Global Focus Strategy Owner's Manual

Investment philosophy and process

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Better together

Invesco is a leading independent investment firm dedicated to helping people get more out of life.

In May 2019, Invesco and Oppenheimer came together to expand Invesco's product set and develop best-in-class distribution capabilities, enhancing the scale, resiliency and stability of our joint organisation.

The Oppenheimer Dublin ICAV UCITS Platform was established in 2016 and was populated with five flagship strategies across Global Equity, Emerging Markets Equity, and Emerging Market Debt.

These strategies bring seasoned investment teams with long tenure of key investment team members and long track records of underlying strategies.

The investment team

Randy Dishmon launched the Global Focus Strategy in 2007 and has been the Portfolio Manager from the beginning. He has been on the firm's Global Equity Team since 2001, and has implemented a differentiated and consistent investment philosophy since the launch of the Global Focus Strategy. Prior to his investment career, he spent more than a decade as an Engineer and several years as a Management Consultant.

Jonathan Hartman has been working with Randy on the Strategy since 2012 and brings a depth of knowledge and analytical rigor that allows him to find good opportunities whenever and wherever they occur.

The dedicated team on Global Focus is supported by a wide array of experienced colleagues on the overall Global Equity Team.

"Our theme-based approach, deep well of experience, and manager continuity lie at the heart of the Global Equity Team's success over the past five decades."

Randy Dishmon

We work hard as a team to add additional breadth and depth of knowledge with each passing year. Our view has always been that one necessary skill of an analyst or portfolio manager is to keep learning. That's an inherent part of our process, as well as a key component of our dedication to our loyal shareholders.

One key differentiator of our team is that all team members (and the overall Global Equity Team as well) have been trained as generalists since the inception of the team in 1969. This is by design. Continuity of investment philosophy and portfolio management is critical to long-term success. It's true that specialists tend to do better in key areas; however, portfolio managers must make decisions across a wide array of business areas, not just one area of specialty. In addition, as global investors, portfolio managers have to make those decisions across a wide array of different countries, political regimes, accounting rules, regulatory differences, etc. Training someone to simply analyze financials or to analyze companies in one country has short-term benefits but compromises a key attribute of successful teams-continuity. Here's why: first, having too narrow a focus leads to suboptimal decision making. Our analysts spend a couple of years exclusively focused on a sector prior to moving to another. This allows them to gain the depth of knowledge necessary to be a specialist. Then they take on another sector, while maintaining the other sectors as well. By training analysts to think across sectors and geographies, the goal remains finding the best ideas, rather than finding the best ideas within a narrow set of options. Finally, when it comes time to transition the portfolio management responsibilities to the next generation, there is simply too much of a knowledge gap for the pure specialist to overcome otherwise. Our analysts have been trained with breadth and depth from the very beginning. The depth of knowledge required to make great decisions comes with time. It takes longer to train a great analyst/portfolio manager, but that's okay with us. The robustness of knowledge and ability when they arrive is far superior to that of a really good sector analyst who has been promoted to portfolio manager.

One final note on the team-it is truly an investment team. All investment professionals on the team, regardless of title, research and analyze investment ideas. Portfolio managers on our team generally consider themselves just highly experienced analysts. This ensures shareholders access to the best ideas of the most experienced investor on the team-the portfolio manager.

Our investment philosophy

We believe that to produce superior long-term investment results, you have to believe something different than what the market believes, you have to behave differently than how the market behaves, and you have to be right. That's why our investment philosophy is underpinned by three critical tenets.

Play only where there is opportunity
The tailwinds provided by structural, sustainable growth solve a lot of problems for companies. It enables the compounding effect that makes equity investing far superior to any other asset class in terms of wealth generation. We identify areas of structural growth as opportunities; conversely, we avoid industries with non-differentiated products or intensely competitive industries where economics are unsustainable or poor.

Play to win
We are trying to make money with money when the balance of risk and reward is in our favor, and trying to preserve capital when the balance is not in our favor. We do this by owning great companies at attractive prices. That's it. Our entire focus is on our best ideas–not the index. Our portfolio names are completely a function of our best ideas and the risk/reward asymmetry they represent with no regard for an underlying index. Tracking error, style box considerations, active share or any other quantitative metric relative to an index are not things that drive our decision process at any level.

Play when you're advantaged
Investing involves taking some risk to earn a return. That's an essential part of the entire process of investing. Making sure the risks being taken are appropriate is an equally important key to great investing. Understanding the potential rewards on offer in equities only makes sense in the context of the risks being assumed. You have to have the means and experience to assess both. This requires process discipline. We let our investment process lead the way in these efforts and don't get caught up in what's popular or current. Waiting for the right price means knowing what that price is and understanding the risks inherent in a given investing opportunity.

"You must have real conviction. You have to believe something different than the market believes, you have to behave differently, and you have to be right."

Randy Dishmon

Our investment process

All great investments begin with buying something for less than it is worth. You pay something and you get something in return. There needs to be a large gap in the value of those two things for investing to be successful. It can be that simple.

So how do we do that? The basic process that has driven the Strategy since inception is what we call "The Three Questions." Get them all right and great things can happen.

The three questions

Without doubt, the most often asked questions of our careers have been: How do you define value and how do you find it? In the words of Henry David Thoreau, "It's not what you look at that matters; it's what you see." All the way back to the first quarterly investor communication in 2008, we wrote, "It's not enough to know lots of things; you have to know the right things." We believe the following are the right things.

01

Is the business worth owning... ever?

We aren't obligated to buy. We can wait for the right opportunity. Clearly, not every company is worth owning. Sometimes it is poor economics or the lack of a meaningful advantage. There can be, of course, decent companies in bad industries, but beware. Industry economics usually win out. Bad businesses come in all shapes and sizes, but the result is the same: some businesses are just never worth owning and we're not interested in them.

A business that is worth owning is a business that can compound value at an attractive rate over many years. In most cases we view cash earnings as a proxy for value. After 20 years of investing experience, we have found no better representation of business reality than cash–it is the most difficult thing to manipulate and less subject to the influence of human hands. How do we go about finding businesses that can compound cash flow over many years? We have a simple set of things we look at that give us insight into the compounding ability of a business.

"All great investments have one thing in common: buying something for less than it is worth. On Global Focus, we focus on durable, franchise companies at prices where we get the present at a discount and much of the future for free."

Randy Dishmon

Is the business exposed to a sustainable growth theme?

This is fairly straightforward. The world is always changing in ways that favor some pockets of the economy and hurt others. Simply put, we believe companies exposed to sustainable growth themes have a higher probability of outpacing overall economic growth and better growth prospects than those that are not. The tailwinds provided by structural, sustainable growth solve a lot of problems for companies. It's an essential part of the compounding effect that we believe makes equity investing far superior to any other asset class in terms of wealth generation over the long term. We identify areas of structural growth as opportunities; conversely, and equally important, we avoid industries or subsets of companies that are impacted by such change.

What is the company's advantage and is it durable?

Advantages come in many different shapes and sizes. We spend much of our time identifying advantages and the source of that advantage to evaluate how durable a company's position will be. Identifying long-lasting advantage gives us the confidence that a company can translate a growth theme into sustainable revenue growth, which is a key ingredient of compounding. We spend a lot of time as a team and with companies discussing the nature of advantage. Having done this for many years, we know what advantage looks like and what makes it durable.

Do the economics of the business improve with growth?

We love companies that become incrementally more profitable as they grow, but they are rare. This quality isn't required for a business to be good but it can certainly make a great business even more attractive. Balance sheets, which we consider part of economics, matter too. Good businesses tend to have the right balance sheet for their business. Additionally, financial strength is an especially important competitive advantage, particularly in times of stress. Strong balance sheets can take advantage of opportunities that weak balance sheets cannot. Bear markets and financial crises create opportunities for great businesses.

In summary, good businesses don't necessarily have all of these qualities, but we've never seen a business compound value over long periods of time without several of them.

02

What's the right price?

If the business economics are sound, what you pay for a company is the single largest determinant of investment success or failure. As noted earlier, price in the absence of value is useless information. Knowing the right price demands knowing the value of what you're getting. As contrarian value-oriented investors, many of the opportunities we find usually exist because near-term company or industry prospects appear poor. That's often when great companies get cheap.

When assessing what the right price is, we prefer numbers that are harder to fudge or manipulate–operating cash flow and other cash-oriented metrics are less subject to the influence of accountants and management consultants. Can we take it private at this price? What would a private market buyer pay for all of it? What would we get if we broke it up and sold it off in pieces? These are the kinds of valuations that get us "on the page" of what a business is conservatively worth. That's how we know what we can pay and leave ample room for things to go wrong and still make a return for investors. A core part of our philosophy is this: Some businesses are just better than others. When considering the value of a business, premium companies deserve higher valuations compared to less attractive ones. As we said earlier, we look for businesses that can compound value at a high rate over many years. When we find such a business, we are perfectly comfortable paying a premium to the broader market or the average company. In our experience, the true earnings power of a company capable of compounding its value over many years is very often distorted by ongoing investment to solidify future position, create optionality in new areas, or strengthen existing advantages. We apply significant rigor to ascertain the true earnings power and future value creation possibilities of a business. Great businesses often trade at premium valuations, though headline valuation metrics tell us very little about the right price for a business.

03

Is management working for shareholders?

Investment bankers around the world have coached management teams to talk about "shareholder value." Every executive talks about it, but talking about it doesn't create it. Allocating capital in an economically sensible way creates shareholder value, and our experience has been that past corporate actions by a management team are the best indicator of how they'll behave in the future. It is their "track record." We watch carefully what they do with shareholder money. Does it make economic sense? Have their past decisions created value? Do they buy back stock at lows or highs? Have they acquired strategically or egotistically? Are costs under control?

Honesty and integrity play a strong role in management effectiveness as well. It is easy to discern. Related-party transactions, equity issuance, options issuance, and management incentives tell you so much about what is in the heart and mind of an executive team. Analyzing these actions and understanding management's incentives tell you what they believe and what is motivating them. Are incentives egregiously generous? Are incentives based on the right things?

Some businesses that are highly profitable never let much of those profits flow to shareholders. What a management team has done at their current job and in past jobs is the best window into their intentions. More often, it tells you whether or not they care about you as an outside shareholder. It's critical to our returns that they do.

Eyes are far better investment tools than ears. Ears have to decipher fact from opinion. Eyes just get the facts. We watch what management teams do with shareholder money as described above to make sure they are focused on the right things.

In conclusion, there are lots of ways to make money with money, but only a few ways to do it consistently over long periods of time. Our philosophy is the product of years of experience in global investing.

Our attention to detail on what we buy and what we are willing to pay for it leads us to be opportunistic buyers of great companies. We believe our approach provides a great balance of upside while limiting the downside.

Portfolio construction

When it comes to investing, being a great stock picker isn't enough. It can be ruined by poor portfolio construction in many ways. Putting ideas together in the wrong way can lead to bad outcomes; similarly, owning too many things can lead to suboptimal outcomes for shareholders as well.

As mentioned earlier, we are opportunity-oriented as opposed to index-focused. We construct the portfolio with no regard for an index and offer no apologies for that. Sector weights and country weights should also be viewed as ex-post lists, as we make no effort up front to allocate the Strategy's assets by country or sector. We are focused on our best ideas. We weight ideas in the portfolio by the attractiveness of the balance of risk and reward. Those holdings that we believe are the best balance of reward relative to risk will have the highest weightings in the portfolio.

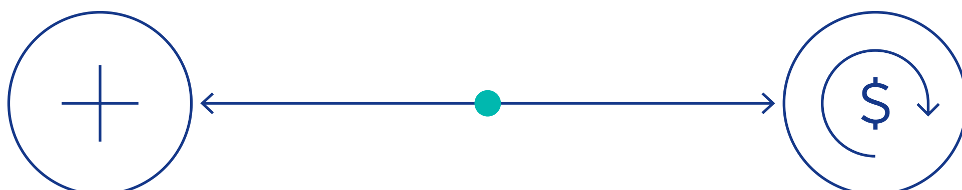
The Strategy is diverse, typically holding 35 to 55 stocks across various industries and geographies. We believe this range is sufficient to provide the benefits of diversification without contributing to something we view as an industry wide problem–over-diversification. We try to give our investors concentrated exposure to our best ideas in a way that enhances returns and mitigates risk.

Buy/Sell discipline

We are active managers. Market prices of companies can change rapidly; however, the underlying value of a business typically changes in a more measured way. This creates opportunities for large gaps to exist between value and price. That's typically where we come in, as we are continuously looking for attractive businesses trading at a large discount to what we believe they are worth.

Once a stock is in the Strategy, we are constantly revisiting our investment thesis and willingly consider new, relevant information. We will add to positions if the value remains attractive to shareholders. We will also trim positions as the market price of a company approaches our estimate of its value.

We sell stocks when we believe there are no further value creation opportunities available or when a management team takes action that is adverse to shareholder interests.



Risk management

Obviously one of the key measures of success for all investors is the returns generated. There are other important considerations. The risk taken to generate the returns should matter to shareholders. Controlling investment risk is a key to successful portfolio management.

There are two types of risk management out there today. Volatility measurement, tracking error, beta and those types of measures are what we call "relative" risk measures, given that they are all based on measuring a portfolio relative to an index or other portfolio. The Global Equity team has deep capabilities in this area and tracks all appropriate metrics; however, in our opinion, managing relative risk, just like buying relative value, is of little value to us and our shareholders. Relative risk is more about the risk of "being different" from the rest of the herd, which represents career risk on Wall Street. We're trying to help people meet their financial goals by earning superior returns on your investments. It's about you, not us. Our career risk never enters the investment process nor should it. Independent thought is something that we believe is essential to outperform for our clients and justify the fees we charge. As we tell our clients often, "You have to believe something different than the market, you have to behave differently, and you have to be right."

The approach to managing risk we take is focused on absolute risk–the "real" risk of losing money. We manage real risk in virtually everything we do. It's literally built into our philosophy and process at every step. First, we have a quality bias in what we are willing to buy. Lots of great trades show up in every market, but the true compounding effect comes from owning a great business over long periods of time. That means buying businesses you can trust to withstand the tests of time. Second, we know what we own very well. Knowing what we own is necessary in determining the right price for what we get as well as how it fits into the overall portfolio. A great investment has many characteristics. One of the key characteristics that all great investments share is asymmetry of returns. They offer excellent upside with limited downside. Knowing what we own and paying the right price makes this possible. There is no better risk management than that.

Contact

Randall C. Dishmon
Portfolio Manager

Randall Dishmon serves as Portfolio Manager of the Global Focus Strategy. His previous positions at the firm included serving as Co-Portfolio Manager of the Global Multi Cap Growth Strategy and Senior Research Analyst for the Global Equity Strategy.

Prior to joining the firm, Randall served for two years as a Management Consultant with Booz Allen & Hamilton. He also served for four years as a Manager with UtiliCorp United and for seven years as a Vice President/Division Chief with KCI Technologies.

Randall holds a B.S. in Engineering from North Carolina State University, an M.S. in Engineering from the Johns Hopkins University, and an MBA from the University of Michigan.

Jonathan Hartman, CFA
Research Analyst

Jonathan Hartman serves as Research Analyst for the Global Focus Strategy.

Prior to joining the firm full time in July 2013, Jonathan worked at the firm part time since May 2012, analyzing companies for both the Global and International Equity Strategies. Jonathan holds a B.A. in Economics, with a concentration in Finance, from Bucknell University. He is also a CFA charterholder.

James Burke, CFA
Senior Research Analyst

James Burke serves as a research analyst for the Global Focus strategy. Prior to joining the firm, James was an analyst at J.H. Lane Partners LP, a value-focused investment firm investing across the capital structure. Prior to that, he was a high-yield credit desk analyst and credit derivative products analyst at Morgan Stanley & Co. James holds a B.S. in General Mathematics and Management Science from Massachusetts Institute of Technology. He is also a CFA charterholder.

Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

The strategy invests in a limited number of holdings and is less diversified, and therefore this may result in large fluctuations in value.

Important information

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