For Professional Advisers Only

A Spotlight On:
IA Global

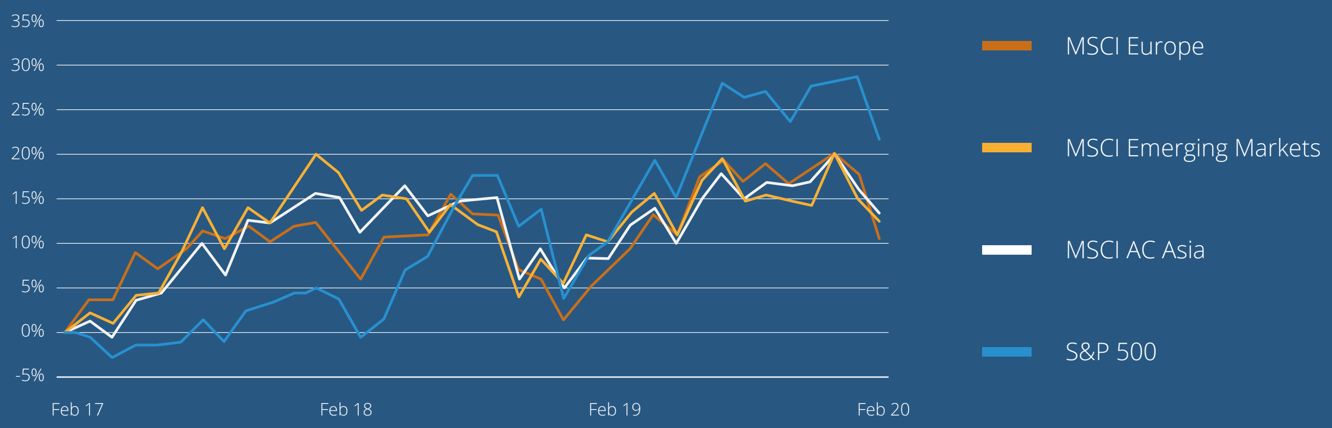
March | 2020

Introduction to Sector

As at the end of February 2020, the Investment Association (IA) Global sector comprised of 339 funds with a combined level of assets totalling in excess of £250bn. To meet the IA's requirements, funds in the sector must invest at least 80% of their assets in global equities, and not qualify for a UK or other regional sector. Global equity funds that yield a premium to the MSCI AC World Index fall into the IA Global Equity Income sector. Investors should also be mindful that although a separate IA Specialist sector exists, some non-traditional global equity funds, such as infrastructure and commodity related funds, do find their way into the peer group.

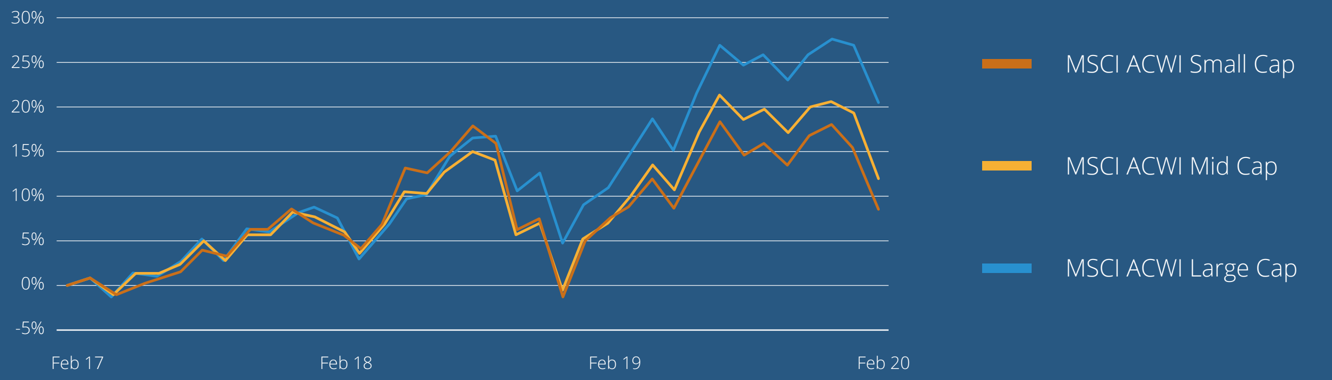
Recent Sector Performance

Over the three year period to the end of February 2020, the MSCI AC World Index has returned 19.2% on a total return basis. By region, the US has dominated, and indeed, led the market's returns, with all other major geographies such as Europe (including the UK), Asia (including Japan) and emerging markets, producing a positive return, but lagging the index. The US is a large component of the index (56% at review) and can therefore have a meaningful impact on its returns. By industry, the technology and consumer services areas have been strong, whereas the tobacco and oil & gas areas have horribly eroded capital over the period. Interestingly, and contrary to the very long-term trend, largely capitalised companies have outperformed their medium and smaller sized peers, perhaps due to increased investment into passively managed funds, many of which simply follow a mainstream market cap weighted index. And lastly, by investment style, momentum, quality and growth have all been rewarded, while value continues to be a significant laggard.



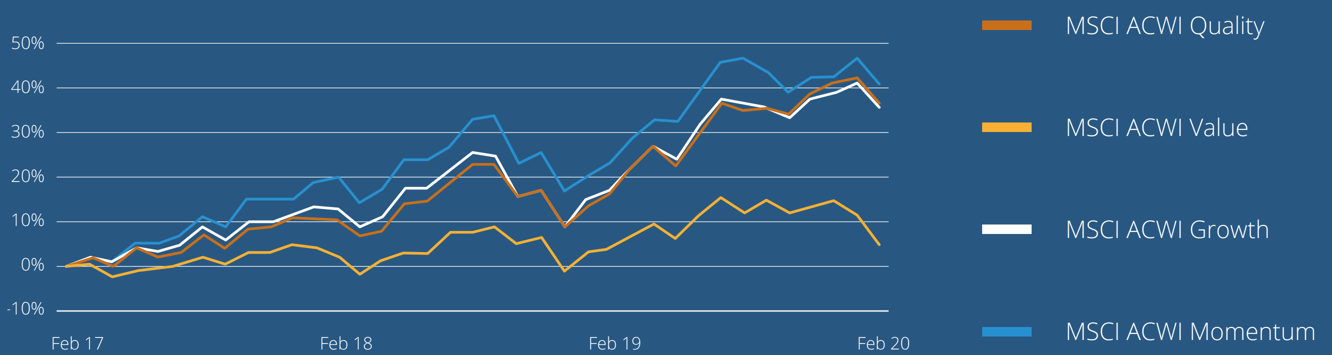
Source: FE Analytics, 29th February 2020

Figure 1: Regional Performance, 3 year cumulative total returns



Source: FE Analytics, 29th February 2020

Figure 2: Market Cap Performance, 3 year cumulative total returns



Source: FE Analytics, 29th February 2020

Figure 3: Style Performance, 3 year cumulative total returns

Overall, it has been a challenging period for active management. Only 37% of funds in the sector have managed to outperform the MSCI AC World Index over the last three years.

Sector Nuance

A newer phenomenon, and one which our clients are increasingly asking about, is responsible investing. In the last few years, many existing funds within the sector have implemented material developments in the integration of environmental, social and governance (ESG) factors to their processes. In addition, there is now significantly greater availability of funds that are seeking to invest responsibly. In fact, over the last three years, funds within this genre account for more than a third of all new launches in the sector. For investors who are interested in these strategies, we would caution them to not select the fund solely relying on its name, but to take the time to understand what the fund is actually seeking to achieve, for there is often a mismatch in naming convention and the underlying objectives and aspirations. To help investors, we further categorise our responsible investing research into three areas; funds which are exclusion-based, seek to invest sustainably and those that are aiming to achieve a positive impact on the environment and/or society.

Source: Square Mile

Figure 4: Responsible Investing

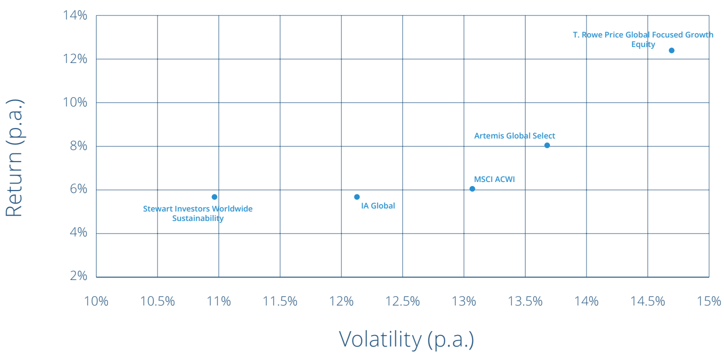
True of both responsible and traditional global equity funds, the vast array within the sector can deliver very different journeys and outcomes for investors, as there are many variables to consider when investing in global equites. Investors should also consider a fund's regional, industry (or investment sector), market capitalisation and stylistic exposures, particularly when measured against broad global equity indices.

Funds in Focus

The **Artemis Global Select** fund takes a thematic approach to investing, seeking quality companies that are positioned to benefit from long term secular growth trends. This approach should limit exposure to macroeconomic forces and could provide an element of protection should global markets struggle. Fundamentally, we believe that the team that manage this fund has the experience, temperament and skillset to allow them to uncover trends and ultimately provide a rewarding investment over time.

The **T. Rowe Price Global Focused Growth Equity** fund has a distinct bias towards largely capitalised growth stocks, but it operates within sensible parameters that should provide investors with broad regional and industry exposure to companies in both developed and emerging countries. Given the type of company sought to meet the aggressive performance objective, we believe this fund is perhaps best suited for investors with an appetite for risk. The fund has demonstrated an ability to deliver strong relative performance in rising markets, but this is likely to come at the expense of underperforming the index during times of market stress. Despite this we think investors will be well served over the course of a full market cycle.

The **Stewart Investors Worldwide Sustainability** fund invests in both mature and developing markets, with the aim of growing capital over time. We like the strong investment culture of Stewart Investors, which has been in place since the late 1980s and has evolved to include ESG factors as part of the process. The manager David Gait, aside from being a talented investor, has long been involved in promoting sustainable business practices. The fund has a relatively short track record, having been launched in 2012, but follows the same approach as the firm's longer standing Asian and Emerging Markets offerings.



Source: FE Analytics, 29th February 2020

Figure 5: Fund, Market and Sector, annualised 3 year risk versus return

Sector Outlook

In the near-term, the impact of the Covid-19 disease is causing disruption to many businesses around the world. At the time of writing, government-imposed quarantine measures are in place in a number of countries such as China, Italy, Spain and France and should the vzirus continue to spread at its current pace, other areas of the world could be seriously affected. Global supply chains are already impacted with some car manufacturers halting production due to the lack of availability of parts. The impact of reduced travel has not been kind to airline companies, many of which operate at low margins and could potentially go out of business. More worrying, perhaps, is the secondary impact of the workforce at home, which is damaging to the economy. As the epidemic has caused global equities to fall this year, investors need to select their funds carefully. We have highlighted three funds which we believe are sensibly managed and should provide investors with solid long-term returns.

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