BRUNNER: THE SEARCH FOR FUTURE WINNERS AHEAD OF THE CROWD

Longevity and long-term conviction are two attributes that Investment Trusts have demonstrated over 150 years. As Portfolio Manager of The Brunner Investment Trust (and an investor in Investment Trusts myself), I know that investors considering future investment decisions find it reassuring to look back in time at their history, since these are amongst the very oldest forms of investment vehicle.

Established in 1927, Brunner has demonstrated not only longevity over its 91 years but also an ability to deliver long-term income and growth returns in a sustained manner. It is not alone in successfully navigating the variety of market conditions that history has thrown at it. However, now that we find ourselves in such a fast-moving world characterised by fundamental change, a look back at the Trust's long and distinguished history can be both educational and reassuring.

We understand why investors may be hesitant about investing right now. Stock markets have been rising (more or less) steadily over recent years, despite the unsettling political landscape. With market valuations high, a market correction is a risk. But global political events have so far failed to dent equity markets to any significant degree because the underlying economic data has remained so robust. Capital gains have been stronger than we expected, with the possible exception of the UK, where the political uncertainty since the Brexit vote has triggered some sluggish and uncertain growth; nevertheless, UK markets have still made positive progress year-on-year and it has been possible to identify UK stock winners.

Our priority for Brunner is to build a global equity portfolio of around 70 strongly financed companies with good growth prospects that are trading on sensible valuations. I've always run relatively concentrated portfolios and I am comfortable with that approach as I think it concentrates the mind. You really must make sure you're choosing the right stocks but it also means that you can have decent weightings in the stocks that you go on to buy. As Brunner's objective is to deliver growth in both capital value and dividends, the companies we choose need to meet certain criteria. As a team, we prefer companies in growing industries that can grow through their own innovation. We believe these are the sorts of companies that will allocate surplus capital well and invest wisely in both business and management. But, we also need companies that can provide a decent yield, to keep a core part of the dividend coming through. This balance is something we have achieved over time – Brunner has increased its dividend for 46 consecutive years, something that's very important to our investors and a source of pride for us.

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The last year was a strong one for Brunner. We have demonstrated that we can deliver strong overall returns in a range of market environments. It's helpful that, since we focus on companies, the Brunner portfolio is diversified across a wide range of sectors and geographies, without being overly exposed to any one theme or sector. We always aim to discover future winners ahead of the crowd; this provides us with the prospect of real potential upside.

In recent years, we have been shifting Brunner's portfolio overseas – with the UK now making up about 30% of the geographic portfolio breakdown, down from around 45% at the end of 2013. We felt that the income generation requirement had become too dependent on the UK and too reliant on solid, dependable but not necessarily fast-growing companies – some of the banks, pharmaceuticals, energy companies, for example. It was time to diversify and give exposure to interesting sources of yield overseas. The UK is still important but it's worth remembering that the vast majority of our UK investments are international businesses, meaning that our overall exposure to the domestic UK economy remains modest.

Politically and economically, we are living in unprecedented times. But, as a 'bottom-up'-driven fund manager, we are confident that our stock selection can cope with momentary unrest in the markets. Right now, technology is a sector where we think we can find stocks with structural growth potential. Digitisation is having a massive impact on industry and commerce and we are all familiar with the digital heavyweights that have become part of our daily lives.

The Digital Economy phenomenon goes well beyond the 'new' digital players as it also encompasses the shift of existing businesses online, with all the cost, business model and cultural disruption this entails. Excitingly, this transformation of the corporate sector is still at a relatively early stage. We think the ability to embrace digital technology and to train workforces on how to use it will be pivotal to future corporate success stories.

Cloud computing, social networking, online travel and gaming are all represented in the Brunner portfolio. And looking ahead, as many industries continue the shift online, we think it will be our ability to differentiate between those companies that are leading, and profiting from, the digitisation trends in their industries, while at the same time avoiding the losers. This holds the key to the Trust's future performance potential, but we are confident that our stock picking approach in these interesting times will continue to serve our valued investors well in the future. ■

To discover more about Lucy's investment approach, visit www.brunner.co.uk where you can register for regular updates.

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Lucy Macdonald is CIO of Global Equities at Allianz Global Investors and is portfolio manager of The Brunner Investment Trust PLC. Brunner aims to provide its investors with growing dividends and capital growth by investing in a portfolio of global equities. Although past performance is no guide to the future, Brunner has paid a rising dividend to shareholders for 46 consecutive years.