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# Maintaining a global focus: a Q&A with David Dudding

## David Dudding is the lead portfolio manager of the Global Focus strategy and co-manager of the European Select strategy

**Global equities have been exposed to topics that were very fashionable such as IT and healthcare. How have they impacted you?**

We're not thematic investors, nor do we build portfolios from the top down. We prefer to assess individual companies on their own merits, looking for those that can compound-out growth consistently over a multi-year period. This naturally gives us exposure to certain secular trends – ecommerce, cloud computing, health care innovation, etc – many of which proved successful last year. These themes will not disappear in 2021 and many have arguably been accelerated.

Take cloud computing as an example. Corporate IT spend in 2020 was over US$3.5 trillion, but only a small fraction of this went on cloud computing. But it is growing and its share of overall spend is only set to increase. This will benefit the dominant players in cloud infrastructure (a market that's not easy to disrupt). So while valuations may be stretched in some names, we still have conviction that we can find great companies with a growth runway that more than justifies the current valuation.

**In view of a strong rebound in global economies in the wake of mass Covid vaccination programmes and a return of inflation, do you plan to shift the allocation of the portfolio towards more cyclical areas of the investment universe (such as consumption, financial services etc)?**

Equity markets are pricing in an economic recovery at a rate faster than previously expected, something we also see reflected in the bond market. Improved economic sentiment is generally a boost for the average company that relies on economic growth to drive their own earnings growth and so in turn benefits value as a style. However, the post-Covid world is likely to be characterized by low economic growth, low interest rates and a build-up of debt. This is unlikely to benefit the average company.
So while there will be companies for whom mass vaccination represents the potential end to a temporary headwind (eg, travel and consumer related industries), there are many others for whom this is short-term support. While we have no intention to materially shift the portfolio, we do have exposure to a range of companies that should benefit the reopening of economies. Our focus remains on high-quality companies that we believe can compound out returns over a multi-year time horizon.

**For portfolios that are heavily exposed to the US, how will this allocation change in the future? For example, will the big tech companies in Southeast Asia and China (such as Tencent, Alibaba and so on) become possible medium- or long-term targets?**

Our exposure to the US is not driven by a top-down view of the US market. It just happens that we find a lot of great businesses in that part of the world. However, these are global businesses. What you also notice is that our exposure to emerging markets is the second largest. This is deliberate and comes from a mix of direct and indirect exposure. We have been adding selectively to emerging markets over the past few months, although not necessarily into big tech. Our focus has been more on the emerging platform businesses or financials, the latter being an industry that can be much less commoditised than its developed market counterpart.

**The focus on such a broad investment universe requires a very high commitment in terms of analysis and research. How does this come about in terms of the size of the equity research team and how does it fit in with the strategy's relatively low costs?**

We benefit from a very deep research capability and a strong collaborative culture at Columbia Threadneedle Investments. We have analysts across the globe, many of them portfolio managers in their own right, who could all potentially source an idea for us. This give us direct access to local market knowledge, which is something that is incredibly important to us. It also helps that they share a similar belief in what makes a company great. However, with that level of resource available, it's important to have a disciplined philosophy and process. In addition, we want to understand that we're investing in truly the best company in its industry on a global basis.

**How important are the ESG aspects in company valuations and which of the E, S, and G are the most prevalent?**

ESG is absolutely key to our process; it is one of the pillars that underpins our research framework and is inextricably linked to our focus on competitive advantage and industry structure. Just as we'd question a management team that allocates capital poorly, so we would question those that don't consider their ESG profile. While governance is clearly key for every investment that we make, we believe it important to focus on the material issues that impact a company when considering the E and the S elements. It is, in part, for this reason that we have developed our own internal RI rating system which focuses on industry materiality. This gives us conviction that we are asking the correct questions and focusing on the data points that matter for that particular company. In our view, this targeted and integrated approach should be supportive of stable, long-term outperformance.

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