EDISON

Martin Currie Global Portfolio Trust

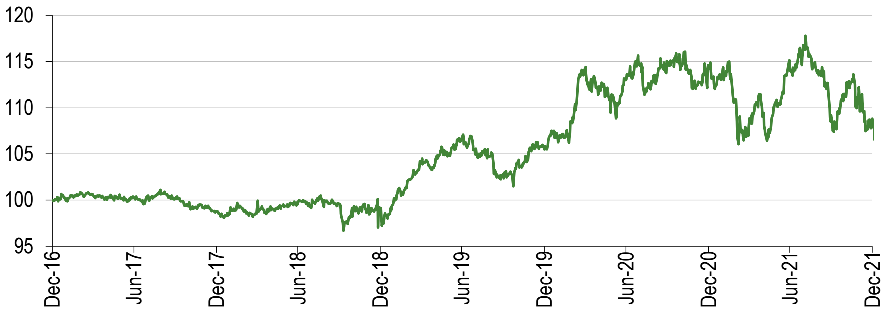
Positive equity and global economic outlook

Investment trusts
Global equities

13 January 2022

Martin Currie Global Portfolio Trust (MNP) is managed by Zehrid Osmani, who aims to generate above-market returns over a rolling five-year period. He says that there are exciting new growth opportunities available, but he cautions the need to stay disciplined given stock markets 'have travelled far and valuations are generally high'. The manager is positive on the global economic outlook, which is supported by robust levels of infrastructure spending. He believes that while rising US interest rates could lead to higher levels of stock market volatility, it is part of a 'normalisation' rather than a tightening of US monetary policy, so he remains positive on the equity outlook. Osmani is continuing to focus on companies with the potential to generate consistent earnings growth and pricing power to protect their margins in an environment of rising costs.

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



Source: Refinitiv, Edison Investment Research

Price		**398p**
Market cap		**£345m**
AUM		**£338m**
NAV*		390.9p
Premium to NAV		1.8%
*Including income. As at 11 January 2022.		
Yield		1.1%
Ordinary shares in issue		86.7m
Code/ISIN		MNP/GB0005372411
Primary exchange		LSE
AIC sector		Global
52-week high/low	433.0p	349.0p
NAV* high/low	435.8p	340.3p
*Including income		
Net gearing*		6.9%
*As at 30 November 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.

The analyst's view

MNP offers investors a concentrated portfolio of listed global companies that have strong environmental, social and governance (ESG) credentials. Osmani was appointed as the trust's lead manager on 1 October 2018, and since then the fund's performance has improved considerably, driven by his disciplined, repeatable investment process. Despite a modest setback over the last year, due to the fund's Chinese exposure, MNP's NAV has outperformed its benchmark over the last three and five years and the average performance of the AIC Global sector over the last one, three and five years. Compared with the benchmark, on a geographic basis there is a notable underweight exposure to the US and an overweight to Europe, while on a sector basis, the fund has large overweight positions in healthcare and technology and a meaningful underweight exposure to financial stocks.

Zero-discount policy and structural gearing

MNP has a zero-discount policy aiming to ensure that, in normal market conditions, its shares trade close to NAV. Its current 1.8% premium to cum-income NAV compares with a range of an average 0.8% premium to a 1.2% discount over the last one, three, five and 10 years. The trust historically did not employ gearing but in late-November 2020 drew down a new £30m debt facility; at end-November 2021, MNP's net gearing was 6.9%.

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Martin Currie Global Portfolio Trust is a research client of Edison Investment Research Limited

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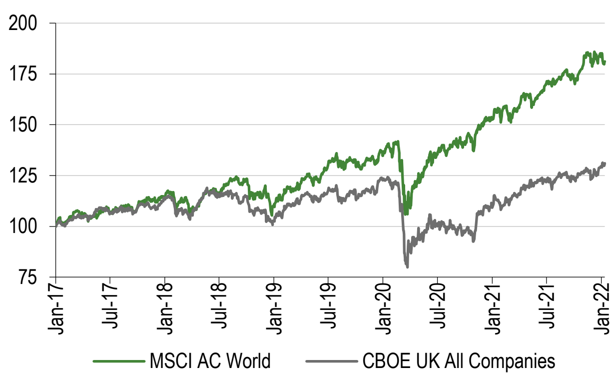
Market outlook: Investors should remain vigilant

Global stock markets have rallied strongly in recent quarters supported by an improving global economy and ongoing supportive monetary and fiscal policies. The rollout of COVID-19 vaccines has led to increased confidence at both the consumer and corporate levels, although the risk of further coronavirus variants remains an ongoing threat to economic activity. Over the last 12 months, global corporate earnings growth has exceeded consensus expectations bringing company valuations down to more reasonable forward earnings multiples, although they remain above long-term averages. As shown in Exhibit 1 (left hand-side), the dominant US stock market (illustrated by the Datastream US Index), which makes up around 60% of global indices, is trading at a 27% premium to its 10-year average, which is considerably higher than the 16% premium for the Datastream World Index.

Considering the corporate earnings outlook for the current year, investors are likely to benefit from a more selective approach, rather than just focusing on those companies that are likely to be ‘pandemic winners’. Supply chain disruptions are putting margin pressure on businesses that lack pricing power and the US Federal Reserve has suggested that interest rates could rise faster than prior consensus expectations in response to higher inflation, which could lead to profit taking in expensive growth stocks as higher rates reduce the value of their long-term earnings streams.

Exhibit 1: Market performance and valuation

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



Valuation metrics of Datastream indices (as at 12 January 2022)

	Last	High	Low	10-year average	Last as % of average
US					
P/E 12 months forward (x)	21.9	23.7	11.4	17.2	127
Price to book (x)	3.4	3.6	1.6	2.4	145
Dividend yield (%)	1.3	2.7	1.2	2.0	63
Return on equity (%)	17.2	17.2	10.0	13.6	126
World					
P/E 12 months forward (x)	17.2	19.8	10.3	14.9	116
Price to book (x)	2.4	2.4	1.3	1.8	134
Dividend yield (%)	1.9	3.4	1.8	2.5	75
Return on equity (%)	12.9	12.9	7.3	10.8	120

Source: Refinitiv, Edison Investment Research

The fund manager: Zehrid Osmani

The manager’s view: Positive on the growth outlook

Osmani explains that we have moved from the contraction, to the recovery, to the expansion phase of the current economic cycle. He remains positive on the growth outlook even if there has been a reduction in economic momentum, and the manager acknowledges that there is pandemic lockdown relapse risk and hiccups in the supply chain. Osmani believes that this will be a more prolonged economic cycle, which he views as positive, due to announced infrastructure spending around the world, much of which is still to be deployed. The manager believes that this will be a long duration eight- to 10-year programme, which should support economic momentum over the long term.

The move into the expansion phase of the economic cycle means there will be monetary policy shifts from accommodative to ‘normalisation’, which is likely to lead to increased stock market volatility over the next two to three years as investors take higher interest rates on board. Osmani says that it is important to stress that monetary policy is normalising rather than tightening. He suggests that part of the expected stock market volatility is likely to be due to the tussle between those investors thinking that the economy is fragile so higher interest rates will hurt economic growth (evidenced by a flattening yield curve) and those that believe that central banks are too late, so will have to slam on the brakes by raising interest rates in response to rising inflation, which brings the risk of recession. The manager does not believe that the central banks are ‘behind the curve’, and the economy will be supported by continued low interest rates and infrastructure spending. He suggests the importance of focusing on those companies with consistent earnings momentum rather than those that are reliant on a cyclical uplift.

Osmani acknowledges that inflation has been stronger and lasted longer than he had anticipated. However, he believes that this is ‘frictional’ rather than structural, and due to supply chain disruptions, while price increases have been exacerbated by lockdowns. The manager also points to the low base effect (easy comparable numbers) giving the impression that inflation is elevated. He suggests that frictional disruptions could last well into 2022, especially given the omicron COVID-19 variant, and believes that there will be more clarity regarding inflation by the summer of 2022. Osmani says that wage inflation tends to make up 80% of structural inflation and, so far, wages are not running away; although some low-skilled industries are experiencing wage inflation, the manager says that, in aggregate, the outlook for wage inflation remains benign. The manager says that recent company meetings have highlighted inflationary pressure on firms’ margins; hence, the importance of pricing power: some companies need more time to pass on higher costs, while others are unable to do so. There have been profit warnings from Unilever and Reckitt Benckiser, which one may have thought are companies with pricing power; however, updates from these businesses illustrate that inflation is starting to bite.

When seeking new investments, Osmani comments that given the stock market has rallied sharply following the coronavirus-led sell-off in Q120, it is now more important to be disciplined on valuation; he suggests that some areas of the market are in ‘bubble territory’. However, he is still finding interesting opportunities, taking into account three overarching themes within the portfolio: the future of technology, demographic change and resource scarcity (highlighted in the Investment process section on pages 8–9). The manager highlights eight areas that he believes are interesting areas of consideration in a post-pandemic environment. Four are related to infrastructure spending: renewable energy; electric transportation (railways and electric vehicles); 5G; and healthcare infrastructure (upgrading physical and digital operations). The remaining four are: cloud computing and cyber security (more companies are migrating their operations online, hence there is increased demand for both of these products and services); robotics and automation; online education and gaming; and hygiene – in food, domestic and professional environments.

Current portfolio positioning

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

Company	Country	Sector	Portfolio weight %	
			30 Nov 2021	30 Nov 2020*
Nvidia	US	Information technology	6.6	N/A
Microsoft	US	Information technology	5.9	4.5
Kingspan Group	Ireland	Industrials	5.3	N/A
Masimo	US	Healthcare	5.0	5.4
ResMed	US	Healthcare	4.9	4.8
Taiwan Semiconductor Manufacturing Co	Taiwan	Information technology	4.9	4.8
Moncler	Italy	Consumer discretionary	4.6	N/A
Linde	US	Materials	4.5	4.3
Adobe	US	Information technology	4.4	N/A
Atlas Copco	Sweden	Industrials	4.1	4.1
Top 10 (% of portfolio)			**50.2**	**43.8**

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

As shown in Exhibit 2, at the end of November 2021, MNP's top 10 positions made up 50.2% of the portfolio compared with 43.8% a year earlier; six positions were common to both periods. The step-up in concentration was a conscious decision by the manager to increase his exposure to his highest-conviction ideas, and he says the top 10 provides a good mix of sector exposures.

At end-November 2021, MNP's Europe (including the UK) weighting was 3.9pp higher year-on-year, while the Israeli exposure was sold (CyberArk Software – see below). The largest active weights were Europe (including the UK, +23.5pp) and North America (-19.9pp).

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

	Portfolio end-November 2021	Portfolio end-November 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
North America	44.4	43.4	0.9	64.3	(19.9)	0.7
Europe (inc UK)	39.3	35.4	3.9	15.8	23.5	2.5
Emerging markets	10.4	11.9	(1.5)	11.3	(0.9)	0.9
Asia Pacific ex-Japan	5.9	7.2	(1.3)	2.7	3.2	2.2
Israel	0.0	2.1	(2.1)	0.2	(0.2)	0.0
Japan	0.0	0.0	0.0	5.7	(5.7)	0.0
Total	**100.0**	**100.0**		**100.0**		

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

Over the 12 months to end-November 2021, the largest changes to MNP's sector exposures are a higher technology weighting (+6.4pp) and a lower healthcare weighting (-5.8pp). These two sectors remain the largest overweight positions versus the benchmark at +9.6pp and +12.2pp respectively. The largest underweight exposures are financials (-11.5pp) and communication services (-6.4pp) and the fund has no holdings in the real estate, utilities and energy sectors, which together made up 8.6% of the benchmark at end-November 2021.

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

	Portfolio end-November 2021	Portfolio end-November 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Information technology	33.4	27.1	6.4	23.8	9.6	1.4
Healthcare	23.6	29.5	(5.8)	11.4	12.2	2.1
Consumer discretionary	16.0	18.3	(2.3)	12.9	3.1	1.2
Industrials	12.2	8.1	4.1	9.5	2.7	1.3
Consumer staples	6.1	5.8	0.3	6.6	(0.5)	0.9
Materials	3.9	4.0	(0.0)	4.6	(0.7)	0.9
Financials	2.4	3.5	(1.0)	13.9	(11.5)	0.2
Communication services	2.3	3.9	(1.5)	8.7	(6.4)	0.3
Real estate	0.0	0.0	0.0	2.6	(2.6)	0.0
Utilities	0.0	0.0	0.0	2.6	(2.6)	0.0
Energy	0.0	0.0	0.0	3.4	(3.4)	0.0
Total	**100.0**	**100.0**		**100.0**		

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

There are two relatively new positions in MNP's portfolio, Farfetch and Autodesk. Osmani believes that fashion retailer **Farfetch** is well positioned, within the luxury goods sector, to harness the shift from physical to online operations, and he expects the business to grow rapidly. Farfetch has a joint venture with Alibaba in China, which is the largest luxury goods market with a 50% global share. The manager was able initiate the position on share price weakness, due to an overhang from a major investor having to sell its holding. He anticipates that Farfetch can generate revenue growth of 33% pa over the next five years and should be profitable at the EBIT level in 2023. The company has an asset-light business model and has cross-selling opportunities using artificial intelligence to profile its customers to stimulate additional purchases. Farfetch is looking to further diversify its operations by launching a range of cosmetics later this year.

Software company **Autodesk** benefits from the growth in consumption and infrastructure spending. Osmani explains that the construction sector is highly polluting and generates significant amounts of waste, while public and private projects typically have cost overruns of 30%. Autodesk's software minimises the risk of overruns, where the crunch points tend to be the handover from designers to contractors. In the UK, the government has mandated the use of Autodesk's software to minimise the risk of overruns. The manager forecasts revenue growth of 17% pa over the next five years, EBIT growth of 29% pa and a rapid increase in return on invested capital over the next three years. He views Autodesk as a 'high-quality growth company'.

Complete disposals in recent months included the position in Starbucks as its share price had recovered well post lockdowns and exceeded the manager's target. The CyberArk holding was sold as it did not live up to expectations; Osmani said that the competitive dynamic was very tense in cyber security, which put pressure on the company's returns. In addition, CyberArk made an acquisition, which pushed its time to reach profitability further out. The position in Mettler Toledo was sold following strong share price performance that exceeded the manager's target. Proceeds from the sale were reinvested into Nvidia and Veeva Systems.

Performance: Chinese exposure detracted over 12m

Exhibit 5: Five-year discrete performance data

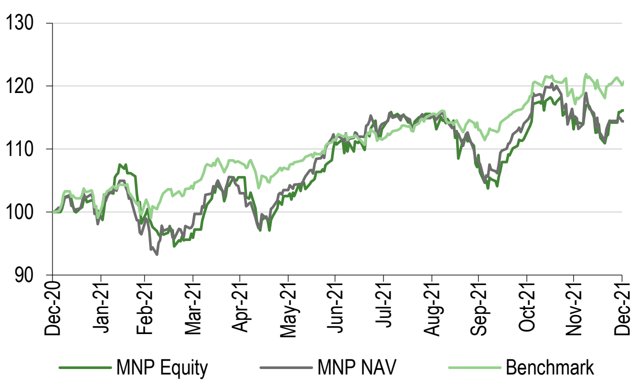
12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI AC World (%)	CBOE UK All Companies (%)
31/12/17	11.2	12.0	13.3	13.8	14.0
31/12/18	(3.5)	(2.8)	(3.1)	(3.3)	(9.8)
31/12/19	31.9	30.7	22.8	22.4	19.3
31/12/20	24.0	22.8	13.4	13.2	(10.9)
31/12/21	16.1	14.4	20.1	20.1	18.4

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.

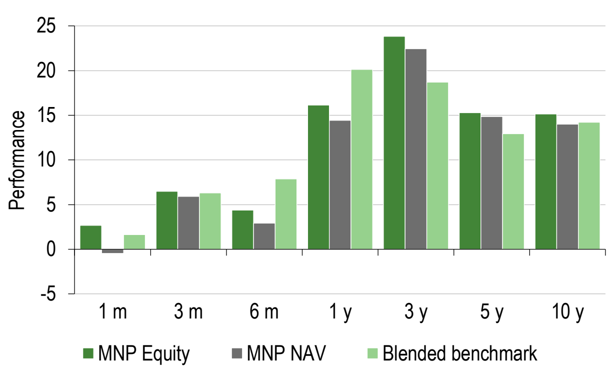
Data from MNP show that from the trust's inception in March 1999 to end-October 2021, its net asset value (NAV) and share price total returns of +556.3% and +715.8% respectively are ahead of the benchmark's +447.0% total return. Since Osmani became lead manager on 1 October 2018 to end-October 2021, MNP's NAV and share price total returns of +62.4% and +62.9% have outperformed the benchmark's +43.8% total return.

Exhibit 6: Investment trust performance to 31 December 2021

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.

MNP's relative returns are shown in Exhibit 7. Its NAV is ahead of the benchmark over three and five years, while its share price has also outperformed over the last decade. The trust has also significantly outperformed the broad UK market over the mid and long term in both NAV and share price terms, illustrating the potential benefits of investing overseas.

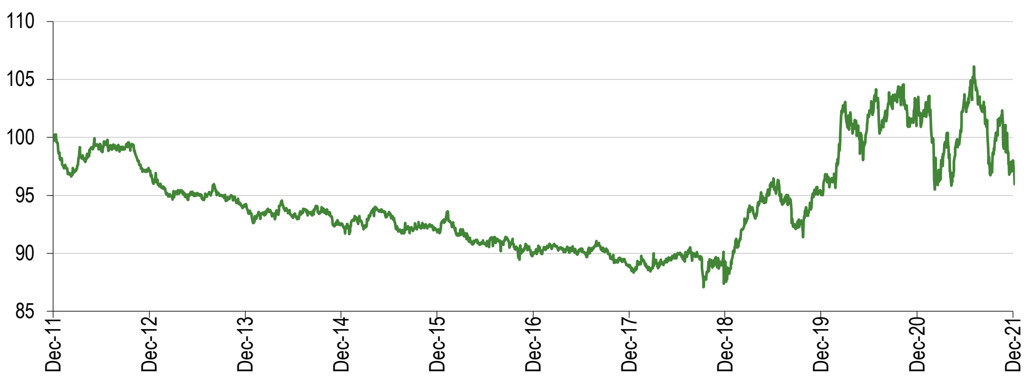
Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	1.0	0.2	(3.2)	(3.3)	13.5	10.9	8.3
NAV relative to benchmark	(2.0)	(0.3)	(4.6)	(4.8)	9.8	8.8	(2.0)
Price relative to MSCI AC World	1.0	0.2	(3.2)	(3.3)	14.1	11.2	10.6
NAV relative to MSCI AC World	(2.0)	(0.3)	(4.6)	(4.8)	10.3	9.1	0.1
Price relative to CBOE UK All Companies	(2.0)	2.5	(1.8)	(1.9)	50.9	57.5	96.0
NAV relative to CBOE UK All Companies	(5.0)	1.9	(3.2)	(3.3)	46.0	54.6	77.3

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

Discussing MNP's relative performance over the last 12 months, Osmani notes that the top five contributors operate in a variety of sectors. These include luxury clothing company Moncler, which the manager says has emphasised its superior creativity and has positive demographic attributes that have contributed to earnings exceeding consensus expectations. Another positive contributor is Taiwan Semiconductor Manufacturing Company, which has benefited from bottlenecks in the semiconductor supply chain. The manager explains that the four largest negative contributors to the trust's relative performance all have Chinese exposure, including Alibaba (which was by far the largest detractor); the shifting regulatory stance in China means a lack of earnings visibility and there is increased competition on the online platforms. In addition, Chinese economic momentum has declined as there are some localised lockdowns, while Adidas has suffered from a Chinese backlash against western brands.

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



Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 9 shows the 17 funds in the AIC Global sector; it should be noted that these encompass a range of investment mandates. MNP remains one of the smaller funds in the peer group, with a considerably lower size than the mean, which is heavily skewed by Scottish Mortgage, a fund more than 8x the peer-group average. This fund has a growth bias and unlisted exposure and also skews the NAV total returns across three, five and 10 years. Taking this into consideration, MNP's total returns are above average over one, three and five years, ranking 10th, fourth and sixth respectively, while lagging over the last decade.

The trust's results have primarily been achieved without the use of gearing as MNP only drew down a new debt facility on 24 November 2020. As at 12 January 2022, MNP had the third-highest valuation in the peer group, being one of three funds trading at a premium. The trust has a competitive ongoing charge and an average level of gearing. MNP's focus on capital growth, rather than income, means the trust's dividend yield is below the peer-group average.

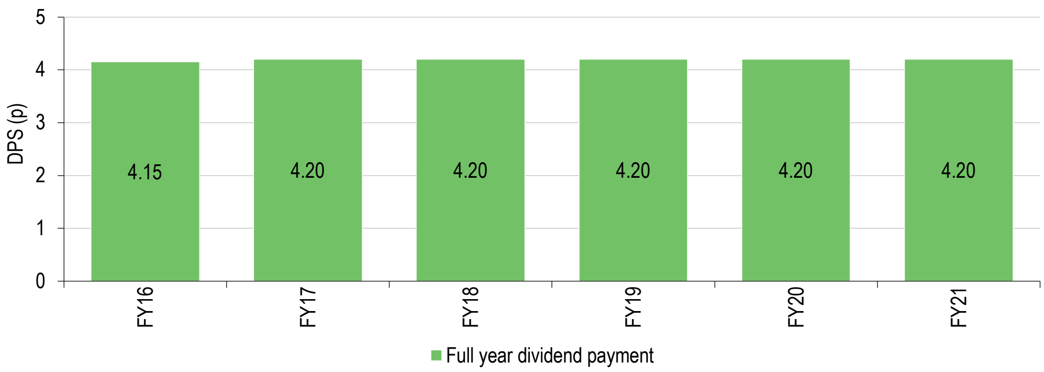
Exhibit 9: AIC Global sector at 12 January 2022*

% 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	345.0	5.7	70.3	82.8	248.5	1.0	0.6	No	107	1.1
Alliance Trust	3,130.5	13.9	52.6	71.2	220.9	(6.4)	0.7	No	108	1.9
AVI Global Trust	1,076.3	17.2	55.7	69.1	204.9	(7.4)	0.8	No	101	1.6
Bankers	1,573.1	9.7	54.4	72.1	237.4	(1.0)	0.5	No	106	1.8
Blue Planet Investment Trust	11.1	(28.8)	(28.8)	(34.3)		(11.1)	4.3	No	141	2.3
Brunner	471.8	15.7	60.6	69.0	213.2	(7.9)	0.6	No	106	1.8
EP Global Opportunities	106.7	3.4	8.2	14.0	123.6	(9.4)	1.0	No	100	2.1
F&C Investment Trust	4,926.4	15.8	56.4	75.2	259.0	(6.5)	0.5	No	109	1.3
JPMorgan Elect Managed Growth	300.5	12.4	50.7	67.6	234.4	(2.5)	0.5	No	100	1.5
Keystone Positive Change Inv	174.9	(14.4)	(10.6)	(10.2)	60.9	(4.0)	0.5	No	107	4.0
Lindsell Train	264.0	2.1	55.7	145.8	547.9	10.7	0.8	Yes	100	3.8
Manchester & London	225.7	4.0	47.8	94.5	134.9	(12.9)	0.8	Yes	100	2.5
Mid Wynd International Inv Trust	521.5	10.4	77.8	94.9	300.0	2.5	0.6	No	108	0.8
Monks	3,026.3	(2.0)	75.7	109.0	280.7	(3.1)	0.4	No	102	0.2
Scottish Investment Trust	575.7	13.0	17.1	21.2	121.6	(5.2)	0.6	No	105	2.8
Scottish Mortgage	17,632.7	(0.1)	163.5	270.3	850.1	(1.1)	0.3	No	109	0.3
Witan	1,849.3	8.8	39.5	51.2	217.6	(4.5)	0.8	Yes	112	2.2
Average (17 funds)	**2,130.1**	**5.1**	**49.8**	**74.3**	**266.0**	**(4.1)**	**0.8**		**107**	**1.9**
MNP rank in peer group	**11**	**10**	**4**	**6**	**6**	**3**	**8**		**8**	**14**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 11 January 2022 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



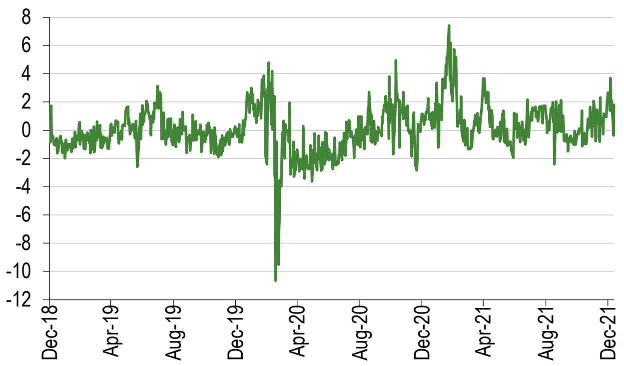
Source: Bloomberg, Edison Investment Research

MNP pays quarterly dividends in July, October, January and April. For the last five financial years, the trust's annual dividend has been steady at 4.2p per share. So far in FY22, three interim dividends of 0.9p per share have been declared (flat year-on-year). In H122, MNP's revenue per share was 1.0p, which was a 23.7% decline year-on-year. At the end of the period, the trust had revenue reserves of c £0.2m and special distributable reserves of c £74.8m, which in aggregate represent c 20x the last annual distribution. Based on its current share price, the trust offers a 1.1% dividend yield.

Valuation: Zero-discount policy

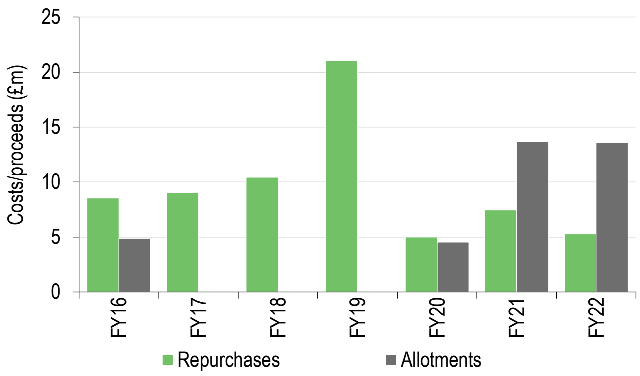
MNP's board has employed a zero-discount policy since 2013, aiming to ensure that, in normal market conditions, the trust's shares trade close to NAV. Renewed annually, the trust has authority to repurchase up to 14.99% of its shares and allot up to 10% of its issued share capital in order to manage a discount or premium. So far in FY22, c 1.5m shares were repurchased (c 1.7% of the share base) at a cost of c £5.3m, while c 3.4m shares were reissued from treasury (c 4.0% of the share base) valued at c £13.6m. MNP's current 1.8% share price premium to cum-income NAV compares with a range of a decade-high 7.4% premium to a 2.4% discount over the last 12 months. Over the last one and three years, MNP has traded at average premiums of 0.8% and 0.1% respectively, and at average discounts of 0.3% and 1.2% over the last five and 10 years.

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 24 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 maintains its autonomy and its investment philosophy and processes 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 29 global equity positions at the end of November 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-November 2021, net gearing was 6.9%. 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 eight-strong GLTU team and is supported by a wider group of 33 investment professionals who meet hundreds of 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. A recent upgrade to this process has been an assessment of a company's workforce risk, looking at bottlenecks in the skilled labour force and the resulting risk of wage inflation. 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 (94.8% at end-November 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 return on invested capital and a stronger balance sheet compared with the index. These relative metrics reflect MNP's biases towards growth and high-quality companies with pricing power. Portfolio turnover is typically c 20% pa, implying a holding period of around five years.

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 c 530 meetings in 2021, including regular communications with investee companies.

There has been 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, its sustainable development goals and where it is in relation to these, allowing 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 United Nations 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 risk assess 52 individual areas for every company that they research. They also focus on an additional 20 assessments related to social exploitation risk including criteria that examine the countries in which the company operates, the supply chain, gender/age/racial exploitation and working conditions, alongside the firm's overall momentum in tackling social exploitation. 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

MNP historically had not employed gearing, although up to 20% of NAV is permitted (last employed in 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. The board is confident that the manager can generate annual returns above the trust's modest cost of debt over the long term, meaning that the use of gearing should contribute positively to MNP's results. At end-November 2021, the trust had net gearing of 6.9%.

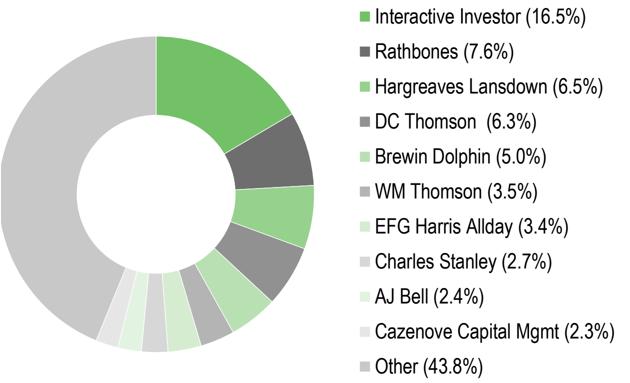
Fees & charges

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 (previously a flat fee of 0.4%), calculated and payable quarterly. In H122, MNP's ongoing charges were 0.65%, which was 5bp higher than 0.60% in H121. However, in H121, a 1.06% performance fee was payable meaning total ongoing charges were 1.66%.

Capital structure

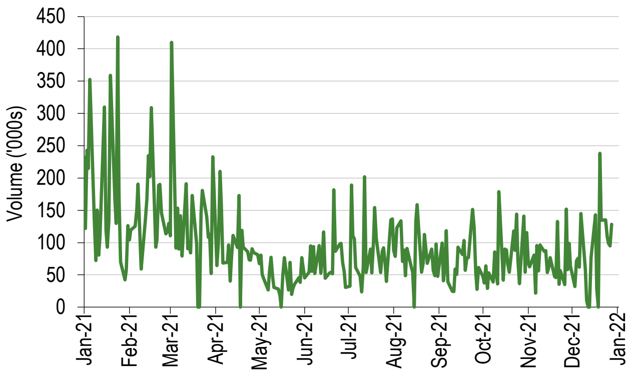
MNP is a conventional investment trust with one class of share. There are currently 86.7m ordinary shares in issue, with a further 12.0m held in treasury. Over the last 12 months, MNP's average trading volume is c 98k shares.

Exhibit 13: Major shareholders



Source: MNP, as at 30 November 2021

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 12 January 2022.

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 chair)	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

Neil Gaskell retired on 30 April 2021, having stepped down as chairman on 1 February 2021. 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 were 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.

On 22 September 2021, the board announced the appointment of a fifth independent non-executive director. Lindsay Dodsworth joined the board on1 November 2021. She is chair of a family office and its investment oversight committees, which she helped the family to set up following the sale of their business. Dodsworth trained as a chartered accountant and a chartered tax adviser with Price Waterhouse (now PwC) before becoming a partner at Ernst & Young (now EY). She is a governor, member of the advisory council and member of the investment committee at Goodenough College and the chair of governors at St John's College School.

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