



Second Quarter Review

GLOBAL EQUITY AND CUMBERLAND INTERNATIONAL FUND STRATEGIES

The first half of 2020 is officially over, and it was certainly an eventful period. During the first quarter of 2020, investors witnessed the fastest 30% drawdown in the history of global equities only to be followed by one of the largest 50-day advances in market history during the second quarter. Improving economic data, massive amounts of stimulus, and encouraging news about a potential coronavirus vaccine have been the key drivers behind the stock market's resurgence.

Market Review

Despite a very difficult start to the year, global equity markets experienced a huge rebound during the second quarter and the strength was broad-based across global economic regions. The S&P 500 surged by 20.5%, the MSCI World Index was up 19.4%, and the MSCI Emerging Markets Index increased by 18.1%. For many stock markets, these were the strongest quarterly returns in decades.

Second Quarter Brings Best Returns in Decades
Percent change for the three major indices in Q2 2020

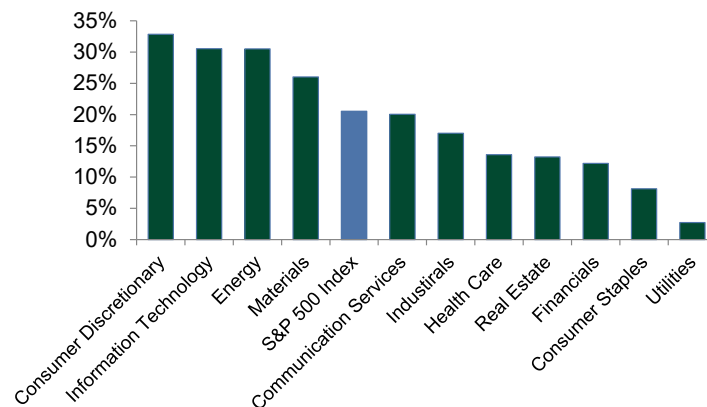


Source: FactSet, Data as of market close on June 30, 2020



As seen in the chart, Q2 sector performance was positive across all sectors for the S&P 500. The best performing sectors were Consumer Discretionary, Information Technology, and Energy, while Consumer Staples and Utilities were the laggards.

**S&P 500 (US\$ Total Returns)
Quarter Ending June 30, 2020**



Source: TD Securities

Given the pronounced weakness in the first quarter, we believe it is more meaningful to look at year to date returns. On this basis Technology and Consumer Discretionary were the top performing sectors and were the only ones that generated a positive return on a year to date basis. Industrials, Financials, and Energy have been the laggards with each sector posting a double-digit percentage decline during the first half of 2020.

Positive returns for all sectors in Q2, but only Technology and Discretionary up YTD

S&P 500 GICS Sector Return Contribution (YTD 2020)		
Sector	Sector Weight as a % of the S&P 500 12/31/19	% Return 12/31/2019 - 6/30/2020
Information Technology	23.20	14.21
Consumer Discretionary	9.75	6.60
Communication Services	10.39	-0.97
Health Care	14.20	-1.72
Consumer Staples	7.20	-7.05
Materials	2.65	-8.04
Real Estate	2.93	-9.96
Utilities	3.32	-12.61
Industrials	9.05	-15.50
Financials	12.95	-24.62
Energy	4.35	-37.02

Source: Ned Davis



From a global perspective, Information Technology and Healthcare have been among the top performing sectors as measured by the MSCI All Country World Index (ACWI column in the chart below). Real Estate, Financials, and Energy are among the sectors that have lagged on a year to date basis.

Year-to-Date Sector Performance across regions and the All-Country World Index

YTD (%)	ACWI	US	Europe	Japan	EM
Information Technology	12.4	15.5	2.9	-1.2	-0.8
Health Care	2.5	0.6	3.3	8.9	25.8
Consumer Discretionary	1.4	11.2	-17.2	-8.8	0.2
Communication Services	0.5	0.0	-15.7	5.8	11.6
Consumer Staples	-5.8	-5.8	-5.6	-3.6	-9.0
Materials	-8.3	-7.3	-9.0	-10.6	-13.8
Utilities	-9.0	-11.5	0.4	-6.8	-17.9
Industrials	-13.2	-13.4	-13.6	-10.9	-15.8
Real Estate	-14.9	-9.8	-21.7	-23.1	-22.3
Financials	-23.2	-23.5	-25.6	-19.7	-25.7
Energy	-33.5	-35.4	-36.4	-27.3	-25.9

Source: Datastream, Morgan Stanley Research

As previously mentioned, Technology has performed very well during 2020. It was the best performing sector in the S&P 500 during the challenging first quarter when stocks fell precipitously. And it was the second-best performing sector in the S&P 500 during the market rebound in the second quarter. This is in addition to being the top performing S&P 500 sector in 2019 when it gained approximately 50% !

In our view, the outperformance of Technology is a clear indication that the sector is benefiting from strong secular growth trends. These trends include the ongoing transition to a digital world, social media, and the migration towards cloud computing. As a result of these powerful trends, the Technology sector has become less dependent on the growth of the overall economy.

In other words, the sector has become less cyclical than in previous periods/historically, when Technology was better known for its boom-bust tendencies. This helps to explain why the sector has been able to outperform during both good and bad market environments.

We continue to have a favourable long-term outlook for the Technology sector and believe that the fundamentals for the sector will be even stronger in a post COVID-19 world. Recent comments by Microsoft’s CEO Satya Nadella help to put this into perspective.

“We’ve seen two years’ worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security — we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything.”



Portfolio Review

Our Global and International strategies outperformed their benchmarks during the first half of 2020. Microsoft (software), S&P Global (credit rating agency), Thermo Fisher Scientific (life sciences), and Facebook (social media), were among the best performing stocks in the Cumberland Global Equity strategy during Q2 2020. DSV Panalpina (logistics), SAP (software), Accenture (IT services), and Keyence (automation technology), were among the best performers in the Cumberland International strategy during Q2 2020.

During the second quarter, we initiated new positions in **Adidas** and **Teleperformance** across both the Global and International strategies.

With annual revenue of more than €23 billion, **Adidas** is a leading athletic footwear & sportswear brand that is synonymous with soccer. Over the past decade, the Company has gained market share across all geographies underpinned by a multi-pronged strategy. First, Adidas is focused on constantly improving its speed of product development & manufacturing. Second, through e-commerce, mobile apps, own branded stores, and select retail partnerships, management is steadily increasing its direct to consumer mix which not only allows better insights into consumer demand but also generates a higher mix of full-priced sales and hence better margins. Third, its increasing scale affords Adidas growing celebrity endorsements expanding beyond premier professional sports globally to also include a wide spectrum of entertainment celebrities, which will help the Company capture the rising athleisure opportunity. As a result of these initiatives Adidas is well positioned to benefit from the increasingly health & fitness conscious consumer, the growing importance of the female sports category, and China & emerging market growth where per capita spending remains well below developed markets.

Teleperformance is the leading provider of customer experience management services in the world with annual revenue of €5.4 billion. The company has been growing consistently at high single digits organically and winning market share through top notch service, its innovative technology platform, broadening industry expertise, and the most comprehensive global footprint among its peers. This growth reflects the value the company offers as data suggests that companies which deliver above average customer experience also achieve above average growth. With more than 330,000 staff speaking more than 265 languages across 80 countries, Teleperformance is uniquely capable of serving multinational clients. The rapid rise in ecommerce, omnichannel retail, and social media make the company invaluable to top tier brands. The adoption of 6-sigma programs has helped steady improvement in margins. Recent expansion into highly value-added niches such as business process outsourcing further expands their addressable market by a factor of 4-6 times. With a highly entrepreneurial culture and a strong management team, Teleperformance looks well positioned to sustain its growth and margin expansion track record.

Outlook

The current environment is challenging from both an economic and humanitarian perspective. The global economy and people's livelihoods have taken a significant hit as a result of COVID-19. Investors remain concerned about several issues including high unemployment levels in the global economy, a potential resurgence in coronavirus cases, the ongoing trade war between the US and China, and the upcoming Presidential Election in the United States.



Despite these concerns, we remain cautiously optimistic. Recent economic data in many regions around the world has improved and it appears that the global economy is making progress towards a return to pre-COVID-19 levels. Central Banks around the world have provided massive stimulus packages to both individuals and businesses to help them get through this difficult period. Finally, there has been positive news in the fight against COVID-19 including progress in diagnosing the virus and the development of a vaccine. While there is more work to be done, the news has been encouraging and has played a role in the recovery of global equity markets.

Not only are we cautiously optimistic about the potential for a global economic recovery, we are also excited about the prospects for the individual companies that we own across our portfolios. Our global mandates are constructed with high quality businesses that are well managed and that produce robust free cash flow. Most of these companies operate in industries with high barriers to entry, which allow them to generate attractive returns on invested capital. In our view it is these types of companies that are best positioned to compound the value of their business for shareholders.

Phil D'Iorio
Lead Manager,
Cumberland* Global and International Equities
July 6, 2020

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