

# Global Opportunities Fund

## Commentary

Q1 2013

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### Overview

Global markets enjoyed a considerable relief rally as 2013 commenced, sparked by a last minute compromise in US congress to avert the spending cuts and tax increases (the "fiscal cliff") which threatened continued growth in the US economy. The S&P 500 Index reached an all-time high following a quarter of relatively solid macroeconomic data and reported earnings that largely trumped consensus expectations. Japanese markets also rose in the quarter (though local currency returns were tempered by depreciation in the yen), boosted by the new leadership's aim to reinvigorate the economy and create inflation via aggressive monetary intervention and fiscal policy changes. In China, economic data was varied with evidence of a drop in exports and manufacturing growth weighing on markets. Property stocks were notable for their weakness as the Chinese government introduced plans to curb prices. Political and economic concerns in the eurozone once again came under the lens with the Italian elections producing no clear winner and a Cypriot banking crisis dominating headlines. While these developments held back European market performance, encouragingly, global markets showed resilience.

### Performance and activity

The fund underperformed the benchmark this quarter despite the majority of holdings posting a positive return. The US IT sector underperformed as a whole and the fund's overweight allocation here detracted from returns. Most notably, there was strong relative outperformance in sectors where the fund had little exposure, such as healthcare and consumer staples, which reflected ongoing investor appetite for yield in this low interest rate environment. We note however, that on a simple price-to-earnings basis, valuations are at five-year highs and with likely little room for positive earnings surprises, it is possible we will see a sector rotation out of these sectors in the medium term, which would be to the fund's benefit. At the stock level, the principal detractor was the position in Rio Tinto where falling iron ore prices, Rio's primary earnings driver, put downward pressure on shares in the mining company, despite the company reporting earnings ahead of consensus. Near-term concerns outweighed longer-term growth prospects for US retailers PVH and Limited Brands. Shares in PVH traded down as management guided towards lower earnings in the near term as the retailer invests to fund long-term growth. Meanwhile, Limited Brands underperformed amid consumer demand concerns and caution ahead of management's 2013 guidance. Positive contribution came from CBS on the company's announcement to divest their outdoor advertising units and monetise loss making divisions, allowing CBS to focus on its core revenue generating areas. At ITV, management's plans are visibly coming to fruition as the broadcaster reported consensus beating earnings, strong advertising revenues and a healthier balance sheet. Finally, rising Macau gambling revenue helped shares in Las Vegas Sands as the company continues to take market share.

### Outlook

Looking forward we see an attractive landscape for fundamentals-based stock picking amongst attractively valued, cash flow generative companies on a two to three-year view. The global economy has shown signs of improvement particularly in the US and while growth prospects in Europe are challenged, there is evidence of improved confidence in the region. However, given such a strong rally from mid-2012, we are mindful that equities may be vulnerable to a correction in the short term.

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