A well-diversified, all-weather portfolio

PPS Global Equity Fund – incorporating the New Perspective strategy

2020 was a powerful year for select consumer discretionary, technology and digital-related companies, where the COVID-19 pandemic provided an acceleration in take-up of their products and services. Against this backdrop, returns from the PPS Global Equity Fund (based on the New Perspective strategy) were particularly strong as investments in companies such as Tesla and Amazon generated strong returns over the year.

From early November 2020, following the announcement of several effective vaccines, investors turned their attention to companies that had been previously neglected during the relatively narrow market rally of 2020. As inflation expectations normalise and economic activity is forecast to rebound following the pandemic shock, the economic backdrop is likely to be supportive of a broader range of companies. For portfolio managers in the PPS Global Equity Fund, current investment opportunities are not considered a binary choice; cyclical and secular growth opportunities co-exist in the portfolio, which is underpinned by a broad base of core investments. The portfolio is built on a company-by-company basis by a team of portfolio managers who are given the freedom to make individual high-conviction, long-term investment decisions. The portfolio construction has been deliberately designed to achieve cognitive diversity and ensure a well-diversified portfolio.
The result is a portfolio with more than 300 stocks, which remains diversified across regions, sectors, industries and investment styles. In the current market backdrop, companies the fund invests in can be categorised as follows:

Economically sensitive companies

Certain sectors tend to do better in economic expansions due to the nature of the underlying demand -

- Financials
- Travel and aviation
- Leisure and hospitality
- Consumption
- Construction

Examples of companies in the portfolio that could benefit from a global economic recovery include JPMorgan Chase, Airbus and LVMH.

Aligned with long-term secular growth trends

Companies that are fuelling the acceleration of digital disruption and adoption -

- Cloud computing
- E-commerce and digital payments
- Digital media/entertainment
- Digital infrastructure
- Electrification of vehicles

Examples from the portfolio include Tesla, Amazon, PayPal, TSMC.

Broad foundations

A core set of investments that provide a broad and stable foundation to the portfolio. -

- Established multinationals that have steadily compounded growth in the past and could continue to do so, such as Nestlé.
- Companies with subscription-based business models that are likely to generate regular revenue streams, for example Microsoft.
- Businesses positioned to benefit from long-term trends in manufacturing and logistics – areas include warehouse, robotics and industrial automation.
- Companies supporting the move towards more sustainable, environmentally and socially-responsible business.

Long-term resilience

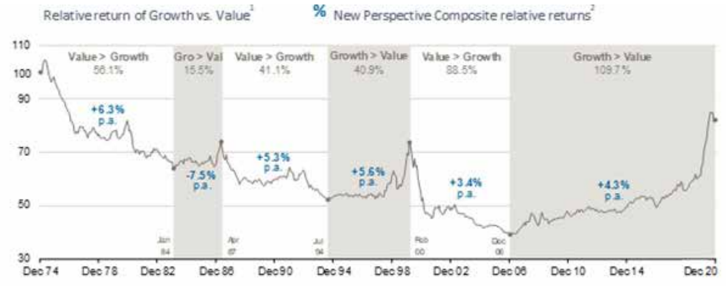
The PPS Global Equity Fund is based on the New Perspective strategy, which has a 48-year history. While portfolio managers don't construct portfolios using an 'investment style' framework, it is helpful to illustrate how the New Perpective strategy fared during previous market cycles dominated by a particular investment style.

Over the longer term, prolonged growth or value-driven market cycles have not mattered for the strategy when it comes to generating positive excess returns. Using MSCI style index data back to 1975, the chart below looks at the long-term market cycles dominated by either 'value' (white shaded areas) or 'growth' (grey shaded areas). For each of these prolonged style-driven market cycles we show the strategy's annualised excess return (figures in blue).

Over these long cycles, the strategy has outpaced the global equity market during every major growth and value-driven market cycle over the last 46 years with the exception of a short period in the mid-to-late 1980s, which was largely a consequence of being underexposed to Japanese companies at the height of the Japan equity market bubble.

A flexible, core strategy for different style-driven markets

Perspective's resilient strategy has delivered positive excess returns in different style-driven environments.



As at 31 December 2020. Returns in US$ terms.

1.Relative return (rebased to 100) of MSCI All Country Growth vs MSCI All Country Value (with net dividends reinvested) from 30 September 2011; previously MSCI World Growth vs MSCI World Value (with net dividends reinvested) in US$ terms. Shift in market type is defined as at least a 15% rise in relative terms either for Growth vs Value, or Value vs Growth. Data from 31 December 1974, from the launch of the MSCI Value and Growth indices. Source: MSCI

2.Relative returns calculated geometrically for the Capital Group New Perspective Composite, compared with MSCI All Country World Index (ACWI) (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested). Gross of management fees and expenses. Sources: Capital Group, MSCI

It is important to point out that we don't get things right all of the time, especially on a short-term basis. For example, using the analysis above, over the 14-year growth-driven market between 2007 and 2020 the strategy outpaced the global equity market by an average of +4.3% p.a. Yet over this 14-year period it failed to keep pace with the global equity market for 18 calendar quarters. It was much the same during the prolonged value-driven market cycles between February 2000 and December 2006. Here the strategy beat the global market by +3.4% p.a. but still registered eight quarters where it lagged the global equity market. Nevertheless, patient long-term investors have typically been rewarded for staying the course - looking through short-term noise - and investing for long-term value creation.

Over its lifetime, the strategy has navigated energy crises, runaway inflation, swings in exchange rates, multiple recessions (and recoveries), financial market bubbles, central bank monetary policy experiments, changing patterns of global trade and a global health pandemic. Its consistent results have not been achieved by correctly timing inflexion points in markets or having a distinct (and in-favour) investment style. Instead, the consistency of the strategy's excess returns lay in its long-term investment horizon and a well-diversified core portfolio.