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Global Thematics strategy

Products and services from Connected Consumer and Automation themes appear to have expanded

- Global equity markets continued to rebound during May
- Contribution to positive performance led by the 'Connected Consumer' theme
- We reinvested in a number of existing holdings across multiple themes

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What's happening?

Global equity markets continued to rebound during May and, whilst volatility remains elevated, it is well below its peak in March. Growth has continued to outperform value during April, as investors reward those sectors which appear to benefit from either secular growth or near term opportunities. Businesses with high leverage, and particularly those with near term refinancing requirements have also suffered more than the broader market. Questions over the security of dividends continue to impact performance at a stock level.

The exceptional policy response across developed markets means that liquidity has largely remained available and income has thus far been well protected from the COVID-19 disruption. As western economies now begin to slowly re-open, ongoing policy support will be critical to a sustained recovery. Whilst progress towards potential treatments and vaccines has been made at an extraordinary pace, we are still far from a solution. Thus, the rate of relaxation remains dependant on the continued improvement in virus transmission data. The lack of a second wave in the parts of Asia which are relaxing restrictions offers some optimism, the market is now closely monitoring transmission data from European countries and US states which have begun to ease the lockdown. Early feedback has been promising.

Taiwan, Korea and China appear to have successfully contained COVID-19 and these economies have successfully ramped back up to near normal industrial activity levels. However, export markets have yet to normalise and travel and consumption still remain weak. Whilst there is some read across to the west, we note that income has been far better preserved in developed markets and savings have therefore risen as spending has been restricted. It is therefore possible that developed market consumers may emerge from the lockdown with less caution than we have seen in Asia. Nevertheless, we expect some areas of the economy to operate below pre-crisis levels for the long term. As a result of this limited visibility, the medium term outlook for earnings remains uncertain and many management teams are understandably reluctant to provide guidance in this environment.

Despite the uncertainty of medium term macroeconomic conditions, there are products and services for whom the addressable market appears to have expanded. Notable examples are themes of the Connected Consumer and Automation. Recent proposals for a Green Recovery from Europe represent part of a broader drive for stimulus to be invested toward a more sustainable economy, adding support to the shift towards Clean Tech. The long term secular drivers behind Ageing and Lifestyle and Transitioning Societies also remain intact.

Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) in April. All themes contributed positively, with outperformance led by the 'Connected Consumer' theme. Holdings in Paypal, New Relic, Globant, Visa and Service Now all outperformed. Paypal has been a clear beneficiary of the COVID related shift to e-commerce. In 'Clean Tech', Kingspan (high performance building insulation) recovered earlier weakness. In 'Transitioning Societies', Helios Towers made a strong positive contribution following expectations of an increase in its index weighting. Overall 'Transitioning Societies' was the weakest performing theme as broader emerging market concerns weighed on AIA Group, New Oriental Education in China and HDFC Bank in India. Whilst we recognise broader challenges for some Emerging Markets, we remain confident in the quality and resilience of these businesses.

During May, we exited our holding in Bank Rakyat Indonesia due to concerns for the deteriorating operating environment and likely earnings pressure. We reinvested the proceeds in a number of existing holdings across multiple themes.

Outlook

The speed and scale of monetary and fiscal support offered in major economies has provided relief in credit markets and offers support in global equity markets. The gradual easing of the lockdown in many economies will provide greater insight into the path to recovery and the medium term implications of COVID-19.

It is likely that a number of the themes of the Global Thematics will be the long term beneficiaries of a shift in behaviour which was already apparent but which is accelerating as a result of the current crisis. It is clear that a healthy balance sheet and strong cashflow generation are now more critical than ever. 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 best placed to weather the current storm.

The portfolio is therefore well positioned to withstand the ongoing disruption and we view the current market volatility as an opportunity to add to some of those businesses at attractive valuations.

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