SARASIN IE GLOBALSAR - INCOME FUND

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ECONOMIC AND FUND REVIEW

Markets breathed a sigh of relief in November, as positive results from three vaccine trials, pointed towards fully reopening economies. This overshadowed the worsening picture of rising daily new cases, with much of Europe and the US tightening restrictions. Joe Biden's victory over Donald Trump in the US election was also well received. But with republicans likely to maintain control of the senate, Biden's powers to raise taxes will be limited, as will the potential for a large fiscal stimulus package. Against this backdrop world equity markets reached new highs, with the sectors hardest hit by coronavirus, rebounding strongly. Oil was also up markedly on the reassessment of growth rates, while safe haven assets such bonds and gold retreated.

This month Italian energy utility, Enel Spa, and global catering company, Aramark, were standout performers. Enel announced it was committing to an 80% reduction in greenhouse gas emissions by 2030, which was well received by the market. Aramark was buoyed by news of a vaccine and the prospect of a return to normal business levels next year. The group has struggled this year with schools and offices closed over lockdowns.

By contrast, Chinese e-commerce giant, Alibaba and data centre provider, Equinix, dragged on performance. Alibaba was rocked by Chinese regulators postponing the IPO of its payment platform subsidiary, Ant Financial, as well as reports of new Chinese anti-trust laws - previously thought of as unlikely. The changes, aimed at ensuring fair competition and reducing anti-competitive behaviour such as predatory pricing or preventing clients from using multiple platforms, could threaten Alibaba's dominance in the Chinese e-commerce market. Equinix, was a victim of the market rotation away from companies benefitting from the 'stay at home' trend, as the vaccine news was announced. The group has had a strong year boosted by the shift to working from home and need for cloud computing and storage, which requires businesses to invest heavily in data storage and management.

During the month we added Alstom, manufacturer of a range of rail and bus solutions, to the fund. We think the company is well positioned for the increase in green infrastructure spending and the focus on a sustainable transport industry. We also increased our position in the medical device business, Medtronic, which should benefit from the pick-up in elective (or non-urgent) surgeries, now that a vaccine has been announced.

We sold our position in global materials company, Umicore, following Tesla's announcement that it will start making its own batteries – a move we think threatens to reduce Umicore's addressable market. We also sold our position in Fresenius Medical care.

OUTLOOK

While the news of effective coronavirus vaccines is undeniably positive, the time it will take to deploy the vaccines and for economies and societies to reopen, should not be underestimated. And with many countries still grappling with rising cases and returning to lockdowns, the economic impact is scarring and conditions will not return to how they were before for some time. In the immediate term, international trade flows and supply chains 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.

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.

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