

## Capital Group New Perspective Fund Hedged (AU)

### Market review

- Global stocks rallied as many of the world's largest economies reopened and government stimulus measures continued to fuel investor optimism. With COVID-19 vaccinations rolling out in the U.S., Europe and elsewhere, manufacturing activity and retail sales rose sharply, prompting some economists to raise their growth forecasts for the balance of 2021.
- U.S. equities continued to rally, closing the quarter at all-time highs. Concerns over higher inflation expectations occasionally gave markets pause but were largely outweighed by investor optimism for the improving economic outlook and the prospect of more fiscal stimulus. As the vaccine rollout gained momentum, COVID-19 cases plunged and local governments responded by lifting more restrictions on commerce and social gatherings.
- European stocks advanced as vaccination rollouts accelerated across the continent and the eurozone economy picked up steam. Boosted by ongoing government stimulus efforts, European markets largely rose in line with global equities as the major economies of the world gradually loosened pandemic-related restrictions.
- Asia-Pacific stocks posted positive returns. In Hong Kong a six-quarter streak of declines in gross domestic product ended with a 7.9% year-over-year expansion in the first quarter. Australia's economy regained its pre-COVID size, driven in part by higher commodity prices.
- Emerging markets stocks rose, bolstered by strong demand for raw materials used to produce a wide range of goods. Most emerging markets currencies gained against the U.S. dollar.

### Three-month portfolio review

- For the quarter ended 30 June 2021, Capital Group New Perspective Fund Hedged (AU) returned 8.3%<sup>1</sup> before fees and 8.0%<sup>2</sup> net of fees, while the index returned 7.0%.<sup>3</sup> For the 12-month period, the fund returned 43.0%<sup>1</sup> before fees and 41.6%<sup>2</sup> net of fees, compared with the index return of 35.3%.<sup>3</sup>
- Investments in the communication services and health care sectors helped on a relative basis. However, the consumer discretionary and information technology sectors weighed on relative returns.

### Relative Contributors

- Communication services: Stock selection in the sector contributed positively to relative returns. Shares in Facebook advanced 18% after first-quarter revenue and earnings beat forecasts, driven by recovery in digital advertising. Facebook revealed a substantial year-over-year increase in the average price per ad, as well as a rise in the number of ads delivered. User numbers significantly grew year over year, although they were in line with market forecasts.

- **Health care:** Health care stocks also added value over the period. The top contributor in the sector was NovoCure, an oncology company pioneering a novel therapy for solid tumors using electric fields to disrupt cell division. Shares surged 68% after an independent data monitoring committee said its trial of the Tumor Treating Fields platform to treat lung cancer should continue as there was no evidence of increased systemic toxicity. NovoCure notified the U.S. Food and Drug Administration of the recommendations.
- **Materials:** Strong stock selection in the materials sector helped on a relative basis. A position in Brazil-based Vale was the portfolio's largest positive contributor. The company beat first-quarter 2021 profit estimates, with earnings returning to levels last seen a decade ago amid the combination of recovering production and high commodity prices. While iron ore output missed forecasts in the first quarter this was offset by higher prices, with the price of iron ore hitting a 10-year high amid robust demand from China.

### Relative Detractors

- **Consumer discretionary:** Stock selection and an above-index allocation to the consumer discretionary sector weighed on relative returns. Tesla was the largest detractor. First-quarter sales were modestly behind analysts' estimates and Tesla said chip shortages and supply challenges had also hindered production. Tesla's share price rose 2% over the period, but lagged the broader market rally.
- **Information technology:** Stock selection in information technology detracted on a relative basis, although this was partially offset by above-index exposure to the sector. Not holding Nvidia weighed on a relative basis as shares rose 50%. Nvidia announced strong results during the period with first quarter revenue up 84% year on year. The company is still waiting on regulatory approval for its acquisition of chip technology firm ARM from US and European authorities. It applied for approval from Chinese competition authorities during the quarter, which could take up to 18 months. Not holding Apple also detracted as its share price rose 12%.
- **Energy:** A below-index position in the energy sector weighed marginally on relative returns. Energy stocks rallied on higher oil and gas prices supported by a sharp rebound in driving activity and air travel as economies reopened.

### Outlook

Despite risks to the outlook for global growth given impacts from the coronavirus and uncertainty surrounding the global trade environment, in terms of equity market returns, we continue to believe company fundamentals remain the primary driver of long-term share price returns.

Viewing investments around different market drivers can help provide a useful framework to understand how the overall portfolio is positioned to navigate current conditions. Capital Group New Perspective portfolio managers don't view current investment opportunities as binary; cyclical and secular growth opportunities co-exist in the portfolio and it is underpinned by a broad base of core investments.

#### Long-term secular growth trends:

- Companies with long potential growth runways: including those fuelling the acceleration of digital disruption and adoption. This includes companies operating in sectors such as cloud computing e-commerce, digital payments, media and entertainment, data centres, semiconductors and semiconductor equipment manufacturers.

#### Core, broad foundations:

- Companies with a track record of persistently growing their cashflows, which has allowed them to steadily compound share price returns.
- Companies with subscription-based business models that are likely to generate annuity-like revenue streams.
- Businesses positioned to benefit from strong and stable, long-term trends in manufacturing and logistics
- Med-tech and commercial stage biotech and pharmaceuticals that could provide steadily persistent growth over the next decade.
- Companies supporting the persistent trend towards sustainability, for example in the environment and human and animal wellness

## High quality, economically sensitive companies positioned for a post-COVID recovery:

As vaccine take-up increases and economies begin to reopen, we could see signs of a global economic recovery. This recovery may not necessarily be smooth, but the coordinated effort to stimulate the global economy could support a sustained recovery. Certain sectors tend to do better in economic expansions due to the nature of the underlying demand, but other factors could also support select companies in the following industries:

- Select banks could benefit from longer-term structural changes. These could include leading banks with the scale and scope to act as 'financial supermarkets'. Some wealth management services could be positioned to capture gains, as could select diversified insurers.
- Industrial, construction and materials companies with strong competitive positions that operate across a diverse range of markets from automation to construction to transport refrigeration. These companies could benefit as businesses increase investment as an economic recovery rebuilds confidence.
- Travel and leisure related stocks could see a change in investor sentiment as vaccine roll-out programmes ramp up across the globe and the market begins to realise a path to recovery for the industry, fuelled by strong pent-up demand.

Developed market returns are in US dollars and include net dividends. Emerging markets returns are in US dollars. Stock returns are total returns as shown in local currency terms, unless otherwise stated. Sources: Capital Group, MSCI

<sup>1</sup> Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group

<sup>2</sup> Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

<sup>3</sup> MSCI ACWI 100% hedged into Australian dollars with net dividends reinvested. Source: MSCI

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