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# Global Thematics strategy

## Short term market rotations are not altering the long term disruption caused by COVID-19

- Global economy re-opening optimism sustained the rotation from growth into value
- We saw a positive contribution from the 'Transitioning Societies' theme
- We added to existing positions with some exposure to the global economy re-opening

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### What's happening?

Global equity markets rose during March, reflecting growing optimism for normalisation as the vaccine rollout continues. This optimism for the re-opening of the global economy sustained the rotation from growth into value.

Despite ongoing disruption in the US, macroeconomic data has remained positive, with manufacturing and employment data both indicating continued growth, the consumer balance sheet remaining healthy, and plans for fiscal stimulus supportive. Whilst inflation is expected to pick up in the near term, the Federal Reserve has observed that this is likely to be temporary and therefore interest rates are expected to remain low. COVID-19 restrictions have weighed more heavily on economic activity in Europe. In Asia, where the virus has largely been contained, growth remains evident – notably in China, Taiwan and South Korea where manufacturing has recovered well. Policy tightening in China has impacted expectations for the pace of recovery in the region.

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

In the context of the market rotation, the strategy underperformed the broader equity market (MSCI All Country World) in March. We saw a negative contribution from four of the five themes, and a positive contribution from the 'Transitioning Societies' theme.

In 'Clean Tech', Darling Ingredients, Waste Connections and Kerry Group all contributed positively in response to strong fundamentals, and some exposure to the re-opening of the global economy. However, this was offset by weakness elsewhere within the theme as a number of outperformers gave back some strength.

In 'Ageing and Lifestyle', weakness came from the London Stock Exchange, Teledoc and Dexcom. All of these holdings have strong fundamentals and a solid long term growth outlook, but suffered as part of the shift into value.

In 'Connected Consumer', the rotation weighed upon outperformers including PayPal and Service Now; partially offset by strength from a number of payments players and from Prologis which provides real estate and logistic equipment for e-commerce.

In 'Automation', holdings in Teradyne and Silicon Labs underperformed. Teradyne provides semiconductor testing services and Silicon Lab is a leading semiconductor player. Both enjoy strong fundamentals associated with automation, electrification and the 5G rollout but the recent weakness seen in the semiconductor sector – due to component shortages – affected those names who gave back some earlier outperformance.

In 'Transitioning Societies', Dr Lal Path Labs which is a leading diagnostics player in India performed well. Recent earnings have demonstrated its exposure to COVID-19 testing, and the recent resurgence in cases has led to expectations of ongoing earnings strength.

We made limited changes to the portfolio during March, trimming outperformers, mostly in 'Connected Consumer' and adding to existing positions with some exposure to the re-opening, including Waste Connections in 'Clean Tech' and Fidelity National Information Services in 'Connected Consumer'.

## 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 remain generally healthy, despite the ongoing risk to many export markets and growing concerns for tightening in China. 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 are supported by the planned fiscal stimulus. 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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