SARASIN IE GLOBALSAR - STRATEGIC FUND

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ECONOMIC AND FUND REVIEW

COVID-19 infections were resurgent in Europe and the US during October, with the number of daily new cases exceeding levels seen earlier in the year. Lockdowns were gradually re-imposed over the month, largely on a regional basis, but Germany, France, Spain and the UK will all impose stricter national lockdowns from November. Government bond rates increased on the prospect of a large fiscal stimulus package and possible return of inflation in the US and other developed markets. Equity markets were down on the month, experiencing their worst week since March in the last week as virus concerns mounted. A mixed macro picture, negative virus trajectory and prospects of an uncertain US presidential election brought volatility (VIX) back above 30 on the S&P500.

Splunk - the data analysis and processing company added to the portfolio earlier this year – was a positive contributor this month, supported by a flurry of upgrades by equity brokers based on improved prospects for their cloud services arm. Wind turbine specialist, Orsted, also had a good month, with Q3 results coming in slightly ahead of consensus. The group announced a joint venture with Yara, the Norwegian chemicals company, to use offshore wind energy to produce green hydrogen fuel cells. Hydrogen energy has long been suggested as a clean burning substitute for fossil fuels.

Healthcare stocks were generally weaker in October following increased expectations of a Democratic sweep and the suggestion of increased scrutiny of drug pricing, as well as the anticipated end of the COVID-19 pandemic. Biotech firm, Amgen, was a key detractor, affected by the negative sentiment towards the healthcare sector in general. Japanese pharmaceutical company Shionogi also detracted this month, as Japanese Prime Minister Yoshihide Suga revived fears of more stringent drug pricing reform, causing concerns for Shionogi and peers.

During October we trimmed our position in Investor AB and started a new position life sciences and materials company DSM. DSM develops scientific solutions to today’s problems, across a range of industries. Its enzyme technology is integral to lactose free dairy products, while its materials chemistry business makes the reflective material used in solar panels.

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Monthly commentary | October 2020

OUTLOOK

With many countries still grappling with the pandemic and some regions returning to lockdowns, economic and market conditions will not return to how they were before: in the immediate term, international trade flows and supply chains will have been permanently disrupted in places; balance sheets will be damaged, requiring gradual repair or rights issues; many dividends will be cut and share buybacks will be reduced.

In the longer term, technology disruption will accelerate; consumer attitudes will be very cautious; collectively, governments will be less able to stimulate recovery than after the financial crisis; weaker economic growth will leave some companies struggling to grow sales and profits; investors will be more aware, and cautious, of social and environmental ‘negative externalities’ and poor corporate governance; affected shares will trade on lower valuation multiples.

For all these reasons, it is a time to remain vigilant and not to be complacent. Our focus will be on investments that can generate secure and growing cashflows over the long-term. It is the nature of companies to adapt and find ways of solving problems profitably and whilst not all will thrive, our conversations with different management teams recently bolster our confidence in the longer-term future of most that we own.

Numerous opportunities will be driven by the shift to a more digital world, in new automation, climate change mitigation and adaptation, demographic trends and by shifts in consumption patterns in both the emerging and the developed markets. These themes can surpass the broad measures of GDP growth and the challenges triggered by the coronavirus. We are re-examining every sub-theme and there may be some changes of emphasis, but the high-level themes will continue to provide a strong underlying investment framework, providing us with the reassurance that the majority of companies in the portfolio have good prospects beyond the current crisis.

IMPORTANT INFORMATION