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## Covid-19: FF European Dynamic Growth Fund update & outlook

RICCELLI, FABIO

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- The value of investments can go down as well as up and investors may not get back the amount invested.
- This fund uses financial derivative instruments for efficient portfolio management purposes.
- Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.
- The fund does not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.
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- Past performance is not a reliable indicator of future returns.

### Market outlook

Comment from Portfolio Manager Fabio Riccelli (13/3/2020): *"The spread of Covid-19 globally and the sharp oil price fall due to the skirmish between OPEC and Russia has increased global economic uncertainty significantly. Stock markets have reacted with near panic, resulting in falls of 20-30% in the major indices YTD. Forecasting the real economic effects of Covid-19 is near impossible and better left to the fortune-tellers. In times of volatility like this, it is easy to get lost in the trees and forget to look at the forest. By this I mean that it's important not to lose sight that a company's intrinsic value is not driven by what happens in any 6-month or 12-month period, but rather by the cashflows that it generates over the years as a going concern.*

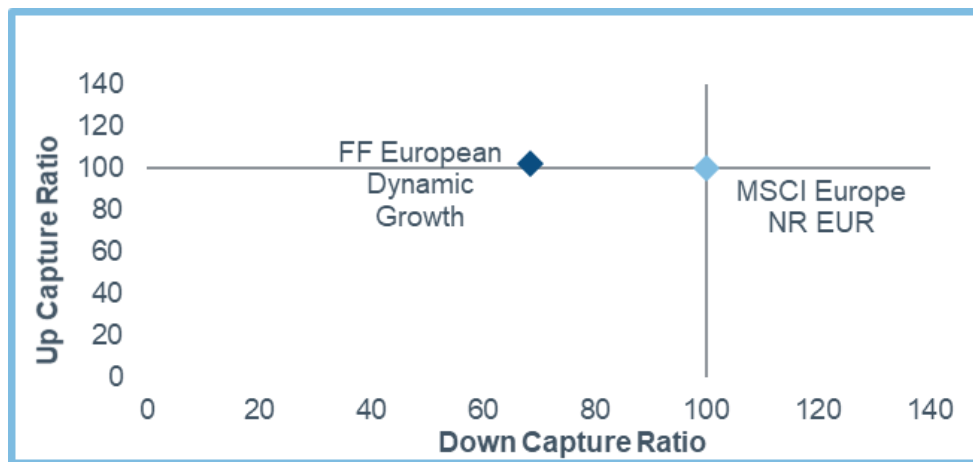
*Covid-19, like many other pandemics that the world has faced over the centuries will be overcome. The world economy will (even if we may enter a temporary recession) recover and companies will prosper. For any long-term investor, this volatility in stock markets is an opportunity to make profitable investments. We currently see a lot of good businesses at very attractive prices. When these companies' share prices will rebound I don't know. Anyone that claims to know is only speculating. But if we use this uncertain period to make smart investments it can be very rewarding."*

### Investment strategy

It is worth noting that year to date performance has been very strong on a relative basis as a result of the portfolio's underweight exposure to the energy, banks, financials and autos sectors. There has been no change to the Portfolio Managers' investment strategy as a result of the current market environment.

The strong returns we have seen on the European Dynamic Growth strategy over the tenure (>11 years), have been delivered precisely with this consistency of approach through up- and down-markets. The fund has historically made a significant portion of its relative outperformance in bear markets. This is a result of owning good quality growth companies. Portfolio Managers Fabio Riccelli and Karoline Rosenberg always invest with capital preservation in mind. Owning good businesses, with strong balance sheets helps preserve capital in downturns. The up/down capture ratio over tenure supports this:

## Up/Down capture FF European Dynamic Growth Fund



Source: Morningstar as at 29 February 2020. Basis: nav-nav. Comparative index for reference = MSCI Europe. Max Drawdown and Up/down capture based on monthly return series. Tenure performance start date is 17 November 2008.

### Preferred areas of the market

The managers continue to invest in companies with secular growth drivers and quality characteristics. Sector and country positioning is a result of where they find the most attractive investment opportunities based on detailed bottom-up analysis. The fund retains an overweight allocation to the IT, industrials, health care and communication services sectors.

Within IT, payments companies remain a key theme the fund has exposure to through holdings in Ingenico, Nexi and Worldline. The subsector offers structural growth, high barriers to entry, good cash and returns characteristics, and significant value creation potential via further consolidation. Software provider SAP is the largest holding in the fund and has continued to deliver sustained top line growth and operating leverage. Within industrials, Experian is a key holding. The company is expected to deliver high single digit growth over multiple years driven by new product innovation, expansion into new markets and recovery in consumer and Latin American markets.

In health care, Grifols, Novo-Nordisk and Qiagen are among the key positions in the fund. Both Grifols and Novo Nordisk are long-duration quality businesses with long-term growth drivers. Qiagen has diversified and broad exposure to molecular and genomic testing across customer types, applications and revenue models, with a strategic focus on the most promising long-term growth markets. The company received a takeover offer from Thermo Fisher at the beginning of March.

The energy, materials and financials sectors remain the main underweight sectors in the fund given the difficulty in finding attractive companies where the investment thesis is not dependent on macroeconomic factors or commodity price forecasts. The fund is also currently underweight consumer staples as many of these companies are trading on high valuation multiples versus history.

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