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Global Thematics strategy

We've seen an increased optimism for emerging markets consumption

- Global equity markets declined during October
- We've seen strength in 'Transitioning Societies' theme
- We initiated positions in Boston Scientific and Orsted

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What's happening?

Global equity markets declined during October, in response to an acceleration in the spread of COVID-19 across the US and Europe and the imposition of lockdowns across much of Europe. Uncertainty surrounding the US election also weighed on sentiment during the month. Growth continued to outperform value in all major markets, and those businesses with strong balance sheets and good cashflow conversion continue to outperform.

Progress towards potential COVID treatments and vaccines continues at a strong pace, but we are still some way from a scalable solution and questions around the distribution of any potential vaccine remain.

Macroeconomic data has been broadly positive, reflecting the rebound in economic activity during the third quarter. In Asia, where the virus has largely been contained, growth remains evident. In Europe, where new restrictions are beginning to weigh on economic activity, we see renewed policy support. Whilst macroeconomic conditions are stronger than in Europe, the picture for policy support in the US is less clear, given the uncertain outcome of the Presidential election.

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

The strategy outperformed the broader equity market (MSCI All Country World) in October principally due to strength in 'Transitioning Societies' theme. HDFC Bank, a high quality Indian bank performed well in response to increased optimism for emerging markets. Dr Lal Path Labs, a leading diagnostics player in India, benefitted from both increased appetite for emerging market exposure, and from its exposure to COVID testing. Alibaba also performed well as a result of strong domestic consumption-

In 'Automation' theme, semi-conductor manufacturers TSMC and Qualcomm contributed positively as both benefit from strong demand from multiple end markets, notably with the broader adoption of 5G.

In 'Ageing and Lifestyle' theme, Exact Sciences continued to outperform following the release of early stage results of a blood based screening test for a range of major cancers in September and with the announcement of the acquisition of a leading blood based multi-cancer screening company.

We saw more muted performance from our 'Connected Consumer' theme where the outlook remains intact but stocks took a breather following a sustained period of outperformance.

During October, we trimmed holdings across a range of outperforming holdings in 'Connected Consumer' and initiated positions in Boston Scientific and Orsted. Boston Scientific manufacturers a diversified portfolio of medical devices. It has a strong product pipeline to support growth and with a healthy balance sheet and high quality management, the company is likely to navigate the near term COVID related challenges. Orsted is a leading developer in the rapidly growing offshore wind market and has growing exposure to onshore wind and solar in the US.

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. Uncertainty surrounding the outcome of the US Presidential election is weighing on sentiment. Given the likelihood that Senate will remain Republican, the market no longer expects a large fiscal stimulus in the US. Thus, 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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