



**01:**  
**Charlie Lanchester**  
head of fundamental  
active equities  
Australia, BlackRock

# Capturing capital growth through high conviction

The BlackRock Concentrated Industrial Share Fund holds a unique and diversified view when it comes to capturing performance from Australian equities.

With 25 years' of industry experience Charlie Lanchester says part of the excitement of working in investment markets is that all developed markets have changed and continue to change.

More broadly over that period of time, BlackRock's Australian head of fundamental active equities says the country has experienced a shift away from the manufacturing sector and seen the services sector really come to the fore.

"If you look at the index composition, healthcare used to be a very small part of the market just a decade or so ago, now it represents close to 10% of the market," Lanchester says.

"A particular area of interest for us at the moment are companies that are investing in technology. Existing businesses that are not technology companies themselves, but actually existing companies that are using technology to reinvent their own businesses and futureproof them going forward."

It might mean a constant search for opportunities and "turning over a lot of stones" but Lanchester says his team is finding companies that, no matter what the macro environment, are still doing quite well.

## The ex-factor

"Our ex-factor is about excluding a few things – so we exclude resources and the top five stocks in terms of market capitalisation," he says.

As the active manager explains, the real reason for creating an "ex-top five" investment strat-

egy is to address concentration risk that many investors hold. The team is mindful that many Australian equity portfolios, particularly those held by retail investors, are heavily concentrated with the "top five" stocks. These stocks, which include the big four banks, can leave many investors over-exposed to financial services when also considering their property portfolios.

"So when we take out those stocks we think we have a much better spread of industries, geographies and types of companies," Lanchester says.

## How does the fund invest?

The investment team which has more than 60 years combined experience, looks for management teams of high quality that are reinvesting capital wisely for the future. In doing so, the team applies its investment philosophy through a five-step process:

- 1. Quality management** – Only invest in companies after a rigorous assessment of their board and management team.
- 2. Moderate debt levels** – Only invest in companies with interest coverage of less than four times.
- 3. Profits** – Only invest in companies that demonstrate a history of recurring profits.
- 4. Superior businesses** – Only invest in quality companies with competitive advantages.
- 5. ESG** – Avoidance of companies that have significant risks around environmental, social and governance issues.



## The quote

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Lanchester says a focus on quality first adds the potential for significant outperformance, particularly in times of market dislocation, "where successful investing is as much about avoiding the losses as picking the winners."

Lanchester explains that if a small or mid-cap stock crosses over particular benchmark, "we don't want to have to sell it because it goes into the top 100 – we're able to keep holding if we still like the fundamentals of the company."

This said, the investment team currently believes it can generate more alpha in the small and mid-cap end of the market that is less researched.

While it's backed by the largest fund manager in the world, the BlackRock Concentrated Industrial Share Fund is small in size and nimble by nature.

At any given time the fund holds a concentrated investment portfolio of 20 to 40 stocks, permitting the portfolio managers to implement Australian equities strategies with deep knowledge and high conviction.

The fund aims to deliver a return that is 4-6% per annum above the S&P/ASX 300 Industrials Accumulation Index ex top-five stocks by market capitalisation over rolling three-year periods.

## Backed by BlackRock

Lanchester believes that the advantage of BlackRock's technology platform gives his team a great edge.

"With \$5 trillion of assets under management globally, BlackRock invests heavily into our proprietary investment platform, and we benefit from that."

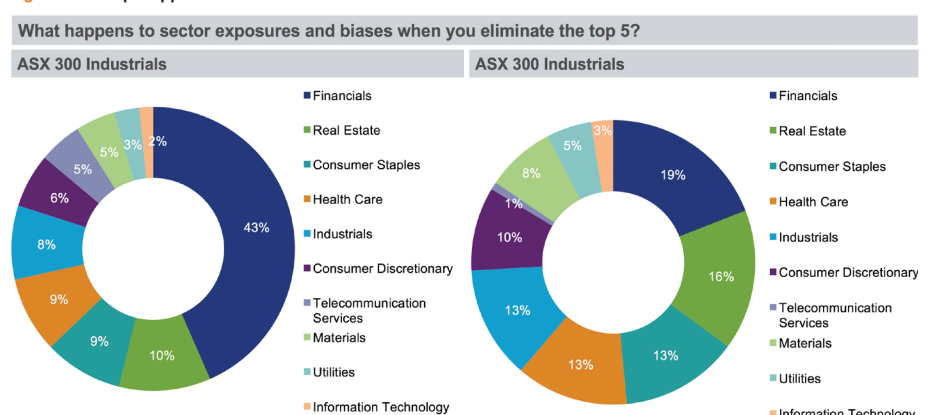
The investment team also have access to a huge range of companies as well.

"Even though we are a small nimble fund, by virtue of our index business we're able to access every company in the Australian market very easily."

Lanchester says at a time when the market is highly competitive and highly regulated he wanted to recruit the best people possible to work in his team.

"I think it's a very important part of a successful funds management practice – it's not an individual sport – you need good people around you and I've really managed to build that at BlackRock," he says. **FS**

Figure 1. Ex-top 5 approach adds sector diversification



Source: ASX/BlackRock as of 31 May 2017, for illustrative purposes only



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