

Key notes



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Sarasin International Equity Income Fund - Mark Whitehead

Positive on the outlook for global economy despite market volatility

- Eurozone debt crisis will be resolved, unlikely to reach Spain
- Equity markets are very good value and well supported on a P/E of 13.5x
- Corporates have restructured aggressively during the downturn – a positive for investors
 - ◊ Costs have been stripped out and margins improved, producing high free cash-flow
 - ◊ That money is not being spent on Capex, it is providing higher dividends

Fund has had successful first five years, including growing dividend to investors each year

- Helped by thematic investment style at Sarasin which looks at long term trends
- Proprietary cash-flow modelling system allows it to pick stocks with robust dividends
- Fund has a broad spread of companies, not reliant on any single sector
- A dividend-paying discipline tends to provide higher returns to shareholders
- When lower quality companies rebounded after credit crisis Sarasin fund held its own
- Now market is focusing more on higher quality, the natural environment for this fund

A global fund which does not look to hedge currency

- Some 40% of portfolio in North America, 20% in Europe, 10% in Switzerland, also exposure to yen and other Asian currencies
- Does not hedge as currency fluctuations tend to even out over time
- A sterling hedged version of the fund is available

Whitehead confident the fund can perform even if market conditions remain volatile

- Focus on those companies that deliver across the business cycle, ignore short term volatility
- Current portfolio is high quality on P/E of 12.5x, against 13.5x for the MSCI World Index
- Portfolio on a discount to market and producing higher free cash-flow generation
- Key lesson from the last five years of volatile markets – stick to your convictions on quality
- Quality companies are lower volatility – three year volatility of fund is 18 vs 21 for the index
- Expects 8-10% dividend growth from fund this year
- In last two years has managed 4-5%pa dividend growth

Strict sell discipline on the portfolio

- If company ceases to fit in with an investment theme it is sold
- If a company gets expensive it can also be sold
- Some holdings get trimmed or sold as Whitehead varies exposure to underlying investment themes, depending on point in the business cycle

Fund has five investment themes in it

- Themes typically last for 18 months but can go on for longer, eg corporate restructuring has run for 15 years at the group
- Important the themes do not have high correlation with each other
- One of core themes is pricing power – Whitehead likes companies that can increase pricing at a time of inflation

Fund looks to target Asian and emerging growth via developed market equities

- These have strong balance sheets and fast sales growth
- Does not expect to increase direct emerging markets exposure much past current 7% level
- Likes to invest in established companies in emerging economies now selling their products back to the West



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