

COVERING MAY 2017

## FUND COMMENTARY

# THREADNEEDLE GLOBAL EQUITY INCOME FUND (Unhedged)

### Summary

- Global equity markets rose in May.
- The fund broadly matched its benchmark.
- Allocation was positive in regional terms but detracted at the sector level.
- Positive contributors included Deutsche Telekom, Coach and AstraZeneca.
- Cisco Systems, UBS and General Electric detracted.
- The fund opened new positions in BNP Paribas and Qualcomm.

### Market Background

Global equities notched up a seventh consecutive monthly gain in May. Politics continued to influence investor sentiment, with notable developments including the French presidential election, President Trump's firing of FBI director James Comey, and a narrowing in the polls ahead of the UK general election.

The S&P 500 made modest gains over the month, despite a sharp mid-month sell-off – both in the US and elsewhere – as allegations emerged that Trump had previously tried to persuade Comey to drop an investigation into a former Trump aide. The allegations weighed on the dollar, as did Comey's sacking earlier in the month. However, while the dollar continued to drift lower later in the month, the S&P 500 bounced back, lifted by a rally in tech-sector heavyweights including Apple and Facebook. Much of the US economic data to emerge during May was lacklustre. Measures of inflation, retail sales, and manufacturing activity all undershot expectations.

In Europe, sentiment was boosted early in the month by strong eurozone manufacturing and services purchasing managers' indices (PMIs) and growing anticipation that centrist candidate Emmanuel Macron would win the French presidency. Macron's subsequent victory gave extra impetus to the rally. Concerns about Trump's alleged obstruction of justice triggered a sell-off here too, and fears of an earlier-than-expected Italian election prompted further declines. However, these were insufficient to erase earlier gains.

UK equities outperformed global averages; the large-cap FTSE 100 led gains, helped by a weaker pound. Sterling fell back as Labour gained on the Conservatives in pre-election polls; investors worried that a smaller-than-expected majority would weaken the prime minister's hand in Brexit negotiations. Economic data was mixed. First-quarter GDP growth was revised down, but retail sales in April rose more than forecast.

Despite a stronger yen, usually seen as a handicap for the country's important export sector, Japanese equities rose over the month. Sentiment was bolstered by a healthy corporate earnings season and a raft of upbeat economic data. In emerging markets, offshore Chinese stocks were supported by robust company results from the likes of Tencent and Alibaba, as well as by signs of improving relations between the US and China. In Korea, investors welcomed a six-year

high in Korean export growth and the election of a new president, Moon Jae-in, who took office on 10 May.

## Performance

In net terms, fund returns broadly matched those of the benchmark over the month. Regional allocation had a positive impact, driven by the underweight in the US and the overweight in the UK. Stock selection detracted, however, as gains from picks in Europe ex UK and the Far East ex Japan were offset by deduction from those in the US and emerging markets. In sector terms, the underweight in technology and overweight in energy weighed on returns; leading technology names reported strong earnings while energy stocks fell along with oil prices, which declined as OPEC's output-cutting deal fell short of expectations. By contrast, stock selection had a positive impact, led by the fund's choices in healthcare and telecoms.

Key stock-level contributors included Deutsche Telekom, which reported strong first-quarter results on the back of ongoing solid performance from its T-Mobile US division. Also benefiting from strong results was luxury-goods brand Coach, whose share-price spiked early in the month after the company beat its profit forecasts and investors welcomed news of its \$2.4bn acquisition of rival Kate Spade. Unilever traded higher in what was a strong month generally for consumer staples, while pharmaceutical heavyweight AstraZeneca rose sharply following the release of encouraging results for one of its new cancer treatments. Shares in Drillisch also had a good month, powered by reports that the telecoms company was set to merge with United Internet; the move would create the fourth-largest telecoms company in Germany, potentially generating significant synergies that could benefit the stock in the long term.

Among the laggards, Cisco Systems, which produces networking equipment, declined sharply after announcing a fall in its sales to the US government, and higher-than-expected costs from its ongoing transition away from hardware sales. Swiss bank UBS traded lower as Singapore's sovereign wealth fund GIC Pte sold its 2.4% holding in the company. GIC cited changes in UBS's strategy and business as the reason for the move. Industrial giant General Electric also fell as analysts cast doubt on the company's ability to maintain its dividend, while Occidental Petroleum was dragged down by falling oil prices. Cinema operator Regal Entertainment also declined during May.

## Activity

The fund opened two new positions during the month, in banking giant BNP Paribas and in semiconductor business Qualcomm. In the fund manager's view, BNP Paribas looks attractively valued and well placed to exceed its 2020 financial targets and deliver strong dividend growth. Qualcomm's risk/reward profile looks attractive for two key reasons: The fund manager believes, firstly, that its proposed purchase of NXPI will go through, and secondly, that the related Apple litigation will either come to a palatable conclusion or drag on for several years. During May, the fund also topped up existing holdings including Altria Group, General Electric and British American Tobacco.

Over the same period, positions in Six Flags Entertainment, Challenger, Daimler and Crown Castle were closed. The fund manager lost conviction in the growth potential of theme park operator Six Flags; the stock's valuation had also risen, leading the investment team to believe there are better opportunities elsewhere. Though annuity provider Challenger was a compelling growth story, a rise in valuation took the stock through the fund's yield hurdle. Automaker Daimler was sold due to the company's inconsistent messaging over capex: it has been unclear whether capital allocation is worsening, or if electric vehicle investment will be much greater than previously thought. With Crown Castle, the fund manager had concerns over the medium-term consolidation of the US mobile market, which is expected to be detrimental to tower companies.

## Outlook

The widely-held belief that President Trump will pursue expansionary, pro-growth policies appears to be priced into markets, and current valuations suggest almost flawless execution of these policies. However, it is quite possible that they will not be fully enacted or indeed may be imperfectly executed. Moreover, his protectionist pronouncements may dampen growth. As such, growth, while positive, could still disappoint.

Against this backdrop, the fund continues its focus on "quality income", seeking competitively advantaged companies that generate strong cashflow and offer high, growing and sustainable dividend yields. In the fund manager's view, a strategy that emphasises both income and growth characteristics should be attractive to long-term investors even during a rising rate environment.

Ironbark Asset Management (Fund Services) Limited ABN 63 116 232 154 AFSL 298626 ("Ironbark"), is the issuer of units in the Threadneedle Global Equity Income Fund (Unhedged) ARSN 161 086 497 ('the Fund'). Ironbark is the responsible entity of the Fund and has selected Threadneedle International Limited ('Threadneedle') to manage the investments of the Fund.

The information contained in this report is not personal financial product advice, does not constitute an investment offer or invitation to anyone in any jurisdiction in which such offer is not authorised. This publication has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before making an investment decision to continue to hold units in the Fund you should consider, with the assistance of a financial or other professional adviser, whether the investment is appropriate in light of those circumstances. A copy of the latest Product Disclosure Statement ('PDS') is available at [www.ironbarkam.com/reservices/columbiathreadneedlefunds](http://www.ironbarkam.com/reservices/columbiathreadneedlefunds) or by contacting Client Services directly on 1800 03 44 02. Neither Ironbark, nor its directors, officers, representatives, employees, associates or agents of Ironbark, or any party named in the PDS guarantee the repayment of capital or the performance of the Fund. Past performance and asset allocation is not a reliable indicator of future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Please note that the securities mentioned herein should not be considered a recommendation to purchase or sell any particular security. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice to you. Although the information was compiled from sources believed to be reliable, no liability for any error or omission is accepted by such source(s), Ironbark or its affiliates or any of their directors or employees for any loss whatsoever arising directly or indirectly from any use of this publication. Performance figures and other data relating to a fund or a representative account are provided for illustrative purpose only and may differ from that of other separately managed accounts due to such differences as cash flows, charges, applicable taxes, and differences in investment strategy and restrictions. The information contained in this update was current at time of publication. This document describes some current internal investment guidelines and processes. These are constantly under review, and may change over time. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of Ironbark or any other entity and does not vary the terms of a relevant disclosure statement.

Threadneedle International Limited (TINTL) is registered in England and Wales (no. 2283244) and is authorised and regulated by the Financial Conduct Authority under UK laws, which differ from Australian laws. TINTL is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cth) in respect of the financial services it provides. Threadneedle International Limited is regulated by the Financial Conduct Authority under UK laws, which differ from Australian laws.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.