



Consumer Goods and Saracen Global Income & Growth

Saracen Global Income & Growth Fund's (SGIG) largest exposure is in a cluster of market leading global consumer goods companies. Currently these make up over 20% of the Fund's value. This article intends to explain why we have taken such a large position in a group of companies which we believe offer outstanding opportunities for our investors to achieve growth in both capital and income.

When we initially searched for likely candidates for inclusion in the SGIG portfolio, we refined our universe by screening for companies using a number of financial criteria. We were pleasantly surprised by the high quality of potential investments which emerged from the filter. In particular, we were immediately attracted to a number of household names in the branded consumer goods sector.

Having identified this group of companies, we analysed each of the companies to decide whether they merited inclusion in the Fund. Our research revealed a number of common characteristics:

- **World class brands.** All the companies possess portfolios of leading global brands with high name recognition in established markets and which are aspirational in emerging markets.
- **Strong cash generation.** The companies all generate excess cash which can be used to invest for growth whilst maintaining progressive dividend policies and, in some cases, active buyback programmes.
- **Attractive revenue growth prospects.** The strength of the brands allied to the relatively non-discretionary nature of the products resulted in a remarkably resilient sales performance during the global economic meltdown in 2009. Against an expected background of slow growth in mature economies, these companies should see GDP plus one to two per cent revenue increases. The real impetus will come from emerging markets which are receiving the majority of the groups' investment programmes.
- **The benefits of scale.** The combination of vast purchasing power and brand marketing skills is likely to see the global groups surpass local competitors in emerging markets. As the multi-nationals develop their local distribution infrastructures, we would expect them to replicate the market dominance they enjoy in their more established markets.
- **Product innovation.** All the companies have been investing in new products to distribute through their sales channel. There have been some notable successes: Coca-Cola has generated \$1bn sales of Minute Maid Pulpy in China from scratch over five years. Nestle has built a \$3bn business from Nespresso coffee capsules over the past several years.
- **Acquisitions in emerging markets.** A number of the companies are using their cash flow to buy existing businesses in new higher growth markets. Diageo has recently acquired Turkey's leading domestic spirits company as well as taking a majority stake in one of China's best

known liquor producers. Heinz has bought a leading soy sauce company in China followed by the purchase of Brazil's premier producer of tomato based sauces, paste and ketchup.

- **Pricing power.** Input prices have been rising sharply as demand from burgeoning emerging economies has soared at the same time as an unusually high incidence of extreme climatic conditions has limited supply. Those groups with leading brands have been able to pass the price increases through to consumers albeit with a time lag; owners of secondary brands or own label producers have suffered a margin squeeze as consumers have remained loyal to favoured brands.
- **Dividend growth.** The groups are wedded to the capital discipline of paying consistently rising dividends. Colgate has increased its dividend for the past forty seven years and has not cut it since floating over one hundred years ago. Proctor & Gamble has a record of never cutting its dividend for one hundred and twenty years and has posted rises over the last fifty seven. The commitment to shareholders' dividends did not waiver during the recent financial crisis and we expect sustainable growth over the coming years.

Our research indicated that these positive fundamental traits were matched by appealing valuations. As a group, the superior long term prospects for this type of investment have historically commanded premium ratings. Our analysis suggested that this premium has been eroded; perhaps concerns for margins from higher commodity prices as well as a general appetite for more risk in a world of low interest rates have meant that these stocks have not been in vogue. We have been in the fortunate position to take advantage of this outstanding opportunity with global consumer goods companies forming a key component of the SGIG portfolio. Positions have been taken in **Anheuser Busch InBev, Coca Cola, Colgate, Diageo, Heineken, Heinz, Kellogg's, Nestle, Proctor & Gamble, Reckitt Benckiser and Unilever.**

Daniel Leaf
Head of Research
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