IHS Markit®

COVID-19 Active Fund Movers

Top stock-pickers, regional allocators, and actively engaged PMs amidst COVID-19

June 2020

Corporate Advisory | **Insight**

Fund Liquidations and Initiations between March and April 2020

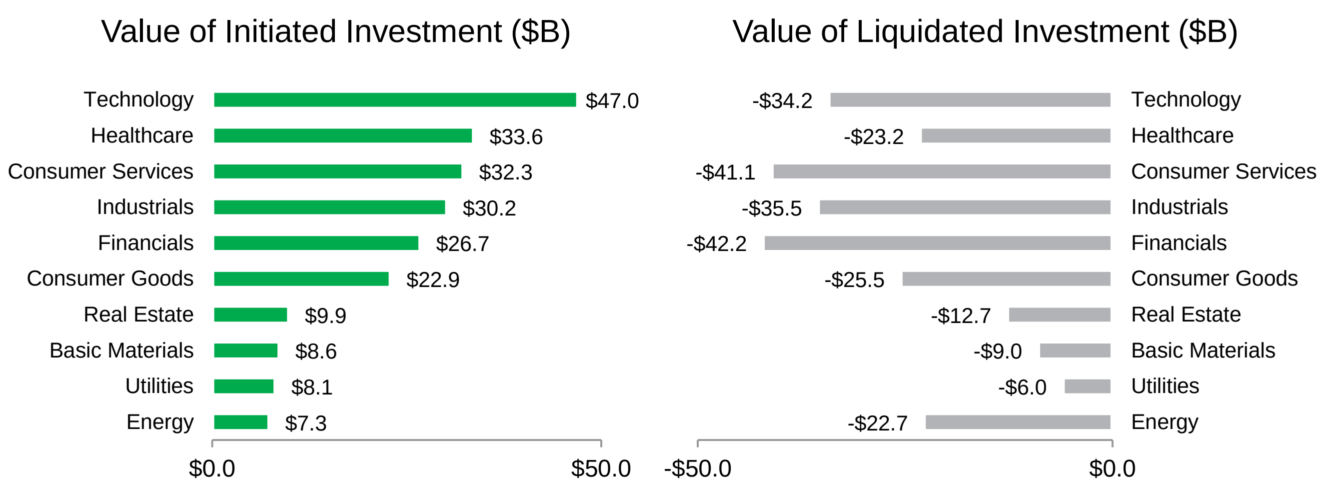
Due to COVID-19, the period between early March and the end of April was characterized by historic market underperformance, extreme swings in volatility and capital flows, and economic instability. Faced with multiple unknown variables from a scientific, economic and geopolitical standpoint, many assumed there would be a sustained flight to safety, until equities were back in a trading environment that was less headline-driven. Conversely, the IHS Markit Issuer Solutions team heard from an increasing number of buy-side analysts and PMs that this environment was ripe for stock picking and it was a time to be bold. To get to the bottom of these viewpoints, the IHS Markit Analytics team analyzed active mutual fund monthly holdings between 03/01/20 and 04/30/20 to determine top-line trends on a sector and regional basis, and more specifically, which portfolio teams were being most aggressive with initiating new positions and liquidating prior holdings.

Key takeaways:

1. The **Healthcare** and **Technology** sectors saw the largest flow of capital towards initiations, compared to **Financial Services**, **Energy**, **and Consumer Services**, which had the highest net liquidations.
2. **North American** investors rotated investment between sectors at a far greater pace than the other global investors, thus presenting an opportunity for increased buying across stocks within growing sectors.
3. **Value** funds invested additional reserves of capital into new ideas, compared to **Growth** investors, which have increased exposure to existing holdings. **Yield** funds rotated between equities, in order to align with their fund mandates.
4. Several funds, which ranked highest in terms of both liquidations and initiations such as the ***Franklin Income Fund***, ***MFS Value Fund***, and ***John Hancock III Disciplined Value Fund*** used the capital raised from liquidating assets to fund their rotation into newer ideas. These funds are exemplary of active stock-pickers, who stand out for engagement of IHS Markit clients and aggressively taking new positions.
5. Social distancing has led to portfolio managers at many of the most active funds to participate in virtual NDRs, conferences, and meetings with IR teams. IHS Markit meeting analytics exhibits increased engagement from select portfolio managers via virtual channels, compared to the same period last year.

Sector Overview

Total value of investment initiated & liquidated by sector



Healthcare and Technology stay on top:

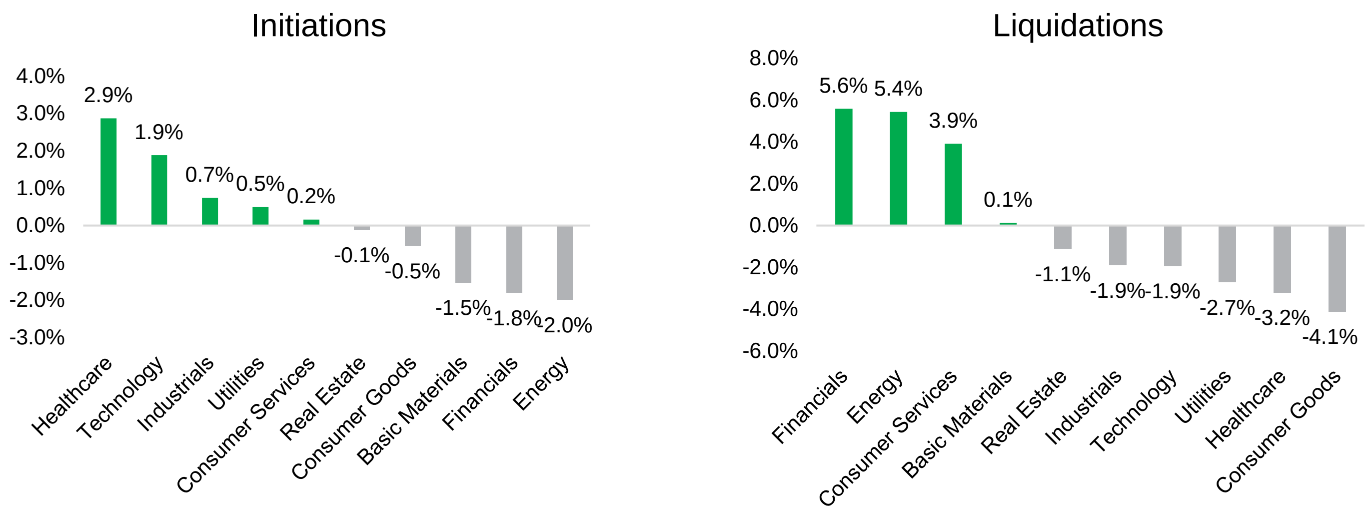
The Technology sector saw the largest inflow of capital for new initiations compared to all sectors at $47.0B or 21% of the total value of all capital used towards stock initiations. Comparatively, 19% of the total value initiated in stocks in the same period in 2019 was attributed to the Technology sector, reflecting investors' positive sentiment towards the sector in Q1'20, given the global lockdown and heavy reliance on Technology due to COVID-19. Certain investors likely

The 2020 fund positions do not completely mirror the 2019 fund positions due to potential lag time for fund's holding disclosures

also utilized the decline in stock prices in March as a catalyst to initiate positions in companies that have previously been considered ‘too expensive’, as mentioned by the ***Parnassus Core Equity Fund*** in their Q1 2020 commentary, which spoke to an initiation in Adobe: “*We are seeing new long-term investment opportunities emerge amid the equity market selloff…The economy continues to digitize, and Adobe owns the increasingly relevant interface between digital media and the customer experience*.”

The difference in the proportion of initiations and the value of capital used to initiate positions over the two months this year relative to the same two months last year was greatest for the Healthcare Sector. Key drivers of the increased investment were initiations in companies involved in the development of tests and potential treatment/vaccines for COVID-19 such as Bristol Myers, Thermo Fisher, AstraZeneca, and Roche. The Healthcare sector saw a 3.2% decrease in the value liquidated across all sectors for the same time frame in 2019. Narrowing in by region, this trend was more apparent among North American Healthcare, where stocks saw the largest percentage point decrease in value of liquidations over the same time frame in 2019 (-2.8%).

Percentage point difference of value initiated & liquidated compared to the same time in 2019



Financials and Energy take a hit:

The Financial sector saw -$42.2B in liquidations, which was the largest value liquidated among all sectors in the given time frame. The sector had -$28.5B in liquidations for the same time frame in 2019, translating to a 48% increase in the value liquidated. The sector also had a notable decrease (-1.8%) in the percentage of value initiated compared to 2019, as the low interest rate environment decreased the attractiveness of the sector.

The Energy sector had the greatest decrease in the percentage of initiations over the period due to the negative impact of the global lockdown on oil and energy prices. The sector saw the second-largest increase (+5.4%) in liquidations as a percentage of the value liquidated across all sectors compared to the same time in 2019, followed closely by the Consumer Services sector at +3.9%. The ***Fidelity Magellan Fund***, which is one of the top funds in terms of liquidations, stated that *“strong picks, coupled with a favorable underweighting in Financials had a particularly positive impact on the portfolio's relative result the past three months. Completely avoiding the weak-performing Energy sector also helped.”*

Regional Sector Overview:

Investors were most bullish towards North American equities relative to other regions, when specifically analyzing initiations in March and April 2020. 59% of the capital initiated during the two-month period was in North American-domiciled companies, which was higher than the percentage during the same two months in 2019 (50%). Similarly, North American securities made up 50% of the number of initiations during the two months this year compared to 41%

The 2020 fund positions do not completely mirror the 2019 fund positions due to potential lag time for fund’s holding disclosures during the same time period last year. This was driven by equities within the Healthcare, Industrial, and Technology sectors.

European and Asian securities made up smaller percentages of initiations this year compared to the same period last year. The largest decrease in the percentage of value initiations among European companies was within European Financials. In addition to the low interest rate environment, European Central Banks and Regulators urged European banks to cut or suspend their dividends due to the pandemic, which likely had a negative impact on the attractiveness of the sector.

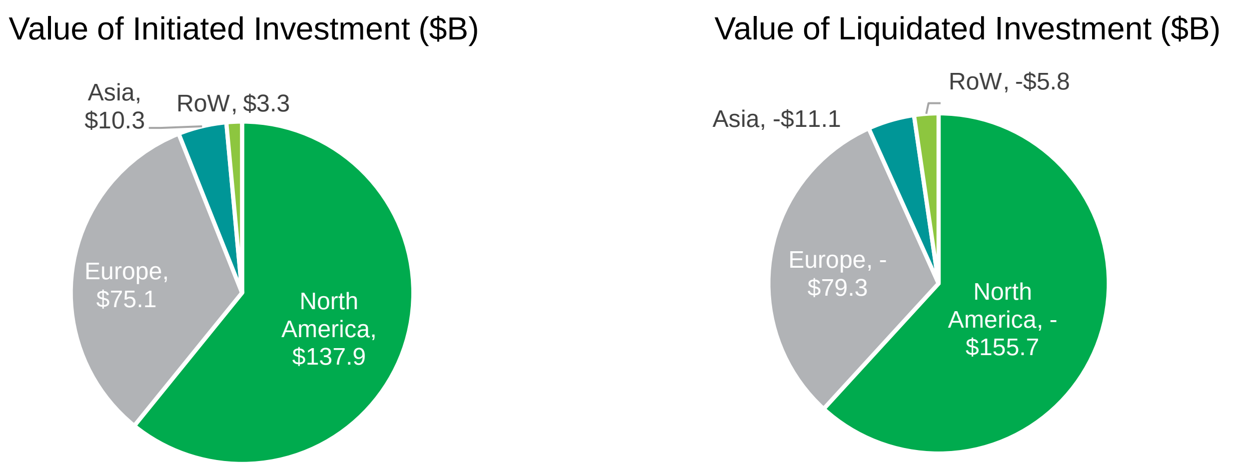
Among Asian equities, the Financial and Industrial sectors experienced the largest decrease in the percentage of value of initiations and number of initiations year-over-year.

Looking more closely at the liquidations, North American Consumer Service stocks comprised the largest value of liquidated capital as a percentage of all sectors globally at 11%, which was an increase of 4.2% across the same time last year, and this was followed closely by North American Energy stocks, which comprised 6% of total liquidations, and had an increase of 1.8% from the same time last year. This is attributable to the decrease in consumer spending due to COVID-19, and the oil price pressures on Energy stocks. The ***John Hancock Disciplined Value Fund's*** Q1'20 commentary stated that, "*the fund's weighting in Energy was reduced based on updated cash flow estimates for various companies in this sector".* It sold the exploration and production companies Noble Energy, Inc. and Cimarex Energy Company. The ***Parnassus Equity Fund*** also took a bearish approach for the consumer discretionary sector, and highlighted that while it initiated a position in Amazon due to the promising growth potential, it liquidated Starbucks due to the expectation that it will take a while to return to *"business as usual"*.

IR Takeaway: IR teams at Healthcare and Technology companies should focus on attracting new investment from funds that are bullish on their sector and are liquidating positions in other sectors in order to invest long-term in stocks with potentially attractive valuations. Conversely, IR teams at Energy and Financial companies may want to focus on controllable risk in their shareholder base, while engaging with portfolio teams seeking lower valuations, to fill capital gaps.

Investor Region Overview:

Total value of investment initiated & liquidated by region



North American institutions dominate the trading activity:

Between March and April 2020, North American investors liquidated $155.7B, and had the largest increase in liquidations since the same time in 2019, as the value of liquidations as a percentage of all regions increased by 9.3%.

The 2020 fund positions do not completely mirror the 2019 fund positions due to potential lag time for fund's holding disclosures

Conversely, the percentage of value liquidated for Europe fell by 8.7%, even though European investors made the greatest number of liquidations amongst regions at 4,367 between March and April 2020.

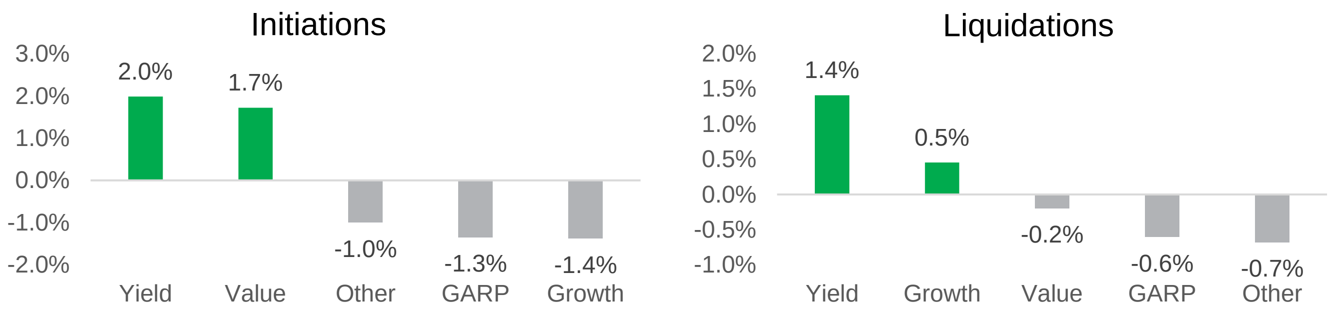
Narrowing in on a country level, the United States saw the largest increase in both the value of liquidations and number of liquidations, at +12.3% and +6.4%, respectively. $146.2B, or 58% of the value liquidated can be attributed to U.S. institutions. U.K. based institutions liquidated $32.8B, which was a decrease in the overall percentage of liquidations by 4.2% since the same time in 2019.

Initiations were also driven by North American investors; North American funds made up 54% of the total number of initiations compared to 45% during the same time in 2019. Similarly, North American investors led the initiations in terms of net value during the period, representing $137.8B, or 61% of initiations globally, compared to 53% a year ago. All regions had higher net liquidations than net initiations, which implies that the pace of investment in new ideas wasn't as rapid as the outflow of investment from underperforming sectors.

IR Takeaway: North American investors rotated investment at a higher volume compared to the same time in 2019. These investors stand out as active stock-pickers of new positions, and global IR teams should ensure they focus on targeted institutions for near term outreach.

Investor Style Overview:

Percentage point difference of value initiated & liquidated by investment style compared to the same time in 2019



Growth-oriented investors reduce market exposure, while Value-oriented investors build up positions:

A flattening of the growth curve and economic instability led to Growth-oriented funds liquidating $83.9B between March and April 2020, whereas for the same time last year, Growth funds liquidated $60.3B. Simultaneously, Growth funds also had the largest decrease in both the percentage of value initiated and the percentage of initiations, (-1.4% and -1.7%, respectively) compared to 2019. Anecdotally, IHS Markit Issuer Solutions surmises that Large-Cap Growth funds are a top-heavy group with a greater emphasis on current holdings, and which have doubled down on core mega-cap technology positions in the current period. The ***John Hancock International Growth Fund*** in its Q1 2020 commentary indicated a preference for issuers that were "well positioned for growth but were too expensive before the market downturn". It also highlighted selling financial and consumer-oriented companies: "*We sold financial companies exposed to a lower interest-rate environment and consumer-oriented companies at risk of negative earnings estimate revisions, given sustained business shuttering.*"

36% of all capital flows initiated were attributed to Value funds compared to the same time period last year (34%). The ***Virtus Ceredex Mid-Cap Value Equity Fund*** indicated that it is concentrating on stocks that are likely to emerge out of the crisis in a relatively strong financial shape and that are well positioned to leverage and adapt their business models to thrive in the new normal. The ***MFS Value Fund*** indicated that it initiated positions in issuers which were previously outside the scope for investment due to their valuation multiples, but which became attractive in Q1 20: "*During the quarter, their valuations got more compelling and we initiated positions in American Electric Power, Boston*

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Scientific, Marriott and Masco. We also started a new position in energy company Conoco Philips, funded with an intra-sector sale of Exxon Mobil."

Yield-oriented investors exhibit aggressive rotations to align with fund mandates:

In terms of the total value of liquidations, Yield-oriented funds saw the largest increase (+1.4%) compared to March/April 2019, which is attributable to the increase in dividend uncertainty. Regarding its April activity, the ***Janus Henderson Global Equity Income Fund*** stated, *"This month we established positions in Munich Re, Allianz and Sunrise Communications, where we have a high degree of confidence with regard to the dividend payments, with the stocks all trading on attractive dividend yields in excess of 5%. This was funded by exiting positions in BNP, Orange and NN Group where the dividend outlook is more uncertain."* Unlike Growth and Value-oriented funds, Yield-oriented funds have stricter mandates to reposition their portfolios, which leads to a higher number of forced liquidations rather than voluntary movements in holdings. Yield-oriented funds also had the largest increase in the percentage of value initiated during the two months in 2020, compared to the same time in 2019, likely driven by funds making significant changes to their portfolio holdings following unexpected potential changes in capital return and dividend strategies for issuers due to the pandemic.

IR Takeaway: Value investors brought money off the sidelines to invest in new ideas, whereas Growth funds did not use the amount they liquidated to fund a proportionate amount of new investment. This presents a strong opportunity for issuers to attract investment from Value funds, which will be willing to invest in new technologies and ideas that are currently undervalued. The increase in activity among Yield funds presents an excellent opportunity for companies with stable dividend policies to market their story to yield/income-focused investors.

Top Funds with Initiations & Liquidations:

Top Funds by Initiation Value	Value ($mm)	# of Initiations
Franklin Income Fund	$4,313.8	21
John Hancock III Disciplined Value Fund	$1,728.2	40
Fidelity Magellan Fund	$1,675.5	9
Fidelity Contrafund	$1,490.1	50
Parnassus Core Equity Fund	$1,402.6	5
MFS Value Fund	$1,326.8	7
Fidelity Series Value Discovery Fund	$1,269.5	59
BlackRock Equity Dividend Fund	$1,020.5	16
John Hancock III International Growth Fund	$1,007.3	9
Aviva Investors - European Equity Income Fund	$932.5	27

Top Funds by Liquidation Value	Value ($mm)	# of Liquidations
Fidelity Magellan Fund	-$3,194.5	22
Franklin Income Fund	-$2,641.2	15
John Hancock III Disciplined Value Fund	-$1,751.2	22
MFS Value Fund	-$1,587.0	10
Parnassus Core Equity Fund	-$1,570.0	6
Fidelity Contrafund	-$1,270.1	59
John Hancock III International Growth Fund	-$1,251.4	12
Edinburgh Investment Trust Plc	-$1,224.0	29
MainStay Winslow Large Cap Growth Fund	-$1,161.9	10
BlackRock Equity Dividend Fund	-$1,022.0	15

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Several funds were among both the top funds by liquidation value and top funds by initiation value, indicating that these funds took advantage of the price downturn and macro changes due to the pandemic, to better position themselves for strong longer-term performance. This trend was also apparent at the institutional level as **Fidelity**, **MFS**, **Wellington**, and **Franklin Advisers** were among the top investors that liquidated and initiated positions during the two months.

Most Active Portfolio Teams:

IHS Markit's Issuer Solutions team analyzed proprietary investor meeting data for investors that heavily rotated into new positions during the pandemic. The analysis uncovered that several of the fund managers that initiated large positions have engaged more frequently this year compared to last year. Since the COVID-19 pandemic impacted in-person meeting opportunities between issuers and the buy-side, IHS Markit observed portfolio managers from several of the top fund initiators during this period engage with issuers via calls and virtual conferences/roadshows. These include PMs who manage the ***Fidelity Contrafund***, ***Fidelity Magellan Fund***, ***MFS Value Fund***, ***John Hancock International Growth Fund***, ***and Parnassus Mid Cap Fund***, among others.

Fund Name	Value Initiated ($mm)	Level of Engagement*
John Hancock III Disciplined Value Fund	$1,728.2	Medium
Fidelity Magellan Fund	$1,675.5	High
Fidelity Contrafund	$1,490.1	High
Parnassus Core Equity Fund	$1,402.6	Medium
MFS Value Fund	$1,326.8	High
BlackRock Equity Dividend Fund	$1,020.5	Medium
John Hancock III International Growth Fund	$1,007.3	High
Fidelity OTC Portfolio	$919.2	High
Fidelity Balanced Fund	$903.1	High
Edinburgh Investment Trust Plc	$876.3	Medium
Fidelity Blue Chip Growth Fund	$809.0	Medium
Principal Funds, Inc. - Diversified International Fund	$798.1	Medium
MFS Growth Fund	$768.2	Medium
Parnassus Mid Cap Fund	$764.2	High

IR Takeaway: When targeting institutional investors, IHS Markit analysts begin their analysis with screens for fundamental suitability and purchasing power and compliment those findings by introducing data on real-time capital flows, research due-diligence and engagement. IR teams should opportunistically utilize intelligence on the fund managers who are taking meetings and putting capital to work in similar investment ideas.

*Level of engagement rating based on analysis of meeting data across IHS Markit clients

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Situational Analytics

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