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FAQ

Artemis Leading Consumer Brands Strategy

Interview with Swetha Ramachandran, fund manager

Consumer preferences are evolving generationally. How are you planning to leverage these changes in consumer demand within the Artemis leading consumer brands strategy?

Consumer preferences are constantly evolving and offer a fruitful and exciting source of investment opportunities with a long-term view. We increasingly see luxury consumers extend their purchases well beyond luxury brands and want to therefore capture a wider share of wallet of this resilient consumer cohort in our new strategy. Experiences (travel, sport, socialising) are regaining the ground they lost during the pandemic to goods – favouring a wider remit of investible stocks exposed to travel and health and wellness, among others. Additionally, Gen Z and Gen Alpha consumers are exposed to brands across the consumer space at an ever younger age, increasing the ability of leading brands to grow market share over a longer time-frame.

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Can you clarify the distinction between "leading consumer brands" and "luxury" brands within your investment approach? Are there specific characteristics that define a "leading consumer brand" for you?

Luxury companies in the listed market tend to be found across a narrow grouping of companies: most commonly in fashion/leather and watches/jewellery. Leading consumer brands that offer access to the resilient luxury consumer are found across multiple sectors: travel, autos, wines and spirits, cosmetics and skincare, to name a few. We look for strong pricing power as a hallmark of a leading consumer brand – which we identify through high and stable gross margins attributable to the strength of the brand. A brand's capacity as well as inclination to invest in fortifying its brand 'moat' is also a common characteristic of leading brands, positioning them to gain more than their 'fair' share of market growth.

It's interesting that you're expanding your focus to include Asian markets, particularly India. Can you elaborate on how you see the investment potential in these emerging markets for consumer brands?

Leading consumer brands are already significantly exposed to Asia – even when listed in the US or Europe, they derive a far greater share of revenues from Asian consumers (be they in Asia or travelling) than their peers in other sectors such as financials or telcos which can be more locally oriented, reflecting their position as a truly global sector. We see opportunities to amplify returns for investors by selectively investing in companies based in Asian markets which have no credible Western substitute. The Indian gold jewellery market – the 2nd largest in the world, would potentially offer such an opportunity – where share and growth are both dominated by local, rather than global players. We see South-East Asia and India as providing a long-term growth runway for leading consumer brands from a low base as the middle class populations in these markets further expand. India, in particular, is projected to have both the largest absolute working age-population (over 1bn) and the youngest (median age 28.4) by 2030 – the combination of which provides a potent motor for consumption of leading consumer brands.

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You mentioned a shift from pure consumption to experienced-based consumption. Could you give us some examples of consumer brands or companies you see benefiting from this trend and how they fit into your investment approach?

Leading consumer brands today are much more than transactional – to remain relevant to a changing consumer, brands are increasingly embedding themselves into 'experiences' which offer customers newness while cementing their loyalty, if done correctly. Lululemon's yoga classes in store, Diageo's launch of White Walker – a limited edition Johnnie Walker whisky coinciding with the final season of Game of Thrones, Moncler partnering with music icon Pharrell or Veuve Cliquot's limited edition bottles painted by Yayoi Kusama are examples of consumer brands inserting themselves into the wider culture of the times. While leading consumer brands benefit from longevity and provenance, we also view their ability to keep innovating as critical to their ongoing success and therefore key to our investment process. We also see companies within the sporting goods or travel sector that are specifically exposed to the return of 'experiential' consumption as potential investment opportunities, should fundamentals and valuations line up.

Sustainability and ESG factors are becoming increasingly important to investors. How do you incorporate these elements into your investment strategy within the consumer brands sector?

To live is to consume. Leading consumer brands are often at the vanguard of sustainability – be it through the adoption of innovative materials (e.g. adidas), engaging in regenerative sourcing (e.g. Pernod Ricard) and above all, responding to a growing consumer mindset of 'buy less, buy better'. We are looking for brands increasingly prioritising value over volume, whose consumption is considered, rather than casual. We find brands which prioritise craftsmanship and supply chain transparency typically also have above-normal pricing power – their attention to sustainability being rewarded through margins, and in turn share price performance, that exceeds those of peers.

What is your view on investing in technology stocks?

We are focused on investing in consumer-facing brands across consumer staples and discretionary categories. We don't believe the mega-cap tech giants, regardless of sector classification, fit the specific remit of our fund: which is to offer access to emerging market consumers at a developed market cost of capital while taking advantage of changing consumer preferences and demographic shifts. Many companies whose brands would be considered leading consumer brands, including that of a popular phone manufacturer, are deriving a greater proportion of their growth from services than from their hardware. We also want to limit redundancy risk for investors from stock overlap between consumer and technology themed funds.

You talk about the "emotional" element of leading consumer brands acting as a barrier to entry. Could you provide some examples of how this emotional connection benefits these brands and your strategy's investments?

Brands are constantly interfacing with consumers and can evoke strong emotional reactions through high levels of loyalty (Ferrari) or aversion (Balenciaga in the immediate wake of their ill-fated ad campaign last year). The emotional aspect of brands' appeal is evident in their gross margins – where we can see pricing power – itself a function of brand desirability – in action. This connection benefits these brands by allowing them to reinvest behind their brands to a far greater extent than brands with a lower margin structure. This creates a virtuous cycle of pricing power which drives profitability which in turn drives further reinvestment and further pricing power for the brand. Brands' focus on retail excellence via extensive flagship renovation to enhance the customer experience is also a further such barrier to entry – after all, as Mr Bernard Arnault, CEO of LVMH, is reported to have said 'you don't buy your dreams at the supermarket'.

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Building on your point about emotional connections, how do you assess the long-term sustainability of these brands, especially in a rapidly changing consumer landscape?

Consumers are changing, yet their preference for tried and trusted brands with heritage, provenance and readiness for innovation remains constant. Leading brands possess strong barriers to entry, thanks to heritage, provenance and pricing power, reinforcing their ability to stand the test of time. What we know is that a rising tide will not lift all boats – the secular tailwinds of the growing Asian middle class will benefit different companies differently – this is where we bring to bear our real-world experience of having worked in and invested in Asia as well as of active bottom-up stock-picking.

> *We believe this environment is ripe for active stock selection and expect to see stronger brands outperform their weaker peers on fundamentals, even as valuations have been indiscriminately hit across the board.*

Lastly, can you share your outlook for the global consumer brands sector and any key trends or opportunities you're keeping an eye on as you manage this new strategy at Artemis IM?

Leading brands across the consumer sector have enjoyed a period of heady growth coming out of the pandemic, fuelled by consumers' desires to return to life as they once knew it, with a vengeance. In the case of the American consumer, this was also aided by general helpings of stimulus cheques. We now face an environment where near-term growth is decelerating in Western markets, while China remains a coiled spring until we see a bigger return of outbound tourism. We believe this environment is ripe for active stock selection and expect to see stronger brands outperform their weaker peers on fundamentals, even as valuations have been indiscriminately hit across the board. This offers a compelling entry point into a long-term investment strategy with a multi-decade growth runway, underpinned by the expansion of the emerging middle class.

For more information, please reach out to your usual relationship manager or contact us on

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