

GLOBAL COMMUNICATIONS FUND A-ACC-EURO

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Market Environment

Global equities rose for a second consecutive quarter. An accommodative monetary policy stance by major central banks and healthy corporate results outweighed US-China trade tensions, Brexit-related concerns and geopolitical worries over Iran. Notably, the US Federal Reserve (Fed) kept its key interest rates unchanged and signalled the possibility of rate cuts amid signs of a slowing economy. The European Central Bank (ECB) and Bank of Japan also indicated their readiness to introduce additional stimulus, if needed, as economic risks increased. China introduced targeted policy measures to support credit growth as well as infrastructure and consumer spending. Meanwhile, European leaders extended the Brexit deadline until 31 October. Against this backdrop, Europe ex UK, Pacific ex Japan and US equities were the leading gainers, while UK and Japanese stocks lagged the broader market. Emerging markets underperformed developed markets, partly due to trade tensions.

Fund Performance

Rewarding security selection in the interactive media & services and information technology (IT) services industries contributed to returns.

The position in Keywords Studios added value

Within IT services, shares in Keywords Studios, which provides technical and consulting services to the gaming and publishing industries, advanced as it posted strong full year results. Its fast-growing addressable market, coupled with its best-in-class end-to-end platform and wide geographical reach, continues to bode well for the stock. Elsewhere, an underweight stance in Alphabet, whose shares fell amid investor concerns about a slowdown in revenue growth, contributed to relative performance.

Charter Communications was a key contributor

The allocation to the US-based cable company enhanced gains after it posted strong quarterly results, driven by better-than-expected net broadband additions. The company continues to benefit from increased synergies from its acquisition of Time Warner Cable. A robust cash flow profile with decreasing capital expenditure, increasing margins and a robust buyback pipeline bodes well for investor returns over the medium term.

Allocation to Salesforce.com detracted

Shares in the cloud software major declined after it announced that it will buy big data firm Tableau for \$15.3 billion, the biggest acquisition in its history. While concerns over the high cost of the acquisition weighed on its shares, the company did not have a good analytics/visualisation tool that was comparable to Tableau.

Fund Positioning

The communication services sector is a unique combination of companies that enable communication and entertainment, as well as those companies that monetise that communication. The only constant in the sector is innovation; which continually leads to new competitors and opportunities. This constant and fast rate of change gives us a unique opportunity to exploit new opportunities within the sector.

Communication services sector presents a unique opportunity

We seek to give investors a unique exposure to global communications services stocks, actively identifying the very best investment opportunities from across the world, including emerging markets. In recent years, the way people communicate, access entertainment content and other information has changed considerably, due to the evolution and subsequent integration between the internet, media and telecommunications companies.

Sub-sector preferences

The portfolio's main overweight positions are in the entertainment and software industries, while the main underweight allocation is to the diversified telecommunication services sector. At a stock level, the biggest overweight position is in Charter Communications, followed by Naspers, a global internet and entertainment group and one of the largest technology investors in the world, including a large stake in fast growing Chinese internet major Tencent. During the quarter, a new position was purchased in global telecommunications equipment group Ericsson, whose core networks business is gaining market share. The company has a strong growth opportunity given improving demand/supply dynamics.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

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