

“A Great Brand is a Story that is Never Completely Told”:

Reporting their first quarter numbers, Nike’s CEO, John Danahoe, commented that *“it is in times like these that strong brands become even stronger”*. In this note we use the recent market correction to investigate the claim and whether this is reflected in market returns over the past months and years.

The chart below depicts the top 25 global brands as ranked by BrandZ, colour coded in relation to the performance of the MSCI Global Index, with all numbers rebased to sterling. Those in bold are held in the Tyndall Global Select Fund. Green indicates outperformance with positive returns, blue is outperformance with negative returns and red indicates underperformance.

Top 25 of BrandZ 2019 Ranking of World’s Most Valuable Brands in GBP

	Turn of 2020 to March Low	Recovery to Date	Year to Date	1 Year	3 Year
1 Amazon	-4.65%	45.38%	38.62%	37.19%	158.60%
2 Apple	-12.29%	29.59%	13.66%	75.45%	108.63%
3 Google	-12.37%	27.55%	11.77%	28.88%	55.90%
4 Microsoft	-7.33%	35.96%	25.99%	57.24%	181.74%
5 Visa	-17.10%	27.79%	5.94%	23.52%	107.80%
6 Facebook	-22.89%	44.23%	11.22%	22.76%	47.38%
7 Alibaba	-8.59%	9.15%	-0.23%	21.51%	69.64%
8 Tencent	-1.08%	26.36%	24.99%	24.33%	76.61%
9 McDonalds	-20.83%	24.41%	-1.50%	-4.52%	29.97%
10 AT&T	-23.78%	7.42%	-18.12%	2.53%	-19.31%
11 Verizon	-12.37%	13.50%	-0.54%	5.06%	28.83%
12 Mastercard	-21.86%	30.19%	1.73%	22.85%	151.70%
13 IBM	-20.01%	23.09%	-1.53%	-1.79%	-14.80%
14 Coca-Cola	-22.12%	15.01%	-10.44%	0.72%	10.09%
15 Marlboro	-19.10%	12.47%	-9.02%	-9.70%	-32.73%
16 SAP	-22.84%	17.39%	-9.42%	-2.33%	17.36%
17 Disney	-33.29%	21.66%	-18.84%	-12.75%	3.99%
18 UPS	-24.72%	15.71%	-12.89%	-0.48%	-5.34%
19 The Home Depot	-20.52%	45.23%	15.43%	29.29%	55.92%
20 Nike	-28.86%	34.91%	-4.02%	15.02%	75.99%
21 Louis Vuitton	-45.69%	60.23%	-12.98%	8.63%	54.99%
22 Wells Fargo	-49.66%	0.95%	-49.19%	-43.05%	-50.10%
23 Starbucks	-27.76%	32.21%	-4.50%	6.90%	35.99%
24 Deutsche Telekom	-19.85%	19.02%	-4.60%	-6.50%	-15.81%
25 PayPal	-9.61%	59.54%	44.21%	42.55%	204.71%
MSCI World Index	-21.85%	19.79%	-6.38%	4.92%	18.64%
Equal Weighted Return	-20.37%	27.16%	1.43%	13.73%	53.51%

Source:TIM/BrandZ/Bloomberg

The first point to note is that an equal weighted bucket would have outperformed the wider market in all instances, suggesting that John Danahoe's comments are true. The second observation is that the list is evenly split between those companies that corrected more than the wider market and those that did not, suggesting that brand strength did not shield investors capital, and only 60% of these companies outperformed in the subsequent rebound. In fact, even over a one-year period this percentage remains at 60%.

Of course, this is a rather superficial way to look at the relationship between brand strength and performance as it does not account for one time factors such as management change; of our holdings that have a red column, only Philip Morris has not undergone a change of management in the past six months.

While we see the benefits of searching for companies with brand strength, as that gives a certain width to their defensive moat, we believe that true outperformance is better obtained by buying and holding companies that are exceptional franchises with the following characteristics:

- Durable business models.
- High percentage of recurring revenue.
- Identifiable and sustainable high Free Cash Flow.
- Management who have a history of being good allocators of capital.
- Solid balance sheets.
- High Returns on Capital Employed throughout the cycle.

Although this list is not exhaustive, finding companies with these characteristics and applying a good dollop of common sense is how the Tyndall Global Select Fund seeks to preserve and enhance the real value of the capital that investors have entrusted to us. Brand strength alone will never surpass the benefits of a sound and cash generative business model.

Richard Scrope, CFA, Fund Manager, VT Tyndall Global Select Fund, 15th May 2020

Source: Bloomberg (unless stated otherwise)

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