

Seeking out winners

Capital Group's David Polak shares pointers on how investors can future-proof their investments



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FUTURE-PROOFING your portfolio entails picking the champions of tomorrow. David Polak, Equity Investment Director at Capital Group, offers insights on how you can do this by identifying a new breed of winners.

Q: What does it mean to future-proof a portfolio, and why is this important?

We've witnessed dramatic shifts in the business landscape in the past decade. And we think long-term investors should consider capturing opportunities arising from these changes.

What has stood out is the rise of a new breed of global companies that are creative, nimble and networked. Of course, companies such as ExxonMobil and McDonald's are still giants in their respective fields. But increasingly, idea-driven companies such as Amazon and Alphabet are eclipsing heavy-industry companies and challenging those that rely on traditional business models. Look at how the composition of major stock indices have changed over time – idea-driven companies are edging out old-economy firms from the top.

There are several reasons for this shift. First, technology has been a game changer. In many areas, it has lowered barriers to entry, reduced distribution costs and accelerated product adoption globally. That has contributed to a winner-takes-all environment.

Second, some of the most competitive companies have also built strong distribution networks. These networks provide huge economies of scale for branding and marketing. Third, research and development has gone global. We've seen companies develop products in emerging markets – a major consumer force – and then introduce those products to the rest of the world.

So we believe that a future-proof portfolio should have exposure to this host of new global companies. And to achieve this, having the flexibility to invest anywhere around the world is key. Contrast this with a traditional asset allocation framework defined by countries or regions. Is this the best way to tap powerful trends that cross geographical boundaries? In these transformational times, it's worth a rethink.

Q: What are the themes that you believe will drive a future-proof portfolio?

There are several big trends to watch. Changing global trade patterns is one of them. To be sure, there has been debate about globalisation. But we believe that globalisation is simply entering a new chapter. While trade growth has slowed, data and information flows have ramped up. Seen in another way, the world is moving from a trade of goods to a trade of ideas.

In this environment, what's important is finding individual companies that stand to benefit from these changing global trade patterns. Take Amazon for example, it is an e-commerce giant, but it's also highly competitive on the technology front, as its rapidly growing cloud computing business shows.

Meanwhile, emerging market consumption is evolving. It remains a tremendous growth driver and is expected to reach US\$30 trillion by 2025 – roughly half of all global spending.

At the same time, consumers' preferences are becoming more diverse. Consumers are increasingly spending their money online, and on experiences rather than goods. This means that to thrive, companies must understand emerging market consumers and develop their offerings accordingly. These are some of the companies we're attracted to.

Q: In such a portfolio, how important are political or central bank events, or the news flow that today appears to drive market action?

We're spending a lot of time assessing the potential impact of these events. There's a lot of uncertainty. But it's also important to look past that uncertainty to focus on company fundamentals.

Companies in a future-proof portfolio tend to have characteristics that make them attractive in most circumstances. Many of them are multinational leaders in numerous markets. They have competitive business models, strong balance sheets and crisis-tested management teams. Ultimately, we invest in companies, not markets, and resourceful companies will find ways to navigate change.

Identifying such companies requires a steady com-

mitment to global research. This is also something we spend a lot of time and effort on. Our investment analysts and portfolio managers pore over financial reports, visit companies and ask management tough questions. They also exchange and debate ideas with one another continually.

Sometimes, market uncertainty creates opportunities for long-term investors like us. It allows us to invest in healthy companies that may be struggling in the face of short-lived market pressures. This is also why a flexible investment approach matters – it helps us take advantage of opportunities created by change.

Q: What can investors expect from such a portfolio in terms of returns, volatility and investment horizon?

A portfolio invested in some of the most innovative global companies is poised to deliver long-term capital growth, and we can expect it to offer a measure of stability in down markets given the resilience of these companies.

Take Capital Group New Perspective Fund (LUX) as an example. It invests in established and early-stage multinationals around the world that are well positioned to take advantage of global secular trends. The fund is based on an investment strategy that we created in 1973. Through various financial crises and economic setbacks, the strategy has outpaced global equities and delivered a degree of downside protection.

Of course, past results don't predict future results. But the last 40 years or so are a meaningful period against which we can observe how the strategy generally behaves. The fund was recently awarded the Gold analyst rating by Morningstar, which highlights its relevance for investors today.

Capital Group New World Fund (LUX) is another case in point. Based on a strategy that we launched in 1999, it seeks companies with the potential to benefit from the rise of developing economies, no matter where they're based. Since its inception, the strategy has produced attractive risk-adjusted returns relative to emerging market equities and global equities. **W**