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Global Thematics strategy November performance was steady, despite the recent market rotation

- Global equity markets rebounded in November
- Performance came from our 5 themes, albeit “Transitioning Societies” was more muted
- We initiated positions in Quidel Corporation and Teradyne

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What’s happening?

Global equity markets rebounded in November, in response to favourable results from late stage trials of three potential COVID vaccines. The risk of a protracted legal battle over the US election receded during the month, providing further support for equity markets. As the market reflected growing optimism for normalisation, value outperformed growth, closing some of the gap which has widened through the year.

Despite the continued spread of COVID-19 in the US, macroeconomic data has been largely positive, with manufacturing and employment data both indicating continued growth. In Europe, the partial rebound of the third quarter has faltered in the face of further lockdowns highlighting the need for a successful vaccine rollout to any sustained recovery. In Asia, where the virus has largely been contained, growth remains evident – notably in China.

We remain convinced that the disruption caused by COVID 19 has accelerated existing secular trends, improving the long term outlook for a number of themes within the Evolving Economy, with the drivers of all five themes remaining intact.

Portfolio positioning and performance

Against the backdrop of rotation into value, the strategy underperformed the broader equity market (MSCI All Country World) in November. However, its absolute performance remains positive and steady over the month.

During the month, our ‘Transitioning Societies’ theme gave back some of the prior month’s outperformance. The strategy benefitted from a positive contribution from its four other themes. In ‘Connected Consumer’ theme, the payment names, performed well as their third quarter earnings releases demonstrated their positive exposure to the growth in e-commerce. Holdings here include Fidelity National Information Services, Global Payments, Fiserv and PayPal. In ‘Automation’, Qualcomm continued its strong performance in response to the rapid progress with 5G, to which Qualcomm is a leading supplier of semi-conductors. In ‘Clean tech’, TE Connectivity and Kerry Group were the best performing holdings. TE Connectivity responded positively to optimism around the pace of vehicle electrification, a shift from which it

benefits. Kerry Group has been impacted by COVID through its Food Service business. However, third quarter earnings showed a significant improvement and a positive tone from management. In 'Ageing and Lifestyle' theme, Hoya Corporation contributed positively following strong quarterly earnings as a result of an early recovery in eyeglass lens sales and good cost management.

During November, we trimmed holdings across a range of outperforming holdings and initiated positions in Quidel Corporation in 'Ageing and Lifestyle' and Teradyne in 'Automation'. Quidel Corporation provides healthcare diagnostic solutions which are focused on decentralising, moving diagnostics from reference labs closer to patients, and in some cases, into the home. In addition, it is likely to have a strong pipeline which includes point of care molecular diagnostics for a broad range of diseases. Teradyne is a leading player in large collaborative robots, a market which is growing ahead of traditional robotics. Teradyne is also a market leader in the semi-conductor test space where demand growth has accelerated due to the growing complexity of end market products such as smartphones.

Outlook

Macroeconomic conditions are mixed as a result of the varying degrees of success in managing COVID-19 and differing levels of policy support during disruption. In Asia, normalisation continues and domestic conditions appear healthy, despite the ongoing risk to many export markets. In Europe, restrictions appear to be curbing the spread of COVID-19 but are weighing on macro conditions. Policy support remains strong and fiscal stimulus is expected to be associated with areas of the Global Thematics, including Digitalisation and the Energy Transition. Macro conditions in the US are stronger, and policy support will fall increasingly to the Fed, resulting in low rates for an extended period. This should be positive for equities with a secular growth opportunity.

We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are well placed to navigate the current disruption. The portfolio is therefore well positioned to benefit from the secular shifts we are witnessing globally.

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