

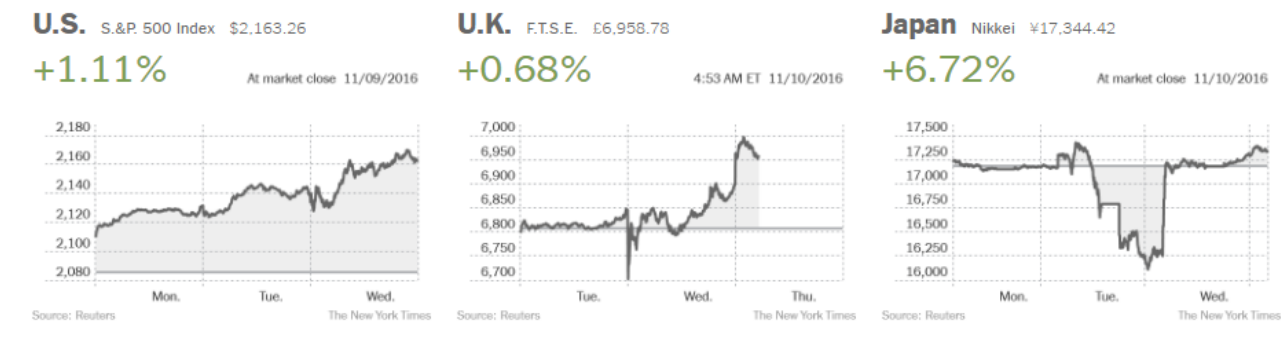
TRUMP TAKES THE HELM

REPUBLICANS RETAKE WASHINGTON AFTER A TUMULTUOUS 2016 U.S. ELECTION

POTENTIAL MARKET REPERCUSSIONS

As noted by the global media coverage, the election of Republican Donald Trump as U.S. President increases risk and uncertainty in the market and world given a lack of transparency regarding his political and legislative agenda. The Trump win seems similar to other populist political rebellions now underway in many developed economies, e.g. Brexit. In addition to economics such as rising income inequality, poverty and anti-globalisation movements, increasing insecurity over terrorism and immigration is also propelling a strong anti-establishment sentiment.

Figure 1. Global indices following U.S. elections held on 8 November 2016¹



Being a quality growth equity investor, we neither changed our portfolio positioning ahead of the election nor are we projecting any portfolio adjustments following it. From our investment perspective, such modifications would not make sense. At Comgest we take great care in seeking to invest in quality growth stocks that remain relatively untouched by exogenous factors. In doing so, we focus on investment process and long-term performance, while distancing ourselves from unpredictable events, such as political elections. In all Comgest Growth or Comgest-managed funds, we look for dependable long-term growth companies with strong market-entry barriers. In our experience, political elections do not typically abolish these market-entry barriers overnight.

SHORT-TERM STOCK PRICE REACTIONS

The day after the U.S. elections, the short-term implications of Trump's election were slightly positive on our Pan-European Equity portfolio relative to the market. Corporations benefiting from globalization traded down immediately in the post-election aftermath as a result of a perceived rise in protectionism based on comments made by Trump during the presidential campaign. Our portfolios hold many different companies that typically benefit from robust yet diverse long-term growth trends, including Google, Microsoft, Heineken, Coca Cola, L'Oréal, Netease or Sanlam. All of these stocks declined in the initial reaction to Trump's win. Consequently, will people drink less Heineken or use less L'Oréal beauty products? Will Google or YouTube stop operating immediately or Microsoft Office cease to be the world's leader in office software and PC operating systems? Will consumers stop playing Netease computer games in China? Will there be less life insurance

¹ Thomas, L. "Why Stock Markets, Initially Shaken, Went Up After Trump's Victory". The New York Times. 8 Nov 2016.

coverage in South Africa by Sanlam? Time will tell. One company, however, quickly feeling pain from Trump's election is Kansas City Southern², a monopoly railroad operator in the Midwest and Southeastern regions of the U.S. that is exposed to North-South trade between the U.S. and Mexico.

On the positive side, healthcare stocks performed very strongly post-Trump news. The Pan-European Equity portfolio benefits from healthcare companies exposed to the U.S. such as Hikma, Novo Nordisk, Roche, Actelion and Sanofi³. Our U.S. portfolio⁴ also benefits from high healthcare exposure via Allergan, Biogen and Eli Lilly as well as Johnson & Johnson, which were all trading up as of the day after the election. The entire sector suffered following a Tweet last year by Hillary Clinton that stated the need to cut U.S. healthcare costs. Although around 25% of our Pan-European Equity portfolio holdings are focused on healthcare, the largest weighted exposure to healthcare relative to their respective MSCI benchmarks is our U.S. portfolio⁵.

EMERGING MARKETS MAY SUFFER MORE THAN DEVELOPED MARKETS

If Mr. Trump is serious about placing a 45% tariff on Chinese exports or building a giant wall along the US-Mexico border, emerging markets may potentially suffer more than developed markets after this election. However, while global trade is an important growth driver for emerging markets, for years it has been stagnant, even slightly declining, which is why our Global Emerging Markets portfolio has limited exposure to companies that exclusively sell goods and services directly to the U.S. Instead, growth in – and the evolution of – consumption and infrastructure are the dominant, long-term thematic exposures behind most companies in the Global Emerging Markets portfolio. For now, we believe these are unlikely to be affected in aggregate as a consequence of Mr. Trump's election.

In our opinion, a growing emerging markets middle class (the polar opposite to developed markets), better mobilization of higher savings and ongoing requirements for improved water, power, roads and telecoms all support this movement. Following the market slowdown in recent years, domestic savings today are more sufficient to fund the above, while foreign capital has generally been leaving the asset class for years – since 2010. In our view, the short term risk of a large outflow of funds seeking to “de-risk” is also limited.

CONCLUSION

The bottom-line is that we do not believe that U.S. President-elect Donald Trump will change the way we have managed quality growth equity over the past 30 years nor will it have a meaningful impact on our portfolios.

²Data as of 10 November 2016 for Comgest's U.S. Equity Representative Account, a pooled investment vehicle which has been managed in accordance with the strategy discussed since inception of the strategy.

³Data as of 10 November 2016 for Comgest's Pan-European Equity Representative Account, a pooled investment vehicle which has been managed in accordance with the strategy discussed since inception of the strategy.

⁴Data as of 10 November 2016 for Comgest's Pan-European Equity Representative Account, a pooled investment vehicle which has been managed in accordance with the strategy discussed since inception of the strategy.

⁵Data as of 10 November 2016 for Comgest's U.S. Equity Representative Account, a pooled investment vehicle which has been managed in accordance with the strategy discussed since inception of the strategy.

IMPORTANT INFORMATION

Portfolio data as at 10 November 2016.

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