Flash Notes – Fund Update & Manager comments

March 2020

Robeco Global Consumer Trends & Robeco Global FinTech

Dear Partners,

Please find below a summary of actions taken by Robeco Thematic equities Portfolio Managers (PMs) that we have selected.

Our duty is to keep you updated with the most recent information from our Asset Managers regarding the current views on current and future market conditions, the current positioning and portfolio activity as well as outlook.

We will try to communicate as regularly as possible whenever we deem it is relevant and insightful for the funds in our list and for your clients. We strive to be as close to you as possible giving you this update, do let us know should you have any questions, related to those funds or any other in our list.

Review: what do we see in current markets

- Markets go up and mostly down with high percentage moves. Equity markets have declined with **unusual velocity**
- Markets hope for fiscal stimulus; low interest rates is not enough to stabilize sentiment and/or economy
- Consumer spending is found in structurally attractive sectors, less cyclical, more downside protection
- Consumer sentiment is negatively impacted and people distance themselves
- Later when the number of Corona cases slows down a low oil price and fiscal stimulus might help spending again
- **It's impossible to pick the bottom of the market and indiscriminate buying is risky**
- We are patient and act as long-term active investors

Outlook: what to do next?

- Current markets provide a buying opportunity, but **we advise gradual buying into equities / time diversification**
- Invest now in equities? Yes, but cautiously using a step by step approach (**timing a bottom is impossible**)
- In extremely volatile markets it can help to maintain a view on structural positioning, away from daily volatility
- Maybe hard to imagine today, but the Corona theme will also fade off one point in time
- The effect on sentiment and economic growth will however remain significant
- The market is hoping for fiscal stimulus
- As the markets have sold off with unprecedented velocity, most investors have automatically gone relatively low in equities, compared to their long-term desired allocation
- History has taught investors that it is important to stick to their long-term allocations and diversify their portfolios
- **Main relative risks**: main risk in terms of relative performance is actually an (unexpected) strong improvement in economic climate and strongly rising interest rates. In such an environment, investors will favor cyclical value above structural growth/quality

Robeco Global Consumer Trends

What about Robeco Global Consumer Trends?

- Negative absolute returns yet strong outperformance YTD (-21.5% vs -28.4% for the MSCI ACWI NR USD) and MTD (-18.5% vs -21.4%), performance as at 18.03.2020
- Growth/ quality outperforms cyclical value significantly again; less impacted by recession fears
- Some parts of consumer spending are clearly impacted by the market volatility (luxury, travel, retail)
- Other parts show stronger resilience (home entertainment, food delivery, staples, India)

Not in the portfolio

- Structurally avoidance of cyclical sectors like banks, energy, airlines, cars
- Only Strong Brand retail; however still impacted (in portfolio Apple, Starbucks, Nike, Adidas)
- Sold in second half of 2019: Carnival, Booking, Sands China

Positioning: different buckets in portfolio; diversified approach

- Main worries: luxury, cosmetics (due to travel), retail, live events
- Relatively strong: staples, India/China, home entertainment, food delivery, companies with strong balance sheets
- Current and longer term “structural changes” due to the virus: digital payments, Ecommerce, cloud , working from home, food delivery, health awareness

Some Portfolio Managers best convictions

- Digital Consumer / payments, gaming, on-line food delivery: PayPal, Booking.com, Nintendo, Amazon, Spotify, Netflix
- Emerging Consumer: Heineken, Mercado Libre, Tencent, Moncler, LVMH
- Strong Brands / global power brands, healthy lifestyle: Mastercard, Tiffany, Apple, Lulemon Athletica, Estée Lauder, Mc Cormick

Robeco Global FinTech

Portfolio positioning: what was the impact for Robeco FinTech?

- Negative absolute returns and slight underperformance YTD (-219.8% vs -28.4% for the MSCI ACWI NR USD) and MTD (-28.1% vs -21.4%), performance as at 18.03.2020
- Financials hit hard while IT showed resilience
- Some parts of Financials are severely impacted by the market volatility (consumer finance), but the investment in Exchanges (~17%) provide hedge against volatility and the Indian/Chinese holdings prove to be defensive

- IT sector shows strong resilience with software and IT services

Portfolio activity: actions taken?

- Balance in portfolio is key: Enablers and Challengers add to performance YTD, Winners detract
- No significant repositioning while (out) flows remains limited
- Continuing to reduce Enablers (budgets might be squeezed) to Winners/Challengers. Already sold consultants (Tata, Accenture) in the last months
- We gained from the M&A and announcements of partnerships in the FinTech segment and previously sold Ingenico and E*Trade. We believe this trend will continue and maybe intensify in the rest of 2020
- We remain focused on quality companies with an attractive valuation, in line with our GARP style. Especially those companies that are punished hard and unjustified like the cybersecurity sector and some of the payment names. This will of course depend on the ultimate earnings impact

Some Portfolio Managers best convictions

- We remain focused on quality companies with an attractive valuation, in line with our GARP style. Especially those companies that are punished hard and unjustified like the cybersecurity sector and some of the payment names. This will of course depend on the ultimate earnings impact
- Our FinTech beliefs are all long-term structural growth trends, but some will accelerate like: cashless payments (currently the biggest segment of portfolio ~35%), the importance of cybersecurity, the continuation of cooperation and M&A
- Main risk in terms of relative performance is actually an (unexpected) strong deterioration in CAPEX in case of a deep and prolonged recession.