News & Views

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For Professional Clients and, in Switzerland, Qualified Investors

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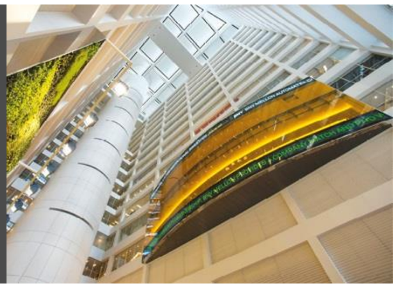


# WHY YOU CAN'T AFFORD TO INVEST ON AUTO-PILOT

*Rob Hay of the Newton Global Opportunities fund attributes his strong performance this year to reallocating capital from stocks that have done well to those that are in line for a rebound.*

Neither value nor safety are static: they both move around as prices, valuations and prospects change in different parts of the market, says Rob Hay, lead manager of the Global Opportunities strategy at Newton, a BNY Mellon company.

Part of the reason for the strong performance in the year to February has been the willingness to reallocate capital from investments that have done well to companies that have lagged to the point of presenting attractive risk/ reward profiles.

Hay says the increasing 'financialisation' of the global economy combined with stimulus methods employed by central banks has encouraged investors to drive equity valuations higher. He believes these gains are out of step with the fundamental performance of many businesses since in general company earnings across the globe have been modest: thus most of the increase in market values over the last five years has been a re-rating.

For this reason, over the past four years his strategy has held between 7% and 10% in cash. Says Hay: "This shows the degree of caution I have had and my expectation that great opportunities to invest will be more plentiful in future than at present. There have nevertheless been a number of occasions when lower equity prices have made individual stocks more attractive and I have brought my cash level to the lower end of that range."

**Entry points**

Now, he says there are some potentially attractive entry points in the types of businesses investors have been less willing to own over the past year. "The poor sentiment towards energy and energy-related stocks has dragged down wider industrials and materials companies. We have been looking at ways of accessing certain pockets of value without buying directly into oil and gas businesses or miners."

The team is looking at companies with interesting business models which it believes have been unfairly punished due to "guilt by association" with the energy sector. Many of these firms have long-term growth potential but because they are considered cyclical and exposed to the declining spending from the oil and gas sector, market sentiment has gone against them.

Examples of this are heating and plumbing products distributor Wolseley, engineering firm Emerson Electric and precision guidance equipment maker Trimble Navigation, which the fund added to late last year and early this year.

He has found further unloved opportunities facing stock-specific headwinds. One such example was toy maker Mattel (makers of the Barbie doll), which has had a tough couple of years. Hay believes this was because the company tried to squeeze too much from its existing product base and was not innovating sufficiently. "In our view it got extremely cheap but we knew from analysis of its history it had been in similar positions in the past and been able to turn around from it." Mattel has recovered from its lows and Hay has subsequently reduced his position size.

In the bank sector Hay has switched out of a US regional bank, PNC Financial Services, for which expectations had become stretched owing to anticipated interest rate hikes, and bought a conservatively-managed bank in Norway where well-documented concerns relating to the energy sector have already pushed the share price down to an attractive valuation. This switch had the additional bonus of removing a dollar-sensitive business after a period of relative dollar strength and replacing it with a stock that has a very different currency exposure.

**Sector slants**

At the sector level Hay has low exposure to the financial sector (at approximately 7% of the Fund's value), where lower valuations still aren't enough to compensate for balance sheet risks and the earnings headwinds from zero (and even negative) interest rates. Allocations to the energy, materials, utilities and telecom sectors are paltry too, also totalling 7%. By contrast, the IT and consumer sectors (both discretionary and staples) make up over 50% of the Fund, while a further 14% is allocated to healthcare and 10% to industrials.

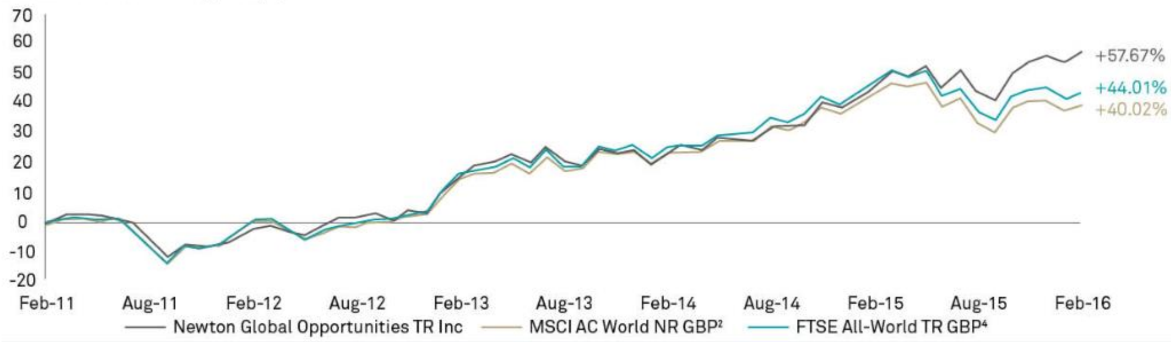
But Hay says sector positions do not always play a large role in his investment management process: "We have no restrictions on region or sector and this is a go-anywhere fund. My focus is on buying and selling individual equities based on assessments of the characteristics of those businesses. Basically, the team will assess the valuation of the business based on its current share price – does it give us an opportunity to make money or does it make it harder to make money?"

"Over the past 12-18 months a much greater level of divergence has opened up between different companies even in the same sectors and different types of businesses. We have been on right side of that divergence, so our relative performance has been strong over the time period."

**Performance as at 29 February 2016**

| % (GBP) | 3 months | 1 year | 3 years (annualised) | 5 years (annualised) | Since inception[3] (annualised) |
|---|---|---|---|---|---|
| Newton Global Opportunities Fund TR[1] | 1.60 | 7.90 | 10.50 | 9.53 | 9.52 |
| MSCI AC World NR (GBP)[2] | -1.02 | -2.77 | 6.66 | 6.96 | 7.20 |
| FTSE All World TR (GBP)[4] | -0.89 | -2.13 | 7.29 | 7.56 | 7.93 |
| IA UK Global quartile (based on 1.5% fee class)[5] | 1 | 1 | 1 | 1 | 1 |

**Cumulative return over 5 years (%)**




1 Source: Newton, to close of business, net of 0.75% AMC
2 The MSCI AC World (NDR) index is used as a comparative index for this Fund. The fund does not aim to replicate either the composition or the performance of the comparative index. Prior to 1 April 2014 the FTSE All World Index was used as a comparative index
3.Inception date: 1 July 2005
4 This is for comparative purposes only. The fund does not aim to replicate the performance of this index.
5. Source: Lipper, as at 29 February 2016
This data is from a representative portfolio and is for illustrative purposes only.

Source: Newton, all stats are as at 29 February 2016 unless otherwise stated.

**Important Information**

**Past performance is not a guide to future performance. The value of investments can both fall and rise. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed. For Professional Clients. This is a financial promotion and is not investment advice.** In Germany, this is for marketing purposes only. **For a full list of risks applicable to this fund, please refer to the Prospectus. Investors should read the Prospectus and KIID for each fund in which they want to invest. Go to www.bnymellonim.co.uk.** In Austria, the current Prospectus and the Key Investor Information Document are available free of charge from Raiffeisen Zentralbank Österreich Aktiengesellschaft, Am Stadtpark 9, A-1030 Vienna. In Germany, the prospectus is available from BNY Mellon Investment Management EMEA Limited, German branch, MesseTurm Friedrich-Ebert-Anlage 49, 60308 Frankfurt am Main, Germany. In Spain, BNY Mellon Global Funds is registered with the CNMV, Registration No. 267. Portfolio holdings are subject to change, for information only and are not investment recommendations.

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