CAPITAL GROUP℠

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Coronavirus update: Implications for Capital Group New Perspective Fund (AU) (CGNP)

Key takeaways

- The COVID-19 situation continues to evolve rapidly. Businesses and policymakers are trying to determine the most effective response to contain the virus, which is causing significant disruption and uncertainty.
- Amid volatile market conditions, CGNP has delivered positive excess returns relative to the market over the year to date.
- Managers have not made material changes in a reaction to short-term volatility. They maintain conviction in key holdings that benefit from long growth runways and large addressable markets.
- The long-term track record of the New Perspective strategy remains compelling. Historically, it has generated some of its best relative returns in down market conditions.[1]

Market impact

- Global equity markets sold off sharply on Monday, 9 March 2020. The MSCI ACWI returned -7.1% that day, taking its year-to-date (YTD) return to -15.1%.[2]
- The rapidly spreading coronavirus fanned fears for the state of the global economy. A crash in oil prices (down 44% YTD as at 10 March) added to the panic, with energy stock prices collapsing.
- US stocks suffered their worst one-day fall since December 2008 and US Treasury yields plummeted to record lows. For the first time, the entire US Treasury yield curve is now below 1%.

Past results are not a guarantee of future results.

Data as at 9 March 2020, unless otherwise stated. Sources: Capital Group, Refinifiv Datastream

[1] Capital Group New Perspective Fund (AU) launched on 20 November 2015. It is managed by the same experienced investment team as the New Perspective strategy (inception: March 1973), one of our most well-known global equity strategies in the US.

[2] MSCI All Country World Index (ACWI) in US dollar terms with net dividends reinvested. Source: MSCI

- All sectors posted negative returns on Monday, led by energy after the 24 OPEC+ members failed to reach an agreement to further restrain output. Financials also retreated driven by the drop in Treasury yields.
- In terms of economic impact, we have already seen signs of a slowdown on both the supply and demand sides. The implications from supply chain disruption, due to factory shutdowns and quarantines in China, are still emerging, but first-half earnings for 2020 are expected to be negatively impacted. Restrictions around travel and social interactions are impacting demand for travel, leisure, entertainment and recreation. Oil and other commodities have already seen a fall in global demand.
- The ultimate severity of the coronavirus impact is difficult to predict amid a rapidly changing backdrop. A drop in both demand and supply could put pressure on a highly levered corporate sector, leading to further retrenchment and negative feedback loops on demand and corporate sector profitability. This could ultimately risk pushing the US, as well as the global economy, into recession.

Portfolio review

- CGNP has held up relatively better than the broader market. Over the year-to-date, the fund has returned -7.2%[3], outpacing the MSCI ACWI ex Australia Index by +3.1%,[4] which has returned -10.3%[5].

Contributors[6]

- The fund's top 20 holdings accounted for approximately two-third of the excess return.
- Stock selection accounted for approximately half of the excess return.
    - Financials have been particularly beneficial, notably holdings in financials exchanges CME Group, London Stock Exchange and Hong Kong Exchanges and Clearing. Insurance group AIA and ratings agency Moody's have also held up better than the broader market.
    - Consumer discretionary stocks Tesla (+45%) and the fund's largest holding Amazon (-3%) have both significantly outpaced the MSCI ACWI over the same period.
    - In health care, biotechnology company Regeneron Pharmaceuticals has risen 26% as the company is working to develop treatments to fight the coronavirus.
    - Netflix shares were up +7%, a beneficiary of more people spending more time indoors.
- The fund's limited exposure to the energy sector and financials (primarily banks) has helped cushion the shock caused by the collapse in oil prices and fall in US

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All returns as at 9 March 2020 in Australian dollar terms, unless otherwise stated.

[3] After management fees and Total Expense Ratio (TER). Fund results are based on close of market returns (T+1) in Australian dollar terms. Source: Capital Group.

[4] The excess return is calculated arithmetically.

[5] MSCI All Country World Index ex Australia (net dividends reinvested) in Australian dollar terms.

[6] Attribution data is for the underlying Capital Group New Perspective Fund (LUX) relative to the MSCI ACWI in US dollar terms. Capital Group New Perspective Fund (AU) invests in Capital Group New Perspective Fund (LUX). Data is year to 9 March 2020. Source: Capital Group

Treasury yields. A focus on software stocks has added value on a relative basis, as the industry has so far proven to be more insulated from the negative impacts of the latest market shocks.
- Cash holdings have also provided some protection in the down market.

Detractors[5]

- Lower exposure to the utilities and real estate sectors has weighed on relative returns, as these sectors have done well amid declining interest rates and bond yields.
- Travel-related holdings such as Norwegian Cruise holdings (-66%) and Airbus (-30%) experienced a severe drop in investor sentiment as companies exposed to travel and tourism are expected to feel the impacts of COVID-19 hardest.
- Investment bank JPMorgan has fallen 33% over the period, as banking stocks sold off amid the decline in US interest rates.
- Materials producers Vale is a large exporter to China and has seen its share price fall 40%.

Positioning and outlook

- Since the COVID-19 volatility began, there have only been minor changes to the portfolio.
  - We have made some modest additions in the health care and consumer discretionary sectors.
  - We have trimmed very few stocks and only where the longer-term prospects have deteriorated.
  - We have added to those stocks where valuations presented attractive opportunities.
  - Managers continue to maintain conviction in the top holdings in the portfolio.
- Shocks to the system like coronavirus can often hasten changes to global patterns of trade. For example, the fund could benefit from the advancement of digital payments, as well as the greater use of online gaming entertainment and social media. We are closely monitoring areas of opportunity where we maintain long-term convictions, such as:
  - <u>Cloud computing and software-as-a-service</u>: The fund invests in several cloud companies and software companies. These particular digital companies tend to require relatively less physical infrastructure and have more predictable subscription-based business models, which have the potential to generate attractive revenue growth and high profit margins. Key portfolio holdings include Amazon (for its AWS cloud computing platform), Microsoft and ServiceNow.
  - <u>Digital payments and e-commerce</u>: Consumer purchase behaviour continues to transition online driven by e-commerce holding Amazon and enabled by digital payment companies such as MasterCard and Visa. Growing concerns about physical money being viewed as "dirty" and a mechanism for spreading the virus could accelerate the move towards digital cash, since this perception has been heightened in recent weeks.

- Digital media and entertainment: What and how people consume entertainment around the world is evolving. Due to the coronavirus, companies in the sector have been positively impacted by more people staying at home and having more free time. A key portfolio holding, Netflix, is at the forefront of streaming content, disrupting traditional cable and satellite providers. Social media companies and gaming companies are winning consumers' time and likely to continue to benefit. Facebook is the portfolio's second largest holding.
- Semiconductors: Memory, greater adoption of enterprise cloud, the Internet of Things and rollout of 5G infrastructure are accelerating the demand for semiconductor related products. Key holdings include ASML and TSMC.
- Managers see limited opportunities in old economy, lower growth and highly regulated industries such as banks, utilities, real estate and telecoms.

- 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 it is company fundamentals that remain the primary driver of long-term share price returns. We have continued to focus on company-specific factors, preferring companies with long growth runways and distinct competitive advantages to industry peers.

New Perspective strategy has displayed resilience over the long-term

For a strategy with an over 45-year track record, it is important not to lose sight of the long-term. This is a unique strategy with average annual returns of 13.7% over nearly 47 years (inception: March 1973), after fees,[6] 3.5% p.a. ahead of the index.[4]

Periods to 31 December 2019 in A$ terms	Composite[6]	Index[7]	Excess return[4]
3 years p.a.	16.9	13.6	3.2
5 years p.a.	14.1	11.8	2.3
10 years p.a.	13.2	11.6	1.6
Annualised lifetime (46 years 9 months)	13.7	10.2	3.5

Past results are not a guarantee of future results.
6. Results prior to CGNPAU's launch on 20 November 2015 are derived from the American Funds New Perspective Fund in A$ from 31 March 1973. The returns are after fees and are based on the total management cost of 1.05% p.a. that was applicable to CGNPAU up until 30 April 2017, 0.95% p.a. with effect from 1 May 2017. American Funds are not registered for sale outside the United States. Source: Capital Group
7. The index shown is the MSCI ACWI ex Australia (with net dividends reinvested) from 20 November 2015; previously MSCI ACWI (with net dividends reinvested) from 30 September 2011 and MSCI World Index (with net dividends reinvested) prior to that. Returns in A$. Source: MSCI

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