Focused International Growth SMA

Quarterly Commentary

Market Review

Recovery moderated in the third quarter after the strong second-quarter bounce. Non-U.S. stocks gained as economic recovery continued but at a more moderate rate. China and Japan led, outpacing the eurozone, which also gained. The U.K. was down slightly on renewed Brexit concerns.

Stimulus, vaccine hopes supported stocks. The markets appeared to be pricing in the arrival of a COVID-19 vaccine in early to mid-2021. Combined with massive fiscal stimulus, that optimism has helped fuel gains. However, the disconnect between stocks and economies remained. Conflicting headlines about potential vaccines and possible second waves have increased volatility in the meantime.

Key Contributors

ASOS. The stock advanced strongly, buoyed by an unscheduled trading update. The online apparel retailer raised its revenue guidance on improved sales and profitability driven by higher demand and a lower order return rate. ASOS has benefited from improved consumer spending trends and the ongoing shift to online shopping.

Techtronic Industries. The stock rose on better-than-expected results supported by double-digit growth in its power tools business, proprietary battery technology and the do-it-yourself trend. The firm gained market share, as it increased investment in manufacturing capacity and new product development while competitors retrenched.

DSV Panalpina. The global logistics company's stock advanced on better-than-expected results. Management reinstated its guidance, citing improved visibility in the airfreight market. Tight market conditions amid reductions in passenger flights, which typically carry cargo, have led to increased use of freighters and higher margins.

Key Detractors

Munich Re. Despite no company-specific news, the stock weakened in response to the market's general concerns about possible increases in catastrophic and pandemic-related claims. Management indicated the firm observed nothing out of the ordinary in claims and expressed optimism that pricing acceleration could last well into the future.

Meituan Dianping. We do not own this stock, but as it was a strong performer in the benchmark, it weighed on relative returns. Our holdings include other e-commerce names in China, which we believe offer better risk/reward profiles. However, we have reduced our exposure to China as recent outperformance has narrowed the risk/reward.

Whitbread. Stock of the hospitality company, a new buy, declined although there was no company-specific news. Rather, the stock reacted negatively to news of a resurgence of COVID-19 cases in the U.K. and the possibility of a return to lockdown. Situations such as this illustrate why we believe the recovery in growth may be choppy.

Notable Trades

Capgemini. We bought the stock as we believe the information technology services firm is poised to benefit both from cyclical recovery and secular trends. Capgemini should see demand for consulting services rise as business activity rebounds, while capitalizing on trends that lead to more digital transformation projects.

Goal and Strategy

Seeks to invest in companies outside the U.S. demonstrating early and sustainable accelerating growth.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Rajesh Gandhi, CFA	1993	2002
Jim Zhao, CFA	1999	2009

Top 10 Holdings (%)

Schneider Electric SE	4.01
Taiwan Semiconductor Manufacturing Co Ltd	3.89
Tencent Holdings Ltd	3.69
ASOS PLC	3.61
Alibaba Group Holding Ltd	3.60
Capgemini SE	3.35
Lonza Group AG	3.12
Techtronic Industries Co Ltd	2.98
London Stock Exchange Group PLC	2.91
MonotaRO Co Ltd	2.89

As of 9/30/2020

The holdings listed should not be considered recommendations to purchase or sell a particular security. Equity holdings are grouped to include common shares, depository receipts, rights and warrants issued by the same company. Fund holdings subject to change.

Cellnex Telecom. We purchased stock of this leading provider of cell towers in Europe, based on the firm's strong growth outlook. We believe that increased data usage, expansion of 4G coverage and implementation of 5G should translate into tenant growth and increased utilization.

Temenos. We sold the stock of this banking software specialist due to concerns over a rapidly decelerating revenue growth rate and customer order push-outs. We think license revenue may remain weak into 2021, as banks may curtail or defer information technology spending as low interest rates continue to pressure profits.

SAP. We exited SAP in order to buy Capgemini. SAP has performed well, but license sales continue to be under pressure. Capgemini is earlier in the S-curve as digitalization projects are being implemented at an accelerated pace by clients.

Top Holdings

The portfolio continues to invest in companies where we believe business fundamentals are improving and where we have high conviction that improvement is sustainable. Our process is based on individual security selection. Some of the portfolio's key holdings are highlighted below.

Schneider Electric. The company has benefited from demand for improvements in the electrical grid and greater efficiency of electrical systems, including increased penetration of software systems that help monitor and regulate electricity flow and consumption. Recent restructuring efforts have also enhanced margins.

Taiwan Semiconductor Manufacturing Co. The firm's leadership position in high-performance chip manufacturing strengthened in the wake of Intel's production issue with 7nm technology. We think EBIT could see a significant boost if Intel outsources some chip manufacturing to TSMC.

Tencent Holdings. China's leading social media company has benefited from increased monetization of its user base, and reduced social activity recently has boosted its online gaming franchise. The pandemic sell-off let us add to our position at an attractive valuation.

ASOS. The online apparel retailer is benefiting from the shift to online shopping, which is accelerating even as economies reopen. We see recent investments in distribution and procurement leading to stronger sales outside the U.K., especially in the U.S. where the new distribution warehouse is allowing better customer service.

Alibaba Group Holding. We think China's leading online retailer should continue to benefit from strong consumer demand. Key growth strategies include acquiring customers in lower-tier cities, the Alipay payment platform and new digital media and cloud services. A ramp-up of user base monetization has accelerated advertising revenue.

Capgemini. We think the information technology services company is poised to benefit from a cyclical recovery in demand for consulting services as business activity rebounds, while also capitalizing on secular trends to secure more digital transformation projects.

Lonza Group. As pharmaceutical companies increase spending on outsourcing the production of ingredients and drugs, we believe this contract manufacturer will continue to benefit. Facilities utilization has risen, and Lonza has gained synergies from the Capsugel acquisition.

Techtronic Industries. A leader in professional-grade power tools and the secular shift to cordless technology with its proprietary battery technology, the firm is benefiting from multiple new product releases and strong do-it-yourself trends. We anticipate Techtronic may see an uptick in demand as pandemic-related work stoppages end.

London Stock Exchange Group. Two distinct businesses are driving the firm's growth. Its clearing business benefits as electronic trading deepens and spreads to additional asset classes. The subscription data business benefits from increased demand for index and market data. The Refinitiv acquisition should bolster the firm's data franchise.

MonotaRO. The online distributor of industrial components and consumables is leading the shift to online distribution in Japan. New customer wins are accelerating, and the firm has posted double-digit revenue growth amid declining industrial production. Low penetration of online industrial distribution in Japan provides a runway for growth.

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Portfolio holdings are as of the date indicated, and subject to change without notice. Data provided by American Century Investments and FactSet, unless otherwise noted. Material presented has been derived from industry sources considered to be reliable, but their accuracy and completeness cannot be guaranteed.

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