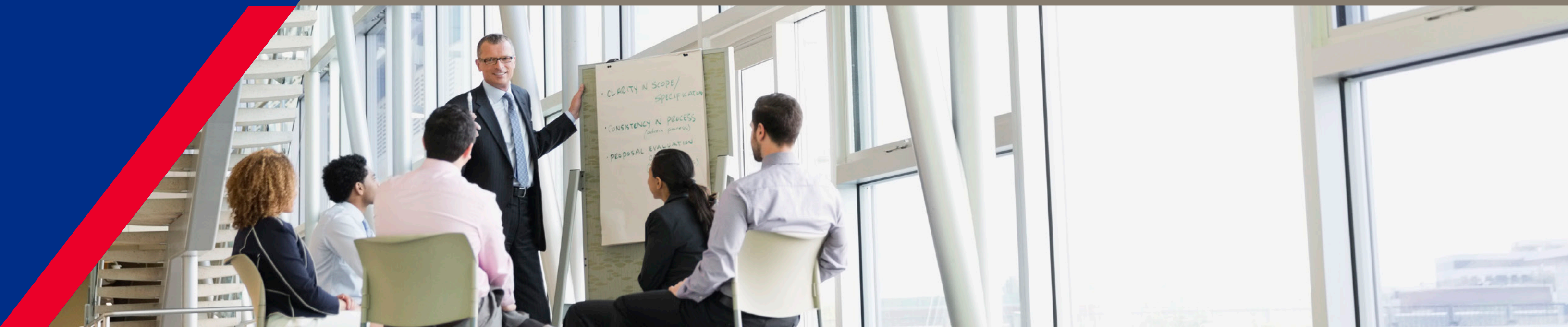
Understanding Global Talents

A conversation with AXA Investment Managers



What is a “global talents” approach?

When AXA Investment Managers (AXA IM) first launched its Global Talents strategy in 2001, accounting frauds and poor governance issues were rattling U.S. corporate boardrooms. Our strategy was largely based on the premise that investors had been overly concerned with short-term market factors and we felt indicators of more consistent risk-adjusted returns pointed the way toward investing in entrepreneur-led/family-owned businesses. We believe that these businesses’ focus on multigenerational wealth creation and prudent risk discipline could produce higher equity returns that would tend to be generally less risky than the rest of the market.

How is your strategy differentiated from other offerings in the global equity space?

AXA IM’s global talents strategy focuses on a sub-sector of the global investment universe, with the potential for long-term value creation and sustainable returns through an unconstrained bottom-up investment approach that seeks to identify visionary entrepreneur-led and family-owned businesses. We perceive these businesses to be building strong track records with the support of best-in-class management teams. Alpha generation, a fund’s excess return relative to the return of a benchmark index, is driven by fundamental stock selection through a global sector framework rather than region/country. The strategy is index aware, not index driven with a focus on high active share, a measure of the percentage of stock holdings in a fund that differ from the benchmark index.

Could you elaborate on your focus on entrepreneur-led and family-owned businesses and the potential benefits to a long-term investor?

This approach is defined by entrepreneurs whose personal wealth is tied to a company’s success, family-owned firms with solid management teams, and companies managed by leaders with strong entrepreneurial spirit. We focus on companies where the CEO’s wealth is tied to the company’s performance, either because the CEO owns a big part of the company or because the bulk of the CEO’s assets are invested in the company. Historically, we believe that these companies have been better managed and have performed better than their peers.

In anticipation of an economic environment facing technology disruption and deflationary pressure, investors may profit from seeking out companies that are able to create their own growth. It is in this area that family/entrepreneur owned businesses stand out – these companies have historically demonstrated a capacity to grow within low-growth economic environments, offering today’s investor a valuable source of untapped growth potential.

Entrepreneur-led and family-owned businesses contribute to global macroeconomies by introducing new sources of wealth, encouraging competition and creating job opportunities.

We believe investors should consider focusing on entrepreneurs and family-influenced businesses in the current market environment based on the following:

1) Scarcity of growth

In an economic environment facing technology disruption and deflationary pressure, deleveraging environment, companies need to ‘engineer’ their own growth (i.e., they can’t rely on macroeconomic growth). We believe entrepreneur-led companies are particularly able to succeed in these conditions.

2) The world is changing

Companies need to be able to adapt. Since family firms are controlled by a few shareholders, swift decision-making has the potential to become a huge advantage during economic downturns compared to their peers.

3) Alignment of interests

Studies of corporate governance and accounting practices indicate family-businesses offer similar risk profiles to both family and minority shareholders.[1]

4) Shrinking public company CEO tenure is driver of short-termism

CEOs without a long-term vested interest in a company may have the incentive to pursue short-term gains at the expense of long-term strategies and investments.

[1] Credit Suisse Research Institute, July 2015, *The Family Business Model*, 29.

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How do you research your entrepreneur universe?

We believe that numbers give you only a partial picture of a company. Therefore, before investing in a company, we conduct in-person reviews with management. Our team managing the global talents strategy sets up more than 2,000 company meetings/visits per year.

Intensive company research forms an essential part of our analysis and relies on regular contact with our management teams. These meetings (onsite, at conferences and at our offices) are used to review each investment case and periodically reassess the quality of a company's corporate strategy and entrepreneurial leadership, the sustainability of its business model and competitive advantages. They also serve as a key element in assessing the quality of each company's leaders in terms of their strategic vision, execution risk and governance practices.

To assess the full potential of companies, we combine a quantitative and judgmental approach. In addition to evaluating a company's capital structure and financial strength, we take into account a wide variety of factors such as historical and projected growth in revenues, earnings and cash flows as well as return on invested capital and margin levels. We also pay close attention to valuation indicators on an absolute and relative basis, as well as estimated fair value in order to identify mispriced stocks.

This fundamental assessment is carried out using a proprietary analytical model. Through this central model we analyze each stock's historical and projected revenues, earnings and margins to understand how growth is being generated, and regularly stress-test our assumptions toward setting a fair value objective.

What are the ideal market conditions for your global talents strategy?

We believe our strategy can perform in various market cycles. Our long-term investment framework and fundamental approach tend to emphasize companies with strong business models, high and sustainable margins, revenue growth, market leadership and good visibility in earnings. These companies have been able to grow and sustain shareholder returns over the long term. However, our approach can be impacted in the shorter term when the market is dominated by technical factors such as a search for beta[1] exposure.

Q&A with Mark Beveridge, Lead Portfolio Manager of AXA IM

Mark Beveridge is one of two portfolio managers primarily responsible for the day-to-day investment decisions of 1290 Global Talents Fund, a series of the 1290 Funds. Mark has served as Global Head of Framlington Equities since 2009. He is a member of the AXA IM Management Board and is Portfolio Manager of Global Talents strategies. Prior to his current role, Mark served as Partner/Managing Director at Goldman Sachs Asset Management in London from 2004 to 2009. Prior to this, he was the Executive Vice President at Franklin Templeton Group, as well as a Portfolio Manager/Analyst between 1985 and 2004. Mark has over 30 years of investment experience, and is also a CFA® charter holder. Mark graduated from the University of Miami and holds a Bachelor of Business Administration in Finance.

1 Beta is a measure of the volatility, or systematic risk, of a security or a portfolio that is attributable to the market as a whole.

Risks

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