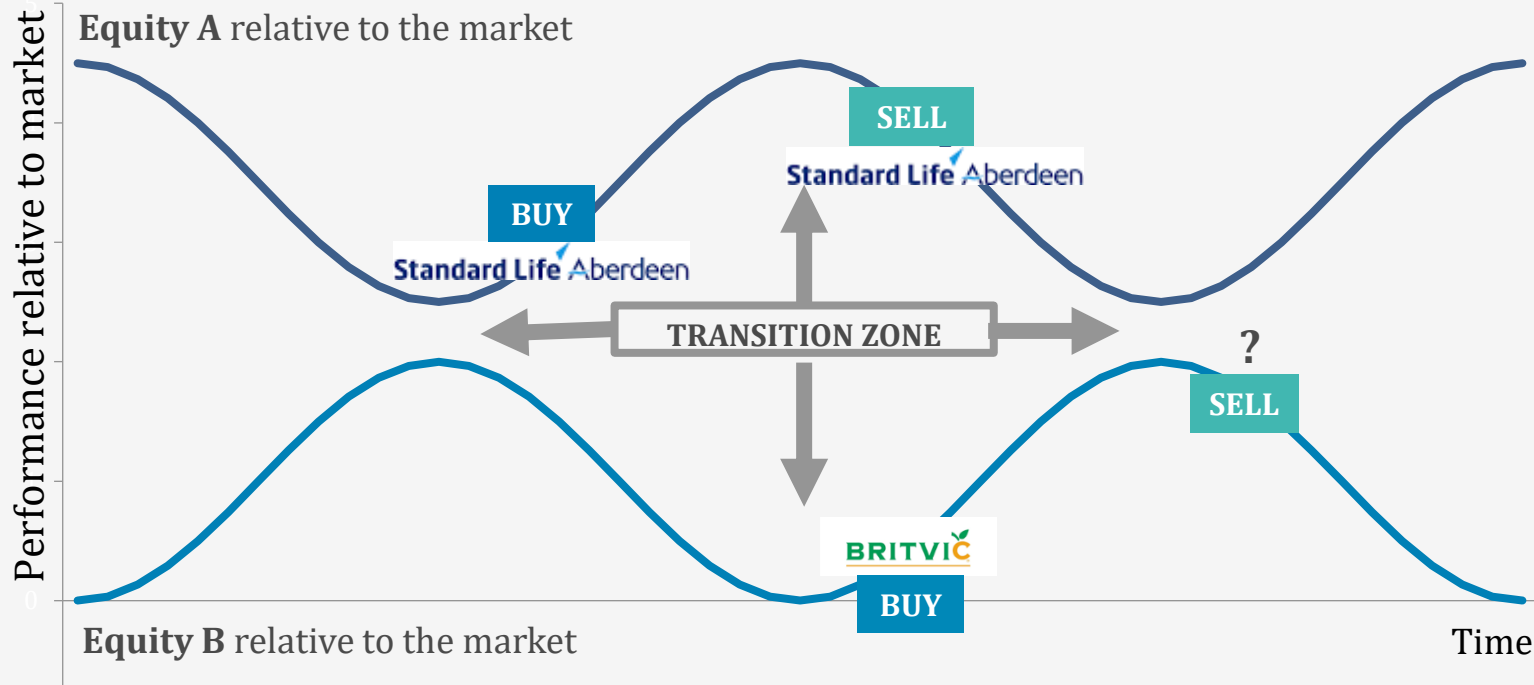


All stocks are approved by both the Direct Equity team and the group Asset Selection Committee

Selection criteria

- Dividend yield c. 2%
- Net debt to EBITDA ratio < 2.5
- Cash ROCE > WACC
- History of earnings / dividend / cashflow growth
- No pension deficit
- Sufficient cash buffer
- Dividend coverage ratio > 1
- Liquidity tests
- Reasonable valuations (P/E, P/FCF, P/B)
- Sustainable competitive advantage, strong brand, intellectual property
- Influence over their market, pricing power, recurring revenue

Investment timing overlay supporting investment decisions

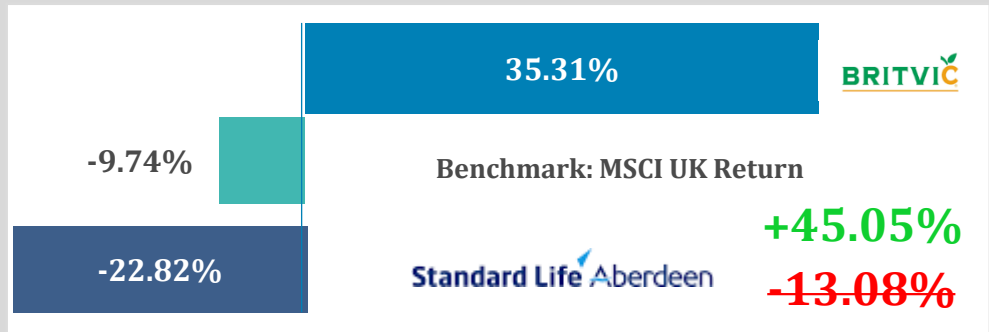


05 DEC 2016 – 04 MAY 2017



Source: Brooks Macdonald, **+1.56%**
 MSCI: please see important information.
 Graph for illustrative purposes only.

04 MAY 2017 – 30 SEPT 2020

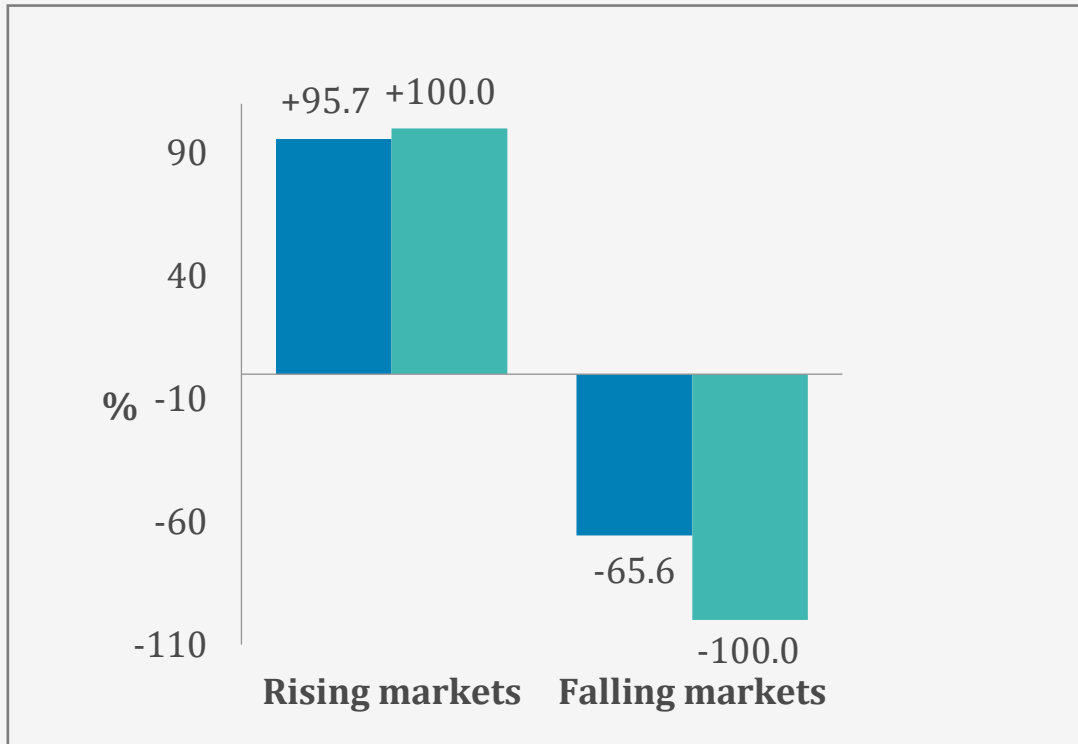


The theory in practice (GBP)

Past performance is not a reliable indicator of future results.

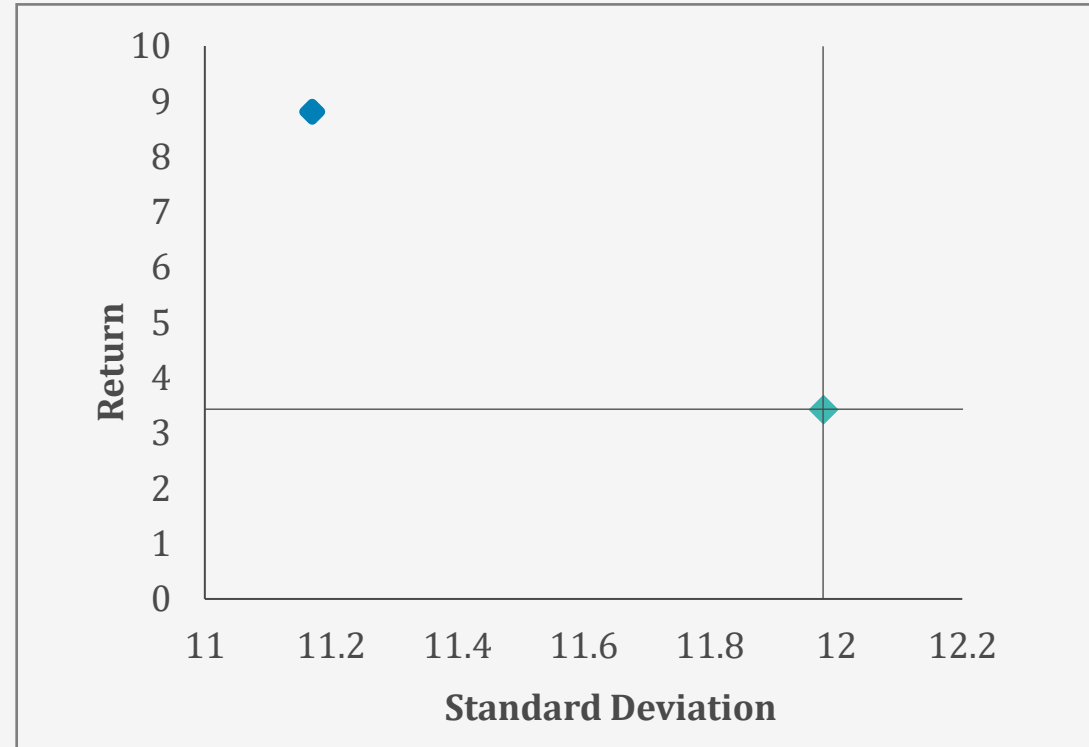
Source: Brooks Macdonald as at 16.09.20
MSCI: please see important information

① Capture analysis



We try to capture most of the upside, but focus heavily on avoiding the downside

② Risk/return

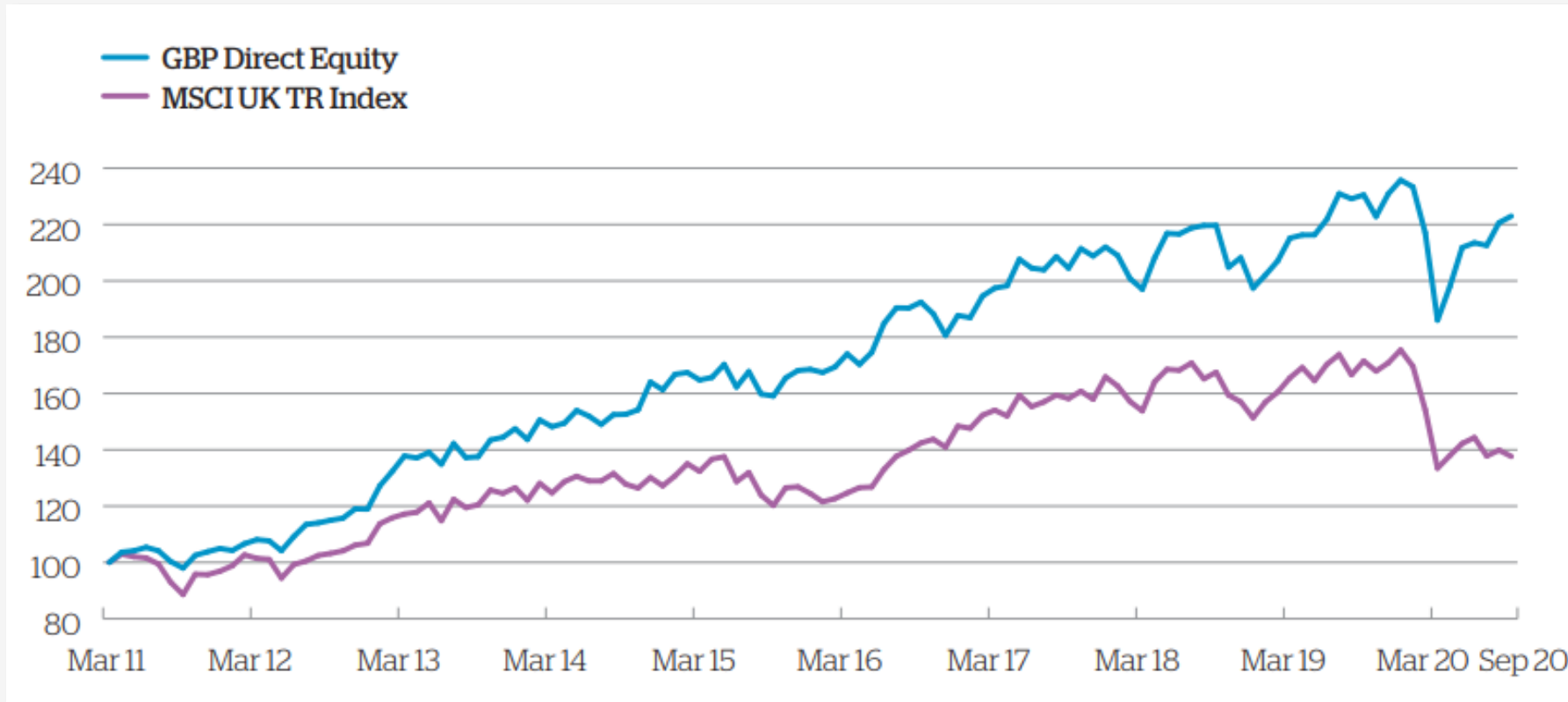


Brooks Macdonald Direct Equity Strategy
MSCI UK Index

Higher return, with less risk

The theory in practice (GBP)

3 Strategy performance



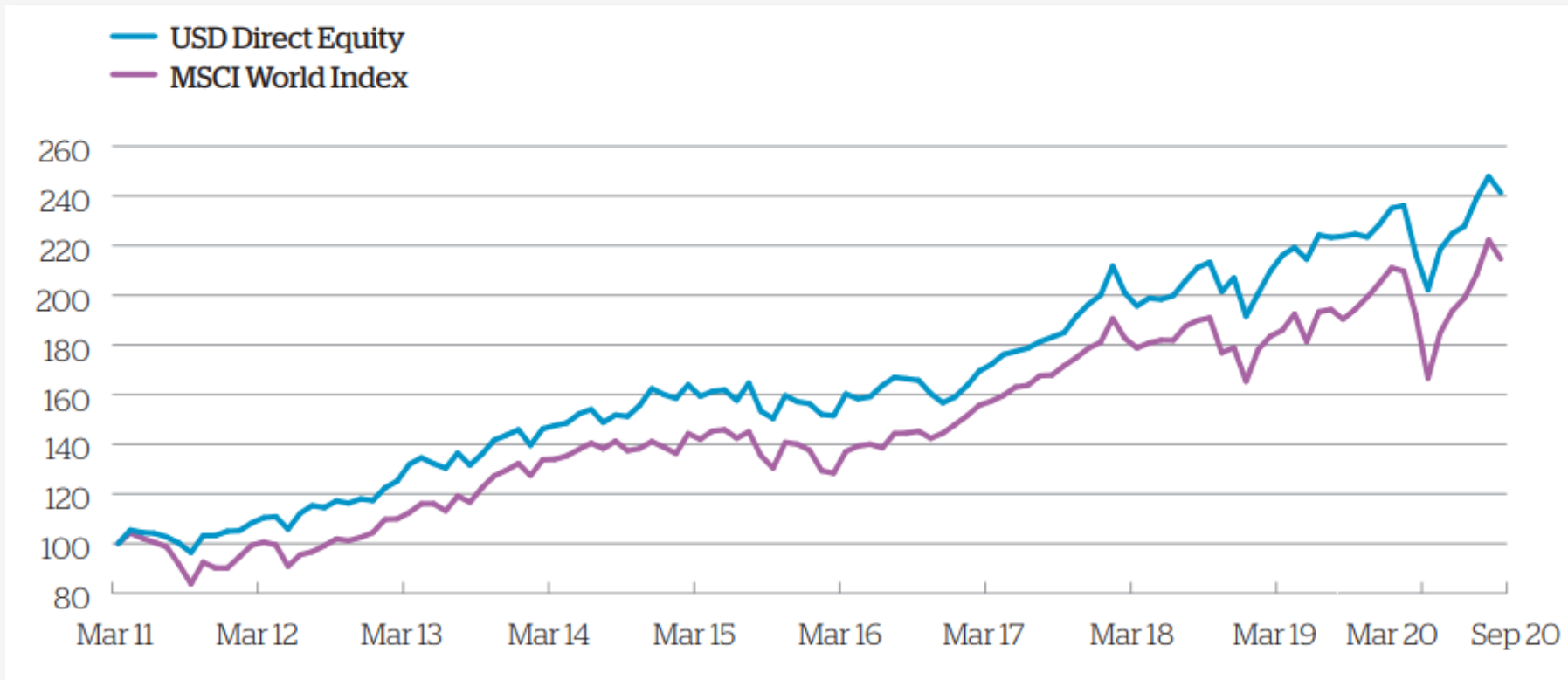
- Portfolio launched March 2011
- Cumulative performance since launch to 30 September 2020

Past performance is not a reliable indicator of future results.

Performance chart shows the value of £100 invested. Source: Brooks Macdonald/Bloomberg to 30.09.20. The above performance figures represent aggregate performance numbers from actual client portfolios and are net of any underlying fund charges and Brooks Macdonald fees. The data is drawn from portfolios managed by Brooks Macdonald Asset Management (International) Limited.

The theory in practice (USD)

③ Strategy performance



- Portfolio launched March 2011
- Cumulative performance since launch to 30 September 2020

Past performance is not a reliable indicator of future results.

Performance chart shows the value of \$100 invested. Source: Brooks Macdonald/Bloomberg to 30.09.20. The above performance figures represent aggregate performance numbers from actual client portfolios and are net of any underlying fund charges and Brooks Macdonald fees. The data is drawn from portfolios managed by Brooks Macdonald Asset Management (International) Limited.

Important information

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Important information continued next slide.

Important information continued

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