WOLFGANG FICKUS, CFA

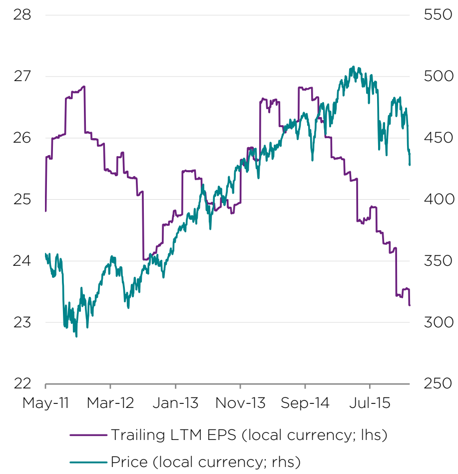
GLOBAL EQUITIES
THE COMGEST WAY

Comgest's Global strategy has outperformed the MSCI AC World index over the past 1, 3 and 5 years. How did we achieve this result? Most importantly, the stocks held in the portfolio delivered strong earnings growth in an anaemic growth environment.

Comgest's Global Equity portfolio companies have proven their ability to generate superior earnings growth over the last several years. They delivered 9% EPS CAGR over the past three years and 10% over the past five years. By comparison, the MSCI AC World index recorded EPS CAGR of -0.4% and a meagre 3% over the respective periods. 2015 was especially striking from this vantage point, with 11% earnings growth for our portfolio companies versus a weak 0.9% for the index.

Once again, this highlights the relevance of our bottom-up process, which centres on the careful selection of the most resilient business models around the world. We focus on a few high quality companies with sustainable, visible, long-term earnings growth potential. Global Equity is now an essential third pillar at Comgest, with €2.5 billion under management, i.e. 12% of Group assets.

Figure 1: MSCI AC World - price versus trailing EPS



Source: Factset
Data as at 15/01/2016

Quality growth investing in an ex-growth world...

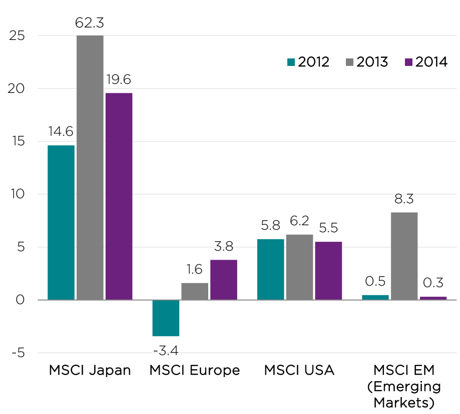
Looking ahead, we believe that growth will remain a scarce resource. The consensus believes that the MSCI AC World index will generate 0.9% earnings growth in 2015 and 6.5% for the next 12 months. Realised EPS growth over the last 12 months stands at -10.1%. The earnings picture has even worsened over the last 12 months due to a deceleration in global trade volumes, a slowdown in emerging markets and tougher financial conditions in the US combined with the disappearance of the pent-up demand that accumulated during the recession.

In such a weak growth environment, we are convinced that focusing on earnings expansion should pave the way to outperformance. The great rerating of the last four years which has been the driving force of performance is now waning. Earnings growth will become more critical going forward...

Having said that, investors are left with two options to capture earnings growth with an active approach—top-down or bottom-up. Looking at Figure 2 makes it clear that top-down managers would not have been able to deliver double-digit EPS growth, which is Comgest's target hurdle rate, unless they had allocated most of their portfolio to Japan, yet it only represents 7% of MSCI AC World. Indeed, Japan has offered double-digit EPS growth for three years in a row with corporate earnings revisions constantly pointing upwards.

The other way would have been the Comgest way. At Comgest, we do not allocate money to geographies or sectors, we invest in companies. As a quality growth stock picker, we aim to invest for the long term in unique business models with high barriers to entry, proven pricing power and structural growth drivers that do not overly rely on the economic environment. Carefully selecting resilient companies offering strong

Figure 2: Realised EPS growth by market (actual, CY2012-2014)



Source: Factset
Data as at 31/12/2015

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Figure 3: Examples of wide moats in our Global portfolio

DISTRIBUTION NETWORK	中国移动通信 CHINA MOBILE 1 million sales points in China
SCALE	makita High teens operating margin
INSTALLED BASE	HIKARI TSUSHIN Over 50% recurring profits
TECHNOLOGY	Medtronic $1.5 billion of R&D spending
NETWORK EFFECT	Google 65% of US market share in 2014

Source: Comgest as at 31/12/2015

visibility means that E&P companies[1] and banks have always been naturally excluded from our spectrum given their lack of pricing power and transparency. Put differently, we are looking for unique companies with wide moats (Figure 3). The distinguishing factor could be a large distribution network as is the case with China Mobile which has more than 1 million sales points in China. It could also be scale, a large installed base or superior technology. Having a strong network effect is one point of differentiation that has proven to be especially strong in the context of the internet. Thanks mainly to this effect, Google's US market share rose from 37% in 2005 in the US to 65% in 2014.

The companies of our portfolio are selected for their ability to perform well irrespective of the economic environment. Their growth must also be sustainable. They have expanded their profits at a double-digit pace in a weak growth environment over the past three years and should keep on doing so thanks to structural growth drivers. A quarter of the companies we hold are market share gainers like global power tool leader Makita. Thanks to a strong technological lead, especially in lithium ion batteries and a unique after-sales network, Makita's market share rose from 15% to 25% over the past 10 years. Another 25% of our portfolio holdings benefit from the digitalisation of the economy. At China Mobile for instance, when 30% of subscribers (i.e. 240 million subscribers!) choose a 4G data plan, the result is a natural expansion in data sales and sales per customer. No less than one out of six names in the portfolio benefits from productivity enhancements at corporates around the globe. Companies like Infosys save their customers 30% to 50% of their IT budgets.

Overall, the Comgest way is about selecting strong franchises with a demonstrated ability to grow.

Figure 4: Global portfolio growth drivers

	Weight in portfolio	
DAIKIN, HIKARI TSUSHIN, INC., Samsonite, CAVIUM, CINEMARK, makita, 7, SEKISUI, Nidec	23%	MARKET SHARE GAINS
中国移动通信 CHINA MOBILE, Google, COMCAST, Microsoft, tsmc, VISA	21%	DIGITALISATION
CHINA LIFE 中国人寿, BHEL, L'ORÉAL, BD	16%	GLOBALISATION OF WESTERN WAY OF LIFE
BAYER, Johnson & Johnson, Medtronic, SANOFI	15%	AGEING POPULATION
FANUC, OBIC, Infosys, KEYENCE, Linde, AMADEUS	14%	PRODUCTIVITY ENHANCEMENT

10% EPS GROWTH IS FORECAST IN 2016*

Source: Comgest as at 31/12/2015

1 Exploration & Production in the oil and gas industry

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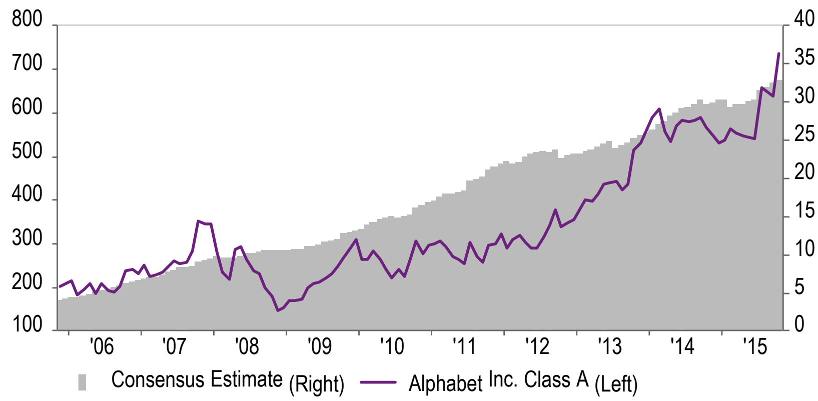
Let us use Google once again as an example. Comgest's Global Equity funds first bought this stock in 2008. The 39% earnings CAGR delivered by the company over the holding period has been the primary driver of the 26% annualised performance of the stock.

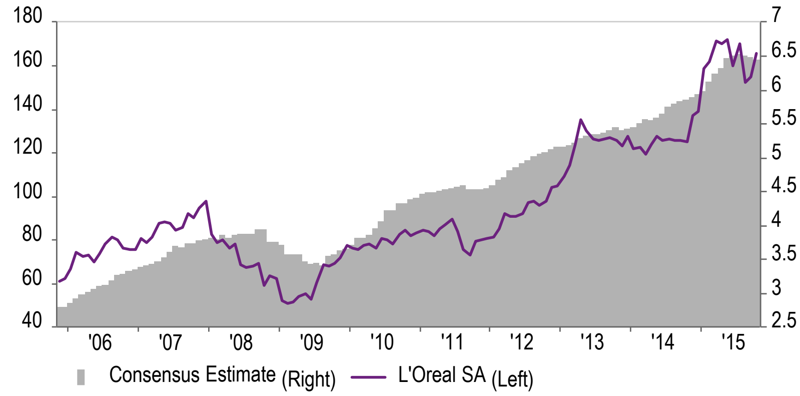
Figure 5: Google Class A - Share price versus EPS NTM (USD)



Source: Factset
Data as at 19/11/2015

L'Oréal is another example of a long-term holding in our Global portfolio as it entered the fund in June 2006. The company has delivered an annualised total return of 10.8% driven by a 12.6% EPS CAGR over the period. Earnings growth has once again been the main driver of performance (Figure 6).

Figure 6: L'Oréal - Share price versus EPS NTM (EUR)



Source: Factset
Data as at 19/11/2015

The current portfolio generated cumulated EPS growth of 28% in USD over the past three years and 58% over the past five years, a CAGR of 8.5% and 9.6% respectively. That compares with -0.4% and +3.1% p.a. growth for the MSCI AC World index over the same periods.

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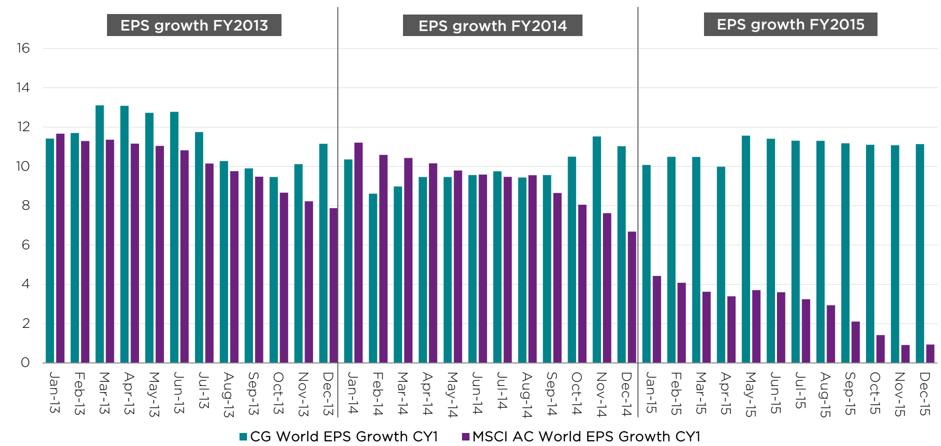
Based on our strict bottom-up stock picking approach, the Global Equity team (Céline Piquemal-Prade, Vincent Houghton and Laure Negiar) has selected a focused portfolio of companies generating more than 10% EPS growth over the past three years. This clearly made a difference in a low growth environment and has been the main driver behind the global strategy's outperformance. As shown in the chart below that depicts how earnings growth expectations have trended over the year compared to expectations at the beginning of the year, our portfolio's earnings growth has proven far more resilient compared to that of the index.

Figure 7: Comgest Growth World versus MSCI AC World - EPS growth by calendar year



Source: Factset
Data as at 15/01/2016

Overall, seeking earnings growth at a micro level rather than at a macro level makes a difference when it comes to performance.

Comgest global equities – a 'best of the best' approach

Comgest Global Equity team is deeply interconnected with all the regional equity teams and leverages all the work that has already been done at the regional level.

Our Global team implements the same investment process as the rest of the company, rooted in the same investment philosophy. Considering that the regional teams have already selected the best quality growth companies in their specific regions, the Comgest global process starts where the regional process ends. One can actually think of our global investment process as a "best of the best" approach.

Based on a global "watch list" of 180 to 220 stocks, which is the sum of stocks in Comgest's regional portfolios with a market cap above USD 1 billion, the global team then picks the highest quality and growth companies to make up the global universe. This universe of 80 to 90 stocks is the basis of the team's stock picking and portfolio construction. The end result is a Comgest style portfolio of 30 to 40 stocks. The process is entirely bottom-up without any country or sector allocation.

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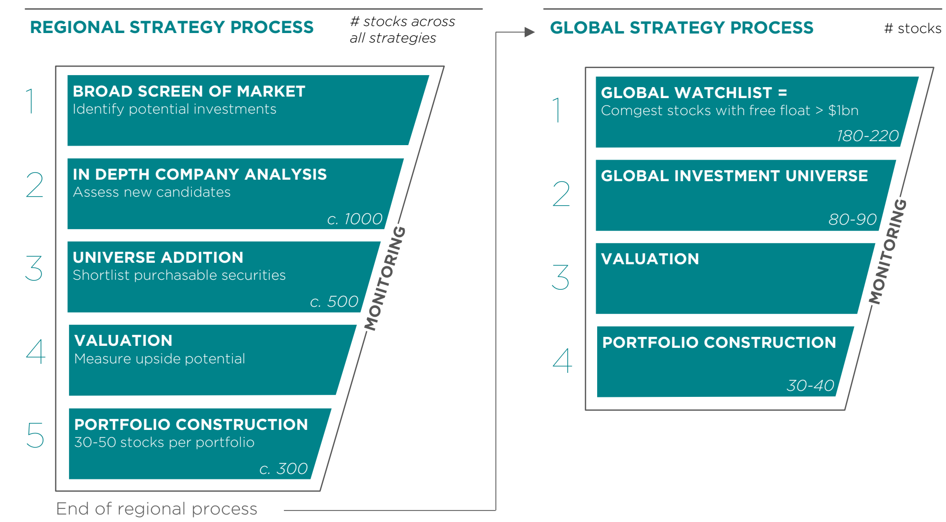
Figure 8: The Comgest global investment process - 'best of the best'



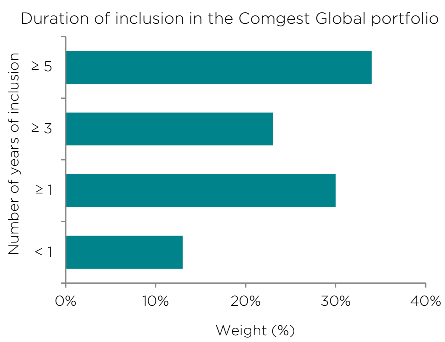
The question for an investor in Comgest's Global product is the extent to which the Global team adds value on a regional basis. As one can see in Figure 9, this approach has proven its ability to generate positive returns and outperform the MSCI AC World index in each and every geography over five years. The Global strategy has even proven its ability to generate alpha beyond that of the regional teams.

Figure 9: Comgest Growth World versus MSCI All Country World returns over 5 years

(in USD) Region	Comgest Growth World Performance	Comparative Index Performance	Out / Under Performance vs Comparative index
Japan	46.23	35.14	**11.08**
Emerging Markets	2.33	-15.79	**18.12**
Europe	10.45	14.86	**-4.41**
United States	63.66	49.74	**13.92**

Source: Factset - data as at 31/12/2015. Past performance is no guarantee of future results. Indices are used for comparison of past performance only.

Figure 10: Long holding period: over 50% held for more than 3 years



Source: Comgest as at 31/12/2015

The Global Equity team's long-term investment approach is also typical of the Comgest investment style. The Global Equity team has held nearly two thirds of its stocks for more than three years with a third held for more than five years. This has produced very strong results for Comgest as a whole and the Global Equity team is no exception.

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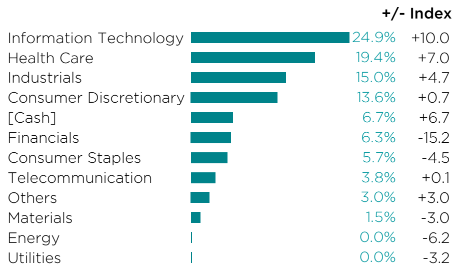
Figure 11 Comgest Growth World - Sector breakdown (index: MSCI AC World)



Source: Factset, MSCI classification
Data as at 31/12/2015

Fundamentals and current positioning of Comgest Growth World

Comgest Growth World is currently and characteristically highly concentrated as it is invested in 36 quality growth companies with 10 names representing 40% of the fund, highlighting the fund managers' strong level of conviction. As a completely unconstrained portfolio, Comgest Growth World has a 94% active share relative to the MSCI AC World index. The portfolio is also very liquid with an average market capitalisation of $110 billion and 90% of the names offering a market capitalization above $5 billion.

Currently, the totally unconstrained approach followed by the portfolio managers leads to a relatively low exposure to US equities. On the other hand, Japanese and Chinese equities are over represented in the fund. From a sector viewpoint, the fund has no exposure to materials, energy or banks and is conversely highly invested in the IT, industrial, and healthcare sectors that represent 70% of the fund. Once again this has nothing to do with macroeconomic convictions and everything to do with our stock picking criteria.

Figure 12: Comgest Growth World - Portfolio fundamentals & EPS growth

	US	Japan	Europe	China	Asia ex Jp
Comgest Growth World weight	30.2%	26.0%	17.0%	12.4%	7.0%
Weight relative to MSCI AC World	-21.8%	18.0%	-5.9%	10.1%	0.9%
EPS growth					
2015	7.7%	12.1%	13.4%	17.9%	6.3%
2016	10.3%	10.9%	12.2%	8.3%	14.0%
2015 EPS revisions					
change last 3 months	-1.9%	0.3%	-1.2%	3.5%	-4.4%
P/E					
2015	17.6	20.0	18.7	14.2	17.8
2016	15.9	18.0	16.7	13.1	15.6
Capital returns & profitability					
ROE	17.3%	11.5%	16.5%	14.6%	15.5%
EBIT-margin	27.2%	12.9%	18.2%	17.8%	19.6%

Source: Factset
Data as at 31/10/2015

The fund is currently trading on a 12-month forward PE ratio of 18.4x, i.e. over 20% higher than the MSCI AC World PE, a premium that barely reflects the much better quality growth profile. Its 2-year earnings CAGR is 11% compared to 5% for the index. It is also important to highlight that the average operating margin of our names at 23.5% is much higher than that of the stocks in the index (11% operating margin). Additionally, two thirds of the companies of the portfolio are net cash leading to an aggregate net debt to equity ratio of 6%, far below the 48% figure for MSCI AC World companies. In a complex environment where access to credit could prove to be more difficult, this qualitative gap between our names and those of the index will be key.

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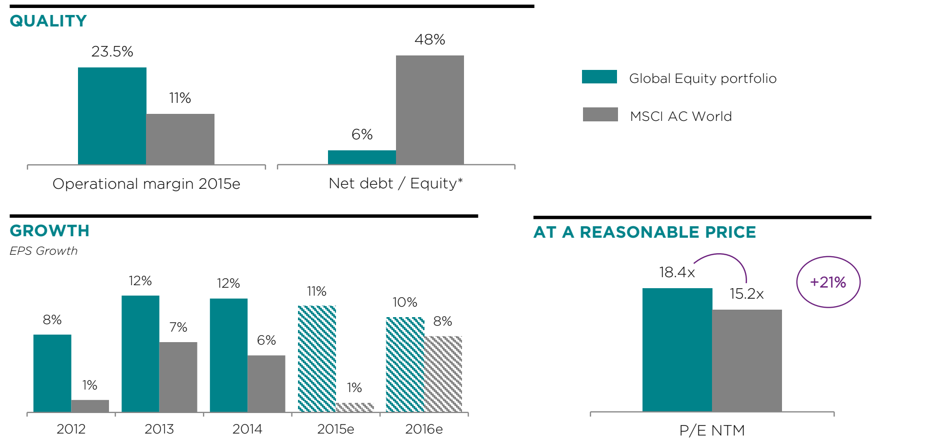
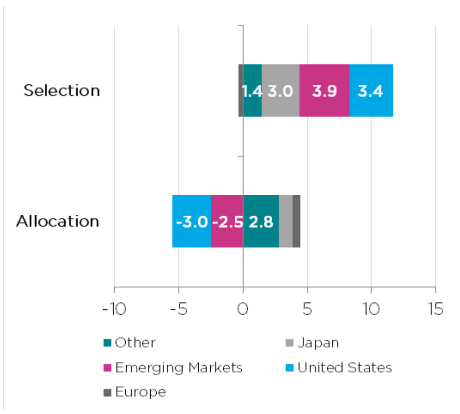
Figure 13: Portfolio characteristics vs. MSCI AC World



Source: FactSet/Citigroup/Comgest as at 31/12/2015
*2/3rd of companies net cash

Figure 14: Comgest Growth World Performance attribution by region (31/12/2012-31/12/2015)



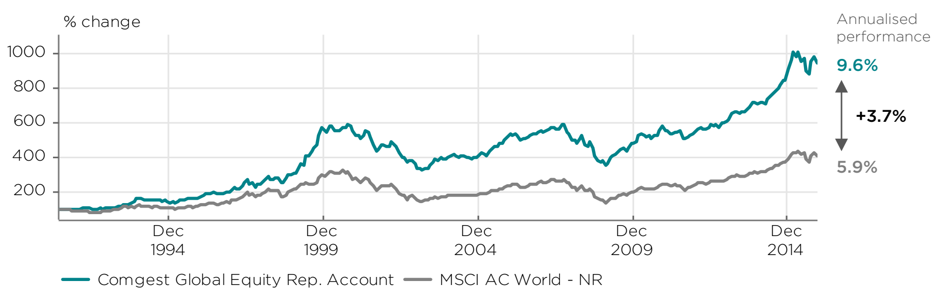
Source: Factset
Data as at 31/12/2015

Performance of Comgest global equity funds

Comgest offers two global equity funds[2]. The Comgest Growth World fund is an Ireland-domiciled, USD-denominated fund, while Comgest Monde is a France-domiciled EUR-denominated fund. Both funds are UCITS IV compliant.

The relative performance of the funds over the past 3 years was driven by stock selection, whereas the resulting regional allocation was detrimental to relative performance due to our underweight in the US and a slight overweight in the emerging markets. Stock picking was strong across all geographies with emerging markets, Japan and the US contributing to the relative outperformance.

Figure 15: Comgest Global Equity Representative Account: cumulative performance since inception (%, net of fees)



Source: Factset, Comgest - performance data for France-domiciled open-ended SICAV. Past performance is no guarantee of future results. Index is used for comparison of past performance only.
Data period: 17/06/1991 - 31/12/2015

2 Portfolio and performance data is for 1) Comgest Growth World in USD, a sub-fund of Comgest Growth plc, an open-ended umbrella-type investment company with variable capital and segregated liability between sub-funds incorporated in Ireland and for 2) Comgest Monde C in EUR an open-ended France-based SICAV. Past performance is no guarantee of future results. Indices are used for comparison of past performance only.

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Wolfgang Fickus, CFA
Member of the Investment Committee

Wolfgang Fickus graduated from the University of Cologne (Germany) where he majored in business administration and studied at London Business School. He holds a business graduate (Diplom-Kaufmann), a CEMS-Master and is a CFA® charterholder. Wolfgang started his career in 1995 at Paribas Asset Management Paris as a European-equity fund manager. In 2000 he moved to WestLB where he worked until August 2012 as an analyst for European Technology stocks before becoming Head of Mid-and Small Cap Research. Wolfgang joined Comgest in September 2012 and is a Member of the Investment Committee.