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Finding the intangible to shape success

Damien Green, head of Asia and Australia for Independent Franchise Partners (IFP) understands the importance of of intangible assets, and how they can give businesses a competitive advantage in their market.

IFP takes advantage of the franchise approach in seeking to deliver long-term returns.

The franchise approach centres on creating a concentrated portfolio of exceptionally high quality companies.

How IFP identifies that exceptionality is a big part of what makes the fund so unique.

Australian investors can access the IFP Global Franchise Fund through through the Macquarie Professional Series.

Green explains that the IFP Global Franchise Fund offers Australian investors exposure to a portfolio of carefully selected, leading global companies.

"We apply a quality value approach which for us means a focus on high return on capital deployed and free cash flow yields," Green says.

The companies that meet IFP's criteria for quality have certain attributes, he explains.

Green says: "When we talk about quality we look for a dominant intangible asset that protects the company from price competition."

Green and the IFP team have developed techniques for identifying those intangibles, helping IFP to invest globally through a variety of macroeconomic environments.

"The form of that intangible asset can come as a patent, a licence, a copyright, a network or a brand. Generally, we look for an asset that is not capital intensive but is hard to replicate," Green says.

When it comes to the fund's holdings, Green points to several companies with strong intangible assets.

One such example he cites is Nestlé.

The Swiss multinational food and drink corporation is a familiar company name, and that familiarity itself is part of the company's valuable intangible strength.

"For example, one of our portfolio companies – Nestlé – has brands like Nescafé and KitKat," Green says.

"These brands cannot be displaced by price competition because of the consumer loyalty towards those brands."

He explains that while brand loyalty might sound simple, it's actually a very difficult quality to build and something that creates concrete benefits when it comes to a company's bottom line.

Green says: "At the checkout, that extra margin and that predictability means that the profits and margins remain very stable."

However, IFP's approach is not just about quality. IFP also harnesses the foundations of good investing – choosing your time and choosing your price.

"It's not only about quality, it's also about price. We apply a really strict price mechanism and value mechanisms to make sure that we're not overpaying for that quality," Green confirms.

Over time, the companies that meet IFP's criteria have changed and evolved as technology and consumer behaviour have.

"Back in 2002 when we started managing the strategy we had a loosely defined universe that was branded consumer companies and a handful of media companies," Green says.

"Over more than 15 years, we evolved that universe to include different kinds of franchises. These include licences, network effects, proprietary data, proprietary content and switching costs."

Over that period, since 2002, economic events have rocked markets and technology has advanced at a staggering pace.

By maintaining a focussed approach and looking at companies closely to identify their strengths, IFP has continued to evolve.

Changing with the times and expanding the IFP Global Franchise Fund universe has seen the fund pick up some new exciting names.

One example of the kinds of companies the universe has expanded to include is gaming giant Nintendo.

Gaming companies, Green explains, have totally overhauled the ways they do business now compared to 20 years ago.

"These companies represent network effects, proprietary content, brands – but they didn't evolve these business models until very recently. Formerly they were cyclical businesses based on a console gaming platform with defined releases," he explains.

"They've evolved now to be a subscription model with in-game purchases which makes them more predictable."

These companies with evolving subscription based models are forming part of the evolution of the IFP Global Franchise Fund.

"We have been able to select new companies in the portfolio over the last decade to refresh and improve the portfolio as time goes on," Green says.

Keeping abreast of what makes leading companies attractive, helps IFP to deliver across market conditions.

"Through the investment cycle a number of things happen," Green says.

"You get over investment in certain industries, valuations become extended and you get various macroeconomic influences that create temporary distortions in markets," he explains.

The quote

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Watch the video on www.fsitv.com

However the franchise strategy gives IFP a strong base in seeking to discover real value.

"By staying invested in good companies at attractive prices the IFP portfolio is designed to be and has been less affected by the retracing of these distortions," Green says.

And, at IFP that history can be proven.

"This stability during downturns has enabled us to protect capital better than markets in events like the tech wreck and the Global Financial Crisis and has allowed us to compound at a higher rate than the market through those cycles," Green says.

That's a claim that not many can make, and Green puts it down to the way the IFP strategy invests in companies that have an intangible value, giving these companies a competitive edge.

Green sums up by saying: "The IFP strategy is a concentrated quality approach underpinned by dominant intangible assets and this leads to a portfolio of companies with resilience and pricing power which, when combined with a disciplined approach to valuation, we believe helps to protect our clients' capital in down markets and to compound at a better rate than the market over the long term."

Quality isn't always easy to find, but by reaching for the intangible IFP has created a technique for identifying exceptional companies and compounding wealth for investors. **FS**

The IFP Global Franchise Fund is proudly brought to you by Macquarie Professsional Series, who search the world to uncover differentiated investment solutions, enabling local investors to access strategies from world-class fund managers.