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Global Thematics strategy

Fiscal stimulus is expected to be associated with areas of the Global Thematics

- Equity markets reflected growing optimism as the vaccine rollout continues
- Our 'CleanTech' theme gave back some of its earlier strength
- We reduced exposure to Envestnet and exited Kingspan

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What's happening?

Global equity markets rose during February, reflecting growing optimism for normalisation as the vaccine rollout continues. Towards the end of the month we saw a rotation towards value highlighting this optimism.

Despite ongoing disruption in the US, macroeconomic data has remained positive, with manufacturing and employment data both indicating continued growth and the consumer balance sheet remaining healthy. COVID-19 restrictions have weighed more heavily on economic activity in Europe. In Asia ex-Japan, where the virus has largely been contained, growth remains evident – notably in China where manufacturing has recovered well.

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 Global Thematics, with the drivers of all five themes remaining intact.

Portfolio positioning and performance

The strategy marginally underperformed the broader equity market (MSCI All Country World) in February with a positive performance from 'Automation', 'Connected Consumer' and 'Transitioning Societies' themes and slightly negative performance from 'Ageing & Lifestyle' and 'Clean Tech'.

The 'Connected Consumer' theme benefitted from strength across payment names which are exposed to both digitalisation and the re-open of the economy.

In 'Automation', holdings in TSMC and Silicon Labs outperformed. Both of these businesses are leading semi-conductor players, operating in an industry which currently enjoys strong fundamentals associated with 5G, automation and electrification.

In 'Transitioning Societies', HDFC Bank in India performed well due to better than expected asset quality and growing optimism for the growth outlook for leaders in the industry.

'Clean Tech' offered a slight negative contribution as a broad range of renewables and energy efficiency holdings gave back some of their earlier strength. We remain confident in the longer-term outlook for all of these holdings.

In 'Ageing & Lifestyle', Thermo Fisher also gave back some earlier gains despite an encouraging earnings release.

We made few changes to the portfolio during February, reducing exposure to Envestnet following a period of outperformance and concluding the exit of our holding in Kingspan in the context of negative newsflow.

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, COVID-19 restrictions are weighing on macro conditions. The rollout of the vaccine offers some visibility of a path to re-opening the economy and thus provides reason for optimism. 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 remain 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 strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

No assurance can be given that the Global Thematics Strategy will be successful. Investors can lose some or all of their capital invested. The Global Thematics strategy is subject to risks including Equity; Emerging markets; Currency; Global investments; Investments in small and/or micro capitalisation universe; ESG.

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