

# FOCUS



David Dudding on corporate  
competitive advantage



### Key Risks

**Investment Risk** - The value of investments can fall as well as rise and investors might not get back the sum originally invested.

**Currency Risk** - Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

**Effect of Portfolio Concentration** - The Fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the fund's value.

**Derivatives for EPM / Hedging** - The investment policy of the fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions.

**Volatility Risk** - The fund may exhibit significant price volatility

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# WELCOME

**Focus is a publication that brings you face to face with a selection of the most in-demand asset managers in the UK and across the globe.**

During the turbulent market conditions of the last couple of years, investors have needed a steady source of returns and diversification more than ever before. For many, the rapidly changing market conditions have made global equity vehicles particularly attractive.

In this *Focus* guide, David Dudding, manager of the Threadneedle Global Focus Fund, discusses the advantages of going global, the industries that have thrived despite the global pandemic, and the dominant themes in the fund. Having recently celebrated its three-year anniversary in the UK – the strategy has a longer track record as a SICAV – the vehicle is supported by a strong global team and a bottom-up approach that aims to pick the global companies most likely to thrive across all market conditions.



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**The interview**  
 David Dudding,  
 portfolio manager
- 
**Fund snapshot**  
 Threadneedle Global  
 Focus Fund
- 
**Fund Q&A**  
 David Dudding,  
 portfolio manager



# Finding competitive advantage in a global landscape

As a bottom-up stock picker, David Dudding, manager of the Threadneedle Global Focus Fund, pays little attention to the macro events and themes in global markets. His fund is all about identifying strong franchises that boast a competitive advantage within their industry. Yet over the past 18 months, the macro backdrop has had an impact on even the most bottom-up of strategies, as the coronavirus pandemic ravaged whole industries and left the global economy on its knees.

The Threadneedle Global Focus Fund, however, managed to weather much of this storm as a result of its natural bias towards businesses that have thrived in the context of the pandemic. Though Dudding is quick to emphasise that the vehicle is by no means a thematic investment, themes have materialised from the stock picking efforts of the team.

Many of these, including e-commerce, digital payments and cloud computing, for example, emerged as winners during the pandemic.

Similarly, the fund has a natural bias towards less commoditised industries and currently\* holds no car makers, no airlines and no oil & gas companies, which puts it on the front foot when it comes to Environmental, Social and Governance (ESG) concerns – an issue of increasing importance to the fund's investors.

Dudding says the team strives to invest in companies that are deemed to be among the better performers on ESG metrics, or on their way to becoming such.

“It fits very nicely with our philosophy, because in some ways everything we are looking at is about sustainability of returns,” he says. “You can’t get this if you are cutting corners from a governance and especially from an environmental point of view, because these are business risks that will return to get you into trouble.”

### Competitive advantage

In many ways, the Threadneedle Global Focus Fund is a quality fund. Around 70%-80% of the

vehicle is invested in companies that the team believe exhibit high returns, low levels of gearing and debt, and earnings stability, even during recessions. However, Dudding and his team have something up their sleeve that traditional quality funds lack. The remaining portion of the fund can be invested in companies that are improving and on their way to becoming quality companies.

The global equities team look at each company's ‘economic moats’, a framework that evaluates the sources of competitive advantage, whether it be intangible assets; network effects; scale; switching costs; and/or cost advantage.

They combine this with Michael Porter's classic Five Forces – factors ranging from the threat of new entrants to the power of suppliers/ customers – to evaluate the durability of a company's competitive advantage, helping them to identify those companies that can maintain strong fundamentals and that can compound growth over the medium to long term.

\*As of September 2021



Dudding explains that the network effect is in his view the best competitive advantage, which leads the team to invest heavily in internet and software companies.

This two-pronged framework for assessing competitive advantage means the fund can be much more diversified than a traditional quality vehicle, as the team is able to look for returns in areas that quality funds would naturally discount.

Dudding says: “As a straightforward quality fund, you’d be less likely to own a bank, because they are very leveraged, or biotech, for example, because they don’t make any money. So it precludes quite a lot. Rather than being pure quality investors, we would say we spend more of our time looking at stocks with a competitive advantage.”

The key, however, is that the company must be improving, whether that be in terms of traditional quality metrics, or on the ESG front.

#### Global advantage

The global nature of the fund allows Dudding and his team to create a more diversified product, despite the vehicle being relatively concentrated with typically between 30 and 50 holdings. Dudding describes this as a “one-stop-shop” for investors who don’t wish to pick best of breed regional or sector funds.

Underpinning this is the expertise of Columbia Threadneedle’s wider analyst team, which feeds into the idea generating process for the vehicle. This is particularly helpful, since some industries require more local knowledge than others, one example being banks. This is a key area where

the fund differentiates itself from quality peers, particularly within emerging market financials, which can demonstrate a strong competitive advantage in their respective markets.

Dudding adds that “different parts of the world are better at different things”. For example, he prefers luxury goods and consumer staples in Europe, while he thinks the best IT opportunities are to be found in the US.

However, Dudding generally avoids sectors that are domestically focused, such as utilities and telcos, and instead prefers bigger multinationals that can export globally. This explains the fund’s overweight to the US, since many large players are listed there, even though their revenues come from elsewhere – often from emerging markets. This global reach allows Dudding and his team to find businesses that they believe will thrive across all market conditions, increasing the chance of delivering a steady, reliable return to investors.

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Our goals and frameworks

A best ideas global equity fund that aims to outperform the MSCI ACWI index over rolling five-year periods by investing in quality stocks which have durable competitive advantages alongside robust business models.

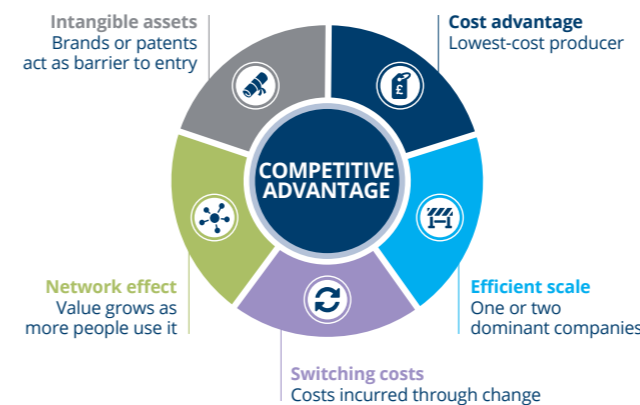
The global equities team uses a framework that thoroughly evaluates the source of a company's competitive advantage. This helps to identify those companies that can maintain strong fundamentals and that can compound growth over the medium to long term.



Key factors



How do we identify a company's edge?



Competitive advantage

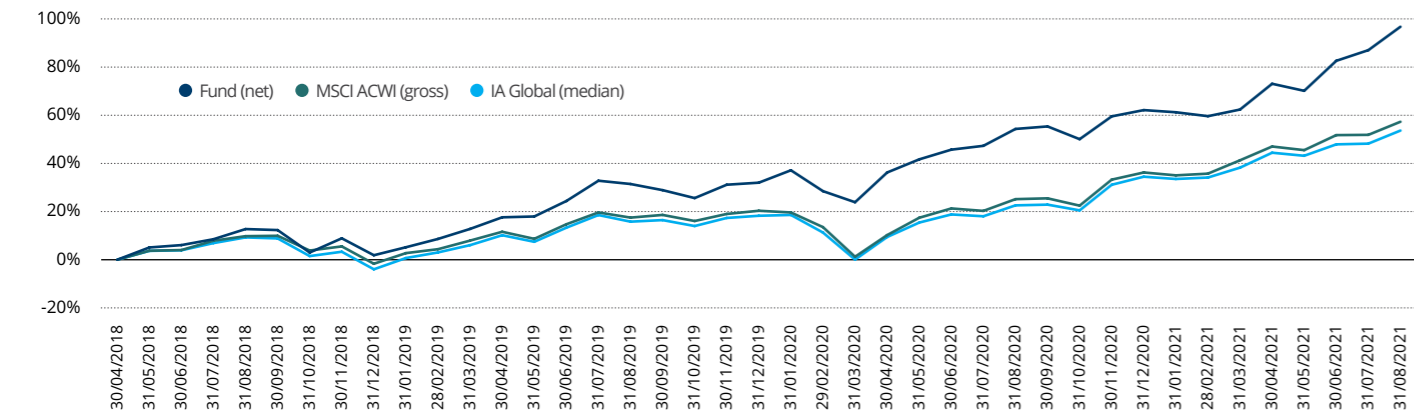
- Qualitative assessment of source and sustainability
- Looking for companies where it is established and / or improving
- 20 to 30% of candidates will be in 'improvers'
- All holdings display at least one



Industry structure

- Use Porter's 5 Forces to assess competitive intensity
- Preference for consolidated / consolidating industries
- Competition and growth potential
- Impact of regulation, technology, ESG

Performance: Cumulative returns since launch

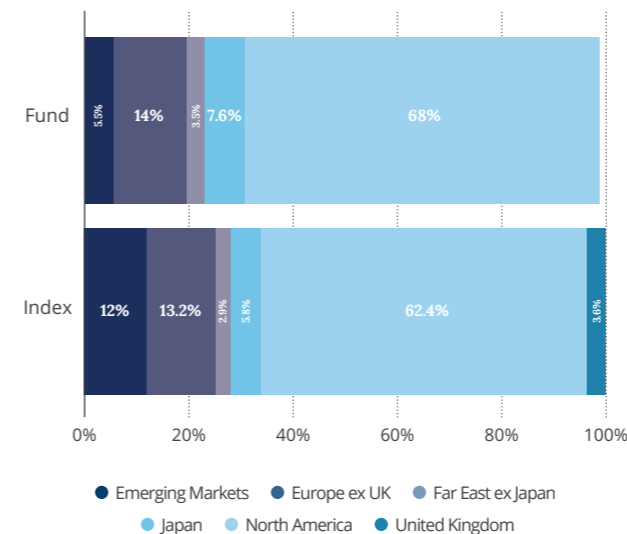


Cumulative performance	YTD	2020	2019	2018	2017	2016	3 years	Since launch
<b>Threadneedle Global Focus Fund (net)</b>	<b>21.3</b>	<b>22.8</b>	<b>29.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74.5</b>	<b>96.8</b>
<b>MSCI ACWI World Index (gross)</b>	<b>15.5</b>	<b>13.2</b>	<b>22.4</b>	<b>-3.3</b>	<b>13.8</b>	<b>29.4</b>	<b>43.3</b>	<b>57.3</b>
<b>IA Global (median)</b>	<b>15.2</b>	<b>12.6</b>	<b>22.3</b>	<b>-5.0</b>	<b>13.7</b>	<b>25.0</b>	<b>41.2</b>	<b>53.6</b>

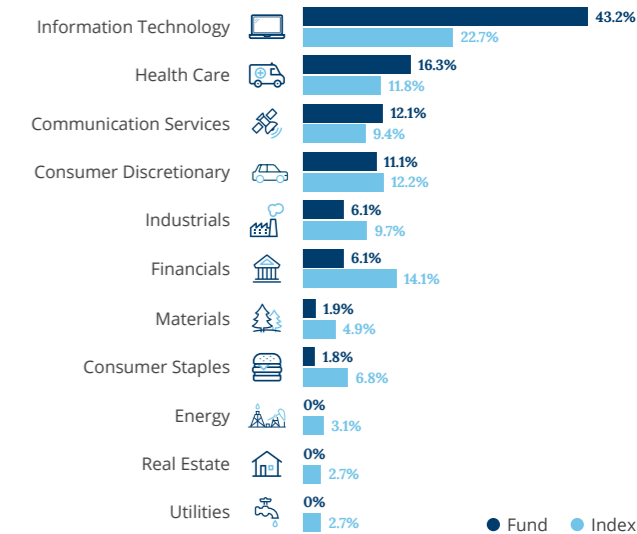
Past performance is not a guide to future performance. Capital at risk.

Current positioning

Regional weighting



Sector weighting





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It's not huge returns we are looking for, it's consistency and downside protection”

**What are the key goals of the Threadneedle Global Focus Fund?**

When I was running a European strategy, we used to say we run a “get rich slow” fund. It was about trying to find long-term sustainable compounders. With the global fund, maybe we are trying to get rich a little bit more quickly, because there is more growth in other parts of the world than there is in Europe.

But it's not huge returns we are looking for, it's consistency and downside protection. We are looking to outperform the market, but we would rather do it in small steps, rather than a return profile where we outperform by a huge amount in one year because of some lucky punches and give a bit back the next year.

**What makes the fund stand out from other quality growth-oriented global equity funds?**

Although we are predominantly a quality investor, we can look at areas that pure quality fund managers won't look at, and that means we can aim for outperformance from many different

areas, for example in technology and financials. And it's all backed by the fact that we have a very large and strong research team across the globe, which makes it easier to join the dots together.

**As well as competitive advantage, what are other key things do you look for in a company?**

We also look for companies with improving competitive positioning - there's no use buying a company with great advantages if their situation is getting worse, as this will impact future returns.

**Has the shape of the portfolio changed as a result of the pandemic?**

There are always good ideas coming into the fund, but the overall shape looks very similar now to how it did 18 months ago. We are even more convinced that areas such as e-commerce and digital payments are going to work in the long run, even as economies re-open.

We remain overweight technology and healthcare, though our US overweight did go down slightly.

We have become more nervous about China, particularly about government intervention. But we didn't have too much exposure there in the first place. Some of this is just changing exposures from some of the big Chinese internet names to Asian semi-conductors, for example.

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Apart from that, we haven't changed very much as a result of the pandemic. Many of the themes got accelerated by the pandemic, and we think these trends are going to be there for a while.



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**What are the key risks associated with your strategy and how do you manage them?**

Valuations are definitely expensive. There is a lot of stock-specific risk, as it's a concentrated fund of 30-50 stocks and things can and do go wrong.

We are investing in a lot of big internet names and they obviously have regulatory risks. Companies like Facebook and Amazon and Alphabet. We find it easier to mitigate these risks when we have fewer names and we know more about them.

**How big a potential problem is that regulatory risk?**

The regulatory risk does loom large for us, as we are overweight some of the US internet names and tech companies. But we think a lot of these concerns are in the price and that these are great businesses that would be much more expensive were it not for the regulatory overhang.

We always try to understand what risks we are running and that we are comfortable with them – and we always expect the unexpected!

**What strengths do you draw from the wider firm – and will remote working permanently affect your style of collaboration?**

We've been surprised at how well it's worked and how easy it's been to collaborate, but we do recognise that you can't beat face-to-face.

You can manage for a surprisingly long time by meeting businesses online, but I think it's harder to form longer-term relationships with businesses, and each other, if you're not doing it face-to-face.

So I think it's great that we are going to be returning to the office but also great that we have discovered that we can be much more flexible, and working from home definitely has a place as well. It's going to be a question of establishing a happy medium.



**DAVID DUDDING**

senior portfolio manager

David is a senior portfolio manager within the Global Equities team. He is the lead portfolio manager of the Global Focus Strategy and deputy of the European Select Strategy. He joined the company as an equity research analyst in 1999, moving on to manage the European Smaller Companies strategy for 10 years until December 2012.

David previously worked for John Swire and Sons in Hong Kong and for Investors Chronicle as a financial journalist.

He holds a Modern History degree and a European Politics Masters degree from Oxford University. He also holds the Chartered Financial Analyst designation and is a member of the CFA Society of the UK.

To find out more about the Threadneedle Global Focus Fund visit [columbiathreadneedle.co.uk/globalfocus](https://columbiathreadneedle.co.uk/globalfocus)





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