ClearBridge Investments

Webinar: PM Perspectives: International Growth Update and Outlook

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With International and Global Growth Managers Elisa Mazen (EM) and Michael Testorf (MT) and Client Portfolio Manager Pankaj Naik (PN)

PN: Thank you very much and I hope everyone can hear me and good afternoon and thank you for joining the PM Perspectives Webcast. Today I'm joined by Elisa Mazen and Michael Testorf, co-portfolio managers for the ClearBridge International Growth Strategy. Elisa and Michael will provide an update on the macro backdrop as well as an update on the portfolio. Elisa, Michael, thank you for joining us and congratulations on the continued success with the strategy as well as performance over the long term.

Before we begin, (Michael) did talk about how to ask a question, so if you have any questions during the webcast on your left or as you see it on your screen, you'll see a box for asking a question. Please ask your questions during our presentation and we will take them as they come through. But let's begin with the elephant in the room, Michael and Elisa, if you don't mind. And so how important are U.S. China trade relations in the context of global growth and where has the impact been the greatest?

MT: Thanks Nick for the question, I will start a little bit with the broader picture perhaps first and we prepared one slide just to get everybody up to speed where how big or how important international equities are.

We do have at the top of the slide, which hopefully is coming up soon, sorry, we have – we have two big pie charts there and just reminding everybody because sometimes one forgets about it how actually our benchmarks are built up.

So for example like the MSCI (equity weighting) which you have on the top left is showing that the U.S. has a weight of 54 percent of all listed securities in the world. That's very, very big and emerging markets have only 11 percent and roughly one quarter of that is China. If you go to the right hand side, you see what is actually global GDP and how is it distributed. So 50 percent of the market cap is actually representing only 25 percent, that's the United States being the biggest economy is the world. Number two economy actually is China, and it makes almost half of the gray part which is the 41 percent and to be precise China has 16 percent of overall GDP. So therefore what will happen over the years and that's the reason why I'm coming a little bit to these kind of distribution charts is with the inclusion of China in – and their (A) shares, the waiting of international (income) would become bigger over the next years.

We had the first one already this year, there's another one inclusion coming in fall and then further inclusions of China issuers and MSCI later on in the years to come. And also I would like to refer to the chart at the bottom, which shows how did actually the S&P 500, which is the blue line, do versus (ACWI ex-U.S.) that is everything outside of the United States, including the emerging markets. And I mean the perception sometimes is that why go international because the U.S. has outperformed so much. But if you look at – if you put it into perspective a little bit, so from up to 2008 the U.S. was outperforming international was outperforming, in particular international was very strong from the years 2002, 2003 into the financial crisis where international was outperforming the U.S. by a factor of two roughly.

In the financial crisis, all of them went down, basic – pretty much a similar thing. And then something happened, it diverged very, very dramatically from 2010, 2011 onwards where the U.S. is outperforming international by a large factor. And there were a few reasons for that, and one was definitely that the central banks have reacted overseas much later than the U.S. The U.S. started right after the financial crisis and didn't take the foot off the pedal whereas the ECB, which is the bigger part of our overall international (weight) started, took – put the foot on the break and restarted in 2015.

So international markets are definitely behind in terms of recovery versus the U.S. That's one. The U.S. secondly did better because there was more technology and technology was a big winner over the years. And then thirdly, U.S. companies over international had higher ROEs and good part of that actually is coming through hare buybacks. The U.S. has done extremely well through their share buybacks and have used their balance sheet and put even more debt on their balance sheet in order to afford more share buybacks and we're pushing up return on equities and therefore also valuations.

And then fourth, not least, is – was the Trump effect where you had the tax cuts which pushed U.S. equities even further. So where does it lead now to? At the end of the day, what happens over the last years, everybody is positioned pretty much one sided. Everybody is in U.S. equities and U.S. bonds and in U.S. currency. So if that would reverse like we had seen it in 2002, 2003, that will be very, very powerful for international markets. Then in terms of valuations, there's a little box in the middle, hopefully you can see that there, there's – I just put a few multiples in there and where do we stand versus 20-year average and so on? So you see we're not like crazy expensive, we're a little bit more expensive than 20 year average in the S&P 500. We're less expensive than on the international side, not by a big margin.

And then we look at dividend yields. So for example like in the U.S. we have lower dividend yield, but also compared to bonds, 10 year bonds, we have a negative yield spread to equity. So dividends are lower than what you would get in the bond market, which is opposite to the (ACWI ex-U.S.) international markets where bond yields are sometimes even zero or minus or just above zero and we get a positive spread. So here, that is definitely attractive part too. Currencies, we haven't even talked about currencies yet, but that could actually be also another factor which moves international. And then we come to what can actually be the one (which we process).

Which is the trigger? And that is at the end of the day – but also led to this one-sided positioning is actually the trade war and if we could come to a kind of conclusion (with the) trade war that would be definitely positive for international markets. So I cannot tell you – I definitely cannot tell you when this trade war has to end, and the point is only – which makes me somewhat comfortable about it that the longer it lasts, the bigger the impact will be on the economies and that also would mean there will be impact on the stock market. And if Mr. Trump wants to be re-elected in 2020 and stock market is bad and economy would be bad, that would be definitely not a positive. So, coming back to your question, who pays for it? At the end of the day everybody pays for it.

There is the direct impact where you have the U.S. consumer pain and actually on the last round the 10 percent consumer paid even more than the tariff cycles that were some of the (smart people at the universities) basically pointing out. But more important for me and for international markets is actually the secondary impact. And that's very difficult to measure because this is sentiment, right? So, and people – if they are not having the confidence and sentiment is bad will not invest more. The consumer did very well over that period, but in order to make – to have the next elect in the international market the cooperation's have to do well.

And here we have seen that CAPEX was on very low levels opposite to the U.S., we have CAPEX depreciation ratios of roughly 130, which is at the low end of the band. And what we need is confidence back into the economy and in trade and that would basically make the stock market react very positively on that.

EM: The other thing I'll add to that is while we are right now, of course, very focused on what's happening with the U.S. and China with regard to trade, certainly that isn't the only tariff dispute that we've been getting involved in?

We've been having issues with Canada, with Europe – particularly on autos, the Japanese as well, so there are many, many, many issues that are going to need to be resolved, and I think (Michael's) point about confidence and companies wanting to make long term decisions on where to put money for factories and capital.

I mean all of these things are – they actually do require confidence, so we're hoping that we'll see resolution on many of these issues sooner rather than later, probably the (G20) meeting in (Osaka) at the end of June will hopefully put some clarity around this, (we) will be there, Japan will be there, so hopefully maybe election season will be gearing up and we can get some resolution there.

PN: Great, thank you. So continuing that China theme, which is to say, what stimulus policy has China incorporated to offset the impact of tariffs and do you see that working?

MT: So the short answer, is it working? Yes. We see first little signs that it's working, so just to put it into perspective, also, the China stimulus was very, very massive over the last two years, so we're talking about roughly 5.6 percent of GDP spread over two years, 2018, 2019. It's definitely more targeted to compare to the big stimulus which we saw in 2008 and here what are they targeting?

They're targeting liquidity in the market, they gave certain special government bonds, they gave tax cuts to the consumer, but also to the cooperation, they reduced (V18) and then made up for certain impact on tariffs. So that all added up to 5.6 percent, which is in absolute terms the biggest stimulus China ever did.

We sometimes forget about it because the economy grew during that period. Also, very, very important is if you want to have an economy bridge, which is supposed to grow, you have to give it liquidity, and liquidity, which you can measure in one or in two is the critical part to what's in China, so what happened 2015, 16, where we had the last stimulus that pushed a lot of liquidity into the market. Where they figured out, because one was the shadow banking system, and they put the break on the shadow banking system very, very dramatically in 17 and into 18. And money supply from high double digits, move basically to zero. So you didn't have additional liquidity, you didn't have the chance to give additional loans on whatever. So, what has the government done in order to do this stimulant? To stimulate the economy again?

One was, and that is powerful but it takes some time until it filtered through is a so-called (RR) or reserve requirement ratios for the banks, basically you bring them down and the banks can lend more with the existing capital they have. So we have (had that done) multiple times, and finally in January, February, March we have seen positive (N1 grossing again finally) from the zero level we're going now somewhere into the low single digits, mid-single digit region.

So, and to perhaps addition to what you were mentioning if the trade war gets fiercer, the China will do further stimulus without any doubt. Secondly, they will also most likely devalue the currency which could be a little bit ugly for the rest of the world.

EM: I think what's important when we talk about a lot of these macro issues is that when we look at the economy in China, it's quite nuanced in terms of what is growing, what is not growing, what is really impacted by some of these trade issues.

What we find particularly as we're growth investors is some of the more traditional state owned enterprise industries are much more impacted, they're also more levered, so those can be a little bit more worrisome, and we find that China is trying to grow very quickly in certain areas where they really haven't had much expertise, they're trying to develop their own pharmaceutical industry, the consumer has reoriented and is starting to spend in a meaningful way in areas where they haven't traditionally spent, like in cosmetics and skincare.

So, we're seeing some new business models being developed around the Cloud, e-commerce etcetera. So, there is a lot of growth within China, it is not – there's not necessarily linearly link to GDP growth, there are many developments in China that actually we're quite encouraged by that we think will be relatively insulated but from some of these tariff squabbles? Though, in the short term, certainly (sentiment) is something that has – that can have an impact on markets.

PN: Maybe switching gears a little bit to the European part of the economy, what policy path do you see Europe taking on the stimulate their own growth?

MT: Sure, I mean, look the – stimulus definitely comes from the (ECP), originally we expected the (ECP) to hike rates like the U.S. did, that hasn't happened. And, if you look at the (full board rates) which one on the short-term rates is called Euribor, that one is telling you that until end of 2020 you wouldn't see any kid of short-term interest rate hike, so we're actually still in negative territory, this morning we were minus 27 basis points.

So what it will be, I mean it will be cheap money in Europe for the foreseeable future, we're talking about at least one and half years, perhaps even longer. That is definitely helpful, secondly we will have another round of (LTRO's) which is financing for the banking sector. Most of the banks actually do not need that anymore, that was an instrument which was used after the financial crisis and most of the banks in the northern part of Europe and even in the middle are enough capitalized. The problematic ones are in the south, particularly Greece and Italy, and Spain to a lesser extent. They probably will take that kind of money and will invest it in their local bond market and will create a positive spread, which would be extra income and that will be positive for the overall capital.

So, that is – that is overall a good thing and that will happen over the next few years. But on the other hand, I mean we have seen already quite some improvements in Europe. It's not that it hasn't happened. Since the ECB started the stimulus via the qualitative easing – the major quantitative easing stimulus came in 2015, the consumer did already – is pretty well off in Europe. Unemployment rates are close to the lowest which we have seen before the financial crisis. We have seen wage growth in most part, particularly in the north, we have even in some countries like Germany or Holland, particularly the north again, we have a shortage of skilled labor.

So, it's not that it hasn't happened. We are there. As I said earlier, we need the next push coming from the corporate side. That is the important part. And then policy changes would be the next one, I guess. Right?

EM: Well, the policy changes are unlikely to come too, too much, I think, from ECB. Really, now it's time for some changes at the – at the sort of fiscal level. The ECB has done a lot. I think making monetary policy as easy as it is has definitely taken the stress off and allowed restructuring.

So, we see a lot of encouraging signs there. Certainly when you look at things like earnings growth, what you see with the weaker currency is that many of these large, European companies that have external businesses outside of Europe, the earnings are quite flattered by the currency returns. Just the translation from strong dollar to weak euro has meant that earnings growth looks like it's reaccelerating nicely in Europe and that's kind of getting people's attention. Also, low rates means that you finance M&A, acquisitions.

And we are seeing a relatively strong M&A globally but also in Europe. Europe has been pretty active in M&A. And the other thing with the weaker currency is we also know that Europe has a pretty high component of its companies that have business in emerging markets. So, again, that's flattered in terms of the earnings translation. So, we're feeling pretty good about what we see going on in Europe. Yes, we know there's always political noise.

If you tell me an area that doesn't have political noise, I'd be surprised. I mean, it's a fact of life and with the internet, I think it will be – it will be more and more so. But frankly, many of the things that we're seeing, the (corporates) we're talking to, we're very encouraged.

PN: So, given that backdrop, how does – and given the fact that the benchmark is a pretty significant weighting for Europe in general, how does that – what implications does that have for your strategy from a sector perspective, say financials, for example? Or industrials? How does that play itself out in the portfolio?

MT: I mean, look, in terms of financials, which is my specialty, so here clearly we have an underweight in banks in general all over the world. Because we do not see necessarily the yield curve working in our favor. Normally, a steepening of the yield curve goes into a direction that makes banks more money, that I don't see. That's the reason why we are basically – we're underweight.

So, it's very different to the U.S. where you had this big move in banks from 2010 into 2017 due to the steepening of the yield curve and the – and the loan growth which was coming with the upswing. So that's not happening. Where we put our – where we put our own money is into a higher wage or higher – sorry, higher growth which would be stock exchanges as well as insurances. But insurances in particular in Asia to where we were in China and Asia with AIA and (Pin An) which have done also fairly well, knock on wood, for us over the last years.

EM: So, one of the things for those of you who don't know this strategy well is we're looking to put investments in every sector that we can find that we think grows above the market for sort of a long period of time. You can see at the bottom of the slide, in utilities and real estate, we don't have investments there. Because we think that the ideas that we see are not particularly interesting. They're either very expensive and we think that the duration of growth is low, or simply that there isn't enough growth relative to the other opportunities. But by and large, what you see is very broad representation across many sectors, including financials, which is not an area I think you would typically see in a growth portfolio.

We're nearly neutral to our benchmark but if you look underneath that sector, there's some very, very key differences among the subsector investments, meaning very low in banks but very high in areas like stock exchanges which we think can grow for a long period of time, insurance, and so on.

So, but we want to have a lot of representation in as many sectors as we can, that way when the markets have these nice upward moves, we participate in a very broad way.

PN: And I guess this is a great transition into the portfolio around – Elisa, you've often said to us in terms of portfolio construction, that you don't believe growth in one size fits all, and if you can help us tease that out in terms of the different types of growth stock that you own in the portfolio.

EM: Sure. So again, for people that may be a little bit less familiar with how we do thing here, we have a very holistic approach to growth, and one of the things we do know is that growth can be riskier than other types of investments, primarily because its expensive. So we try to understand the different types of growth investments that are out there. We segment them very carefully into three different groups.

We want to have as many different types of growth ideas in the portfolio, but we understand within each segment there are different levels of risk. Controlling the risk in a portfolio is something that's very important to us. We look to generate portfolio volatility in line with our benchmarks. So what that means is we have a (EFA) core benchmark, we want the portfolio to be as volatile as the benchmark, but not a lot more volatile. But we know that growth is riskier, so how do we deliver that?

Again, segmenting growth in this very holistic approach, we think is the way to do that. The other think that we want to do is, this is not just overall bracket and growth, within each segment as well, we also think very much about diversifying among different types of growth ideas. So maybe very quickly, you can see all the way of the right is emerging growth. These are top line primarily driven companies – they are very interesting companies, they grow very quickly, but they're also the riskiest. So it's important to grow risk in this particular group and not go too high, because this is where you really see that portfolio volatility. An example of a name here is a company called Shopify, which is a Canadian company, an end to end web solution for small and even now larger companies as well. We take this total basket and we go up to 20 percent of our portfolio in emerging growth. Today we're probably about 11 percent in this particular group. It's very much driven by valuations. Again, this is a product that has a valuation approach to growth. We're intrinsic value investors and that valuation is – our valuation metric is free cash flow. So that's what drives what it is – what we think a company is worth, but the riskiest part is always emerging.

In the middle is secular growth. This is 40 to 50 percent of the portfolio always. This is also the least risky part of where we invest. These are larger cap companies, very stable, steady compounders, really does provide that portfolio stability over long periods of time and it still grows above the market. These are companies like Diageo, Temenos, L'Oreal, very steady companies, they grow very nicely above the market and they do perform well in up and especially down markets. You get a lot of downside protection in this secular growth category.

Something that we think is a little different in our strategy relative to other growth peers, is our structural growth category all the way on the left. Risk wise, that probably fit in between secular and emerging. These are companies where we see a step change in forward earnings, that the market doesn't see a very, very specific change at the company level. Usually earnings are somewhat depressed, valuations are low. When these stocks work, they are very powerful ideas. So, we like these ideas, there's a lot of different types of companies that can go into this particular basket. It can have a more secular backdrop like Shiseido in cosmetics. It can be industry consolidation like in flavors and fragrance, industrials gasses. We have Linde in the portfolio. But these stocks can be very, very powerful and can grow for a long period of time above the market. We want to find them at an opportunistic point. We do that with a proprietary factor model we've developed.

And then again, all these different types of idea with different risk characteristics, different volatility, really contributes to (broad) participation in a lot of different markets, and it's something we think really holds the portfolio in good shape. In terms of what does that mean to be positioned for many things?

We want to have a lot of uncorrelated ideas. We don't want to have a lot of things that are all linked to the same idea, these are very specific stock ideas within the portfolio that are not correlated to each other, even within on particular sector. Such that when the market moves, you will see nice performance coming out of our stock from a very fundamental bottom-up-drive approach.

PN: So let's give an example of that, talking about uncorrelated growth. So for example, if I look at your industrials, Teleperformance, Canadian Pacific Rail, Rentokil, very different businesses. Can you just expand on that a little bit more, and talk about sort of, uncorrelated growth stories within industrials, for example.

EM: Sure. Hold on, I'm just turning to my – I'm looking at attributions slide, which nobody can see here.

MT: So the time for Rentokil, just given a year, what it is, because its normally not a name where you would think in a growth portfolio, but actually it is, because the underlying business in pest control for 3 percent to 4 percent globally, but in emerging markets, 5 percent to 6 percent, and they are basically (auto rollout) stories where they buy the little (mom and pop) shops and increase the overall growth to 7 percent or 8 percent, and as the bottom line because of the much better -- bigger network effect and these mom and pop shops are normally in a territory where you are already.

And the technician will come to your house. Instead of visiting five or six people per day, if the distances are shorter, he can make seven or eight people (and attain triples) same day, and (it will) fall down straight to the bottom line in terms of margins. So you will have double digit earning growth or EBITDA – EBIT – EBITDA (and more so) in terms of (EPS).

Highly cash generative, and it's one of these kinds of expensive growth companies which also in a downturn will create good cash flow. That's what we're looking for, these are the ones which are compounding year by year by year. So that is one of the critical parts of our portfolio.

EM: So we've been overweight in the industrial space for quite some time. But again if you go down and look at the industry level, it's quite diversified. It tends to be lower capital intensity, more services side, like as Michael said, Rentokil is an important stock in our portfolio; it in our top 10, but we also have electrical equipment. So we have a company called Legrand that does small voltage parts for your home, for your business. It's really very good at helping in energy efficiency.

And they have some really interesting market positions across the world. In professional services, there's a company we all call TechnoPro. They do engineering services, software services in Japan. This is a market that's very, very short on that talent, and they've accumulated a very nice pool of engineers – software engineers and so on, to be able to service that market; and its growing very nicely in a market that has a shortage of people that really need to digitize and help bring Japan kind of up to global standards.

And then we have the rail. Canadian Pacific has been a stock in the portfolio for a while. We have actually recently had a small (trim) on that position, but it's a very good business, a very diversified business.

It is somewhere more cyclical, but these are businesses with very good pricing power, which is something that we like and incredibly cash generative. So it's very diversified around different segments. It tends to be less overall the grouping -- capital intensive than I would say the (EFA) benchmark overall.

PN: So we started off the conversation around the global -- macro backdrop. We pivoted towards your views on growth (and how) you want uncorrelated growth assets as well as growth is not one size fits all.

Given those two are -- lets reconcile those two aspects. Where are you finding opportunities today? Is it healthcare, is it consumer, is it technology? Where are you finding growth opportunities today given the political backdrop and how you invest?

EM: So we are very much valuation focused, as you know, in terms of idea, generation and what we're looking at. So we're looking for good businesses. We're looking for good businesses at the right price. That's something that's very important to us. Healthcare – specifically, pharmaceuticals had been an area that we had been, back in 2015, quite large; we thought was quite expensive, and so we had taken that down in a meaningful way, and then we had been underweight for several years.

So recently we've actually taken our healthcare positions up, specifically again on the pharmaceutical side. That's very, very much led by valuations, which are quite cheap for the names that we own in Roche and Novartis, which are two names for the portfolio. So healthcare is something that is starting to see a meaningful change sort of relative to what we've seen in the past. Technology, is growing for us, but that is just frankly through performance.

We have a secular story. SAP we've had in the portfolio for a long period of time with the belief that their cloud business and the changes they were doing were going (see) through into earnings. It's finally happened this quarter. So we've seen really performance from some of our long held large positions there. But again, it's very broad based. The emerging (gross) stories like (Shopify) that stock has done very well this year.

So you see a lot of good performance from a number of different types of growth ideas. Again, very uncorrelated with each other. Consumer discretionary and consumer staples, again, those are large overweights for us.

But those stocks continue to do very well. They have good pricing power, cash flows are strong. Share buy backs continue (repaid) and possibly are even increasing. And we're just maintaining very good positions there and there's not really a whole lot new to do.

MT: And technology you mentioned right. Software is for us, a big cost. It's not only the SAP but it's also a lot of companies which help actually to disrupt other sectors. Right. So you mentioned (Tenovos) for example. This is a disruptor for new incoming banks that do banking software.

And we haven't seen a lot of outsourcing to third party software lenders in the banking sector, opposite to SAP and Oracle who cater mainly to the industrial sector but outsourcing has happened already to a degree of 90 percent. (And then) we might have gone (perhaps) from 10 to just about 20. So there's a long way to go. I'm not saying that it will reach, like I said, even Oracle is 90 percent. But even to 40 or 50 percent is doubling the time for these kind of businesses and (Tenovos) is (inaudible) market leader (and) addressing a whole lot of larger banks in the world too and it's coming over to the U.S. because the winds were noted in the last one or two years. So software and disruption is a critical part of our investment.

PN: And so one area that everyone loves to talk about and I'd to go back to the China (wealth firm in here). But I'd like to go back to the emerging markets well for a minute.

That's been an area where (folks) want to continue to see growth of course. But in the context of your portfolio, how do you view emerging market companies as a total percentage of your portfolio and how do you think about that overall in general.

EM: So earlier what I had said about portfolio volatility, we want portfolio volatility to be in line with our (core EFA) benchmark. When you add emerging markets, you are naturally going to increase that portfolio volatility. So you have to make an assessment as to do you have enough upside. Is that risk worth it. Are you – and then you have to try to make that balance. So this product will go up to 10 percent in emerging markets.

At the moment we are about 8 percent in our holdings. And our portfolio volatility is not meaningfully above our EFA core benchmark. We've seen very strong performance out of our emerging market companies. Markets like Japan are – can be very difficult markets to find good growth. And many of the markets in Asia – Australia as an example is also a market that doesn't have a lot of growth. So what is there is quite expensive.

What we've found is that actually within China that that growth is not particularly overpriced. It's actually pretty well priced. So we think that that growth can continue for a long period of time because of structural changes in those economies and we don't think that the market is pricing for that.

So we're comfortable with the – with the names that we own in China. We think they can grow for a long period of time, which is not the case for other parts of the world. And we don't think that the volatility that the bring into the portfolio is particularly destabilizing.

PN: Got a couple more minutes here and so how about we round out the conversation with respect to performance and what's really been driving that over the last several years with respect to performance last year, with respect to what was pretty much a down market up – almost a positive market up until September.

And then the fourth quarter hit and it was just a – but walk us through your – how you envision the portfolio to behave in different market environments. Clearly if we look at your calendar year returns it's been fantastic. But how do you envision the portfolio to behave in the context of how you construct it.

EM: So one of the things we haven't talked about is we haven't talked about when we sell stocks. So we sell stocks when we think that they're full priced. And this is something that we think about a lot. If you look at overall portfolio turnover, it's – on a trailing 12 month basis it's running at about a little over 30 percent. About a third of that are trends (in ads). The rest are full sales and new buys. So we will – we will move when we think things are fully priced for growth characteristics.

So how – the fourth quarter of last year was certainly not fun. But we did go and evaluate how the different groups of growth actually performed in those markets. And we were really pleased that actually the way that we build our portfolio and think about our portfolio with the secular growth group being the largest is also the least risky. And that's exactly what happened in the downturn. It really did protect on the downside and it fell far less than the market.

Emerging growth, as we know is the riskiest part of the market and it fell the most. And it was – it was pretty painful. But it didn't destabilize the overall return. And that's why we think it's very – this is probably the most important segment of growth to get right in terms of portfolio construction.

And then the structural, again, behaved in between those two. Some did well. Some did not. Overall that particular group was better than emerging growth but it was worse than the secular group. So how would I expect our portfolio to behave?

Frankly in most markets we expect this portfolio to outperform. We do know we've been in a – in a better environment for growth. So if we have a narrow value driven market, we think that the portfolio could potentially under perform. But we don't really see that really happening because you need to have very good, long economic growth in front of you we think for value to really work. Do you want to comment on those numbers?

PN: I think one of the things that I find with respect to (the characteristics) of your strategy is that going back to that performance stories, your amazing up-down capture, 95 percent roughly on the upside for the past three to five years.

And then on the downside about 75 percent down capture. Is that really a function of kind of how you were thinking about sort of growth is that one size fits all approach, is that how you were thinking the portfolio would behave?

EM: Well, we're glad it's behaved that way and yes, we'd like to say we've designed it that way. But we're do think that what we're strong in is stock picking. We think that that's something that we understand and we think we do a good job at that. We are driving for portfolio (alpha) to come from stock picking. We minimize something we call our factor risk. So this is how overweight are you relative to different currency baskets, different countries, sectors, et cetera. We do not try to outperform by making a call on a market or a currency.

The performance is always going to come from the stock level. And when you go and look at the attribution that's the thing we're really the most please with is that when you look at the total impact. So I'm looking at my year to the end of – the end of April 2019 numbers, which we did roughly 600 basis points on the – on our (ADR) strategy – a little bit more actually. 470 of that came from stock selection. And that's the thing that we think is the most important thing to understand.

And importantly it's very broad across different sectors. It didn't all come from I.T. or healthcare, it came from every sector except one, which was materials where we did underperform on a stock picking basis.

MT: I think you had the slide there about yearly performance. Perhaps a lot of people (who were questioned). So what happened in 2017 and '16. I mean '16 we underperformed slightly because we had this mess of value rally in quarter four 2016. But that reversed a little bit and our quality and our gross credentials in the portfolio gave us a big boost at the first and second quarter in 2017.

So very often we say 2017 is actually – or the outperformance of 2017 is the one – it's the product of two years. 2016 and 2017 because of what this kind of weird moment in quarter four 2016 through Q1 2017.

PN: Perfect. There was a question that came through if we have an estimated version of this strategy and the answer is yes. If you – if you think about how ClearBridge approaches strategies, it's very much a vehicle agnostic approach.

That is to say there's a strategy and then the underlying vehicles. And so there's an (SMA), there is a mutual fund as well as the (CIT). So we take up very much of a vehicle agnostic approach.

I think that will be the conclusion of our formal comments today. I think we've addressed all the major topics that we wanted to touch on with respect to macro as well as portfolio construction. Elisa, Michael, thank you for your time today and kudos to your continued success.

EM: Thanks Nick.

MT: Thank you very much. And thanks everybody for listening.

About the Speakers

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- 33 years of investment industry experience
- Joined a predecessor organization in
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