

Capital Group New Perspective Fund Hedged (AU)

Market review

- Global stocks advanced in the first two months of the quarter before an inflation scare sent markets lower in September. Rising consumer prices sparked fears of higher interest rates as major central banks considered taking steps to fight inflationary pressures.
- U.S. equities eked out a small gain despite elevated volatility late in the quarter. Investors weighed the prospects of the recovering consumer against concerns over rising inflation and interest rates. A fraught political environment also contributed to September's 5% decline, the worst monthly return since March 2020.
- European stocks declined amid investor worries about sharply higher inflation in the 19-member eurozone. Concerns about China's slowing economy also weighed on European exporters, which depend heavily on Chinese demand for industrial machinery, chemicals and luxury goods.
- Japanese stocks rallied late in the quarter amid a change in the country's leadership and solid progress in the battle against COVID-19. Hong Kong stocks dropped, largely reflecting the impact of regulatory interventions in China.
- Emerging markets stocks fell, hurt by China's slowing economy and uncertainty around tightening regulatory policies. Inflation fears, rising COVID-19 infection rates in developing countries and signs of less accommodative U.S. monetary policy also contributed to weaker sentiment.

Three-month portfolio review

- For the quarter ended 30 September 2021, Capital Group New Perspective Fund Hedged (AU) returned 0.9%¹ before fees and 0.7%² net of fees, while the index returned -0.4%.³ For the 12-month period, the fund returned 30%¹ before fees and 28.7%² net of fees, compared with the index return of 26.6%.³
- Investments in the consumer discretionary and communication services sectors helped on a relative basis. However, the materials and financials sectors weighed on relative returns.

Relative Contributors

- Consumer discretionary: Stock selection in the sector proved positive, although an above-index position in the sector detracted marginally from relative gains. Tesla was the largest positive contributor. Shares rose after the electric vehicle maker beat second-quarter earnings and revenue forecasts amid surging global demand for Tesla cars. Record vehicle production and deliveries enabled the company to surpass \$1 billion in GAAP net income for the first time in its history.
- Communication services: Stock selection in the sector added value on a relative basis, helped by on-demand internet-streaming media company Netflix, which rose 16% over the quarter. Shares initially lost ground as the company downgraded subscriber estimates but later recovered as new content started to get back on track.

- **Industrials:** Stock selection in the industrials sector helped on a relative basis. Shares in UK-based Meggitt surged after US-based rival Parker-Hannifin agreed to buy the company in a £6.3 billion (\$8.8 billion) deal, with the all-cash acquisition being recommended by the Meggitt board and subsequently approved by Meggitt shareholders. Meggitt also received an approach from US aerospace parts maker TransDigm, though this alternative bid was withdrawn.

Relative Detractors

- **Materials:** Stock selection in the materials sector weighed on relative returns. Shares of Vale fell as iron-ore prices dropped sharply amid signs of slowing demand from China given faltering Chinese economic growth. There were also moves to lower steel production as part of a drive by the Chinese authorities to reduce pollution.
- **Financials:** Stock selection and a below-index exposure to financials detracted on a relative basis. Hong-Kong based insurer AIA fell 6%, weighing on relative returns. London Stock Exchange Group also detracted on a relative basis as higher expenses relating to the integration of data provider Refinitiv weighed on its share price.
- **Utilities:** Stock selection in the sector hurt on a relative basis. Italy-based electricity and gas utility Enel detracted after first-half revenue and earnings declined year over year, though the company pointed to an improvement in operating performance in the second quarter, which returned to pre-coronavirus levels. Offshore wind specialist Orsted also detracted. After strong gains in 2020, the stock has pulled back in 2021 on concerns of rising competition and company guidance for flat year-on-year growth in EBITDA (earnings before income, taxes, depreciation and amortisation).

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

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

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

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

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