

A horizontal red bar with a decorative, multi-colored geometric shape on the left side, transitioning from dark purple to red.

# MFS® Global Equity Trust

## First quarter 2024 investment report

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Country and region information contained in this report is based upon MFS classification methodology which may differ from the methodology used by individual benchmark providers. Performance and attribution results are for the fund or share class depicted and do not reflect the impact of your contributions and withdrawals. Your personal performance results may differ.

Portfolio characteristics are based on equivalent exposure, which measures how a portfolio's value would change due to price changes in an asset held either directly or, in the case of a derivative contract, indirectly. The market value of the holding may differ.

# Disciplined Investment Approach



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## Goal

Seek capital appreciation over the longer term by investing in a diversified portfolio of global shares and aims to outperform the MSCI World Index (with net dividends reinvested), unhedged, over a full market cycle, before taking into account fees, taxes and expenses.

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## Philosophy

We believe

- Companies with durable above-average growth and return prospects, which are not reflected in their valuation, will outperform over the long run
  - The value of compounding high returns on capital and above-average growth rates over long time periods is often underestimated by the market
- 

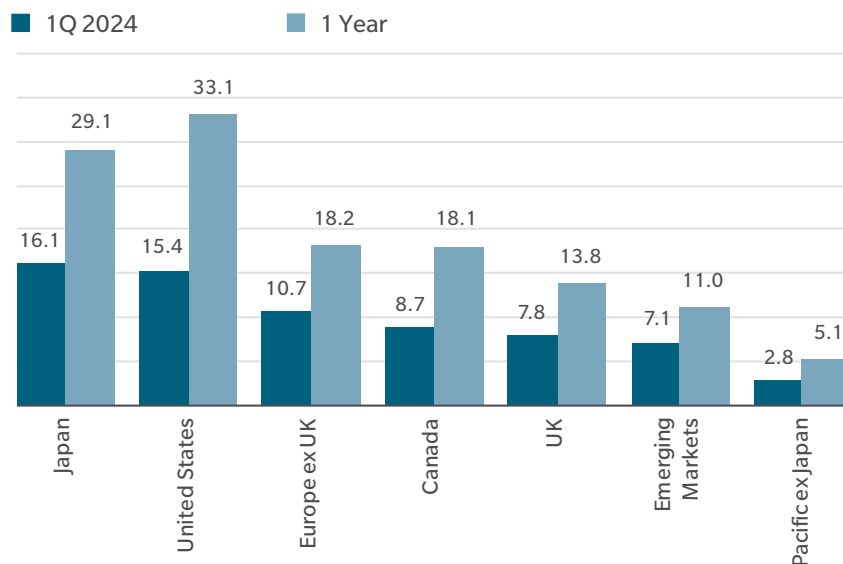
## Strategy

- Through fundamental analysis we seek to identify enduring businesses, focusing on operational risks and the long-term potential for change
  - We consider whether the valuation reflects the long-term growth and return prospects of the company, and to what extent it adequately incorporates risks
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# Market Overview

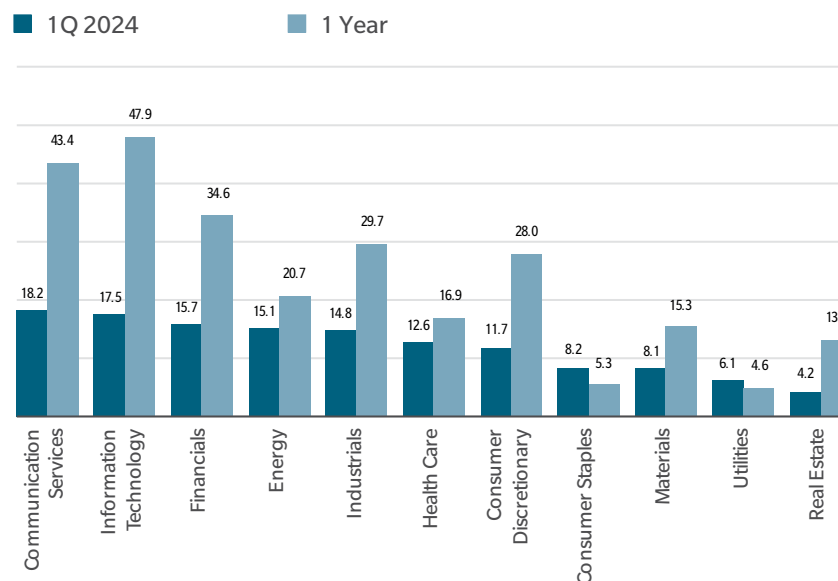


Region performance (%) (AUD) as of 31-Mar-24



Source: FactSet. Region performance based on MSCI regional/country indexes.

Sector performance (%) (AUD) as of 31-Mar-24



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of MSCI World Index constituents are broken out by MSCI defined sectors.

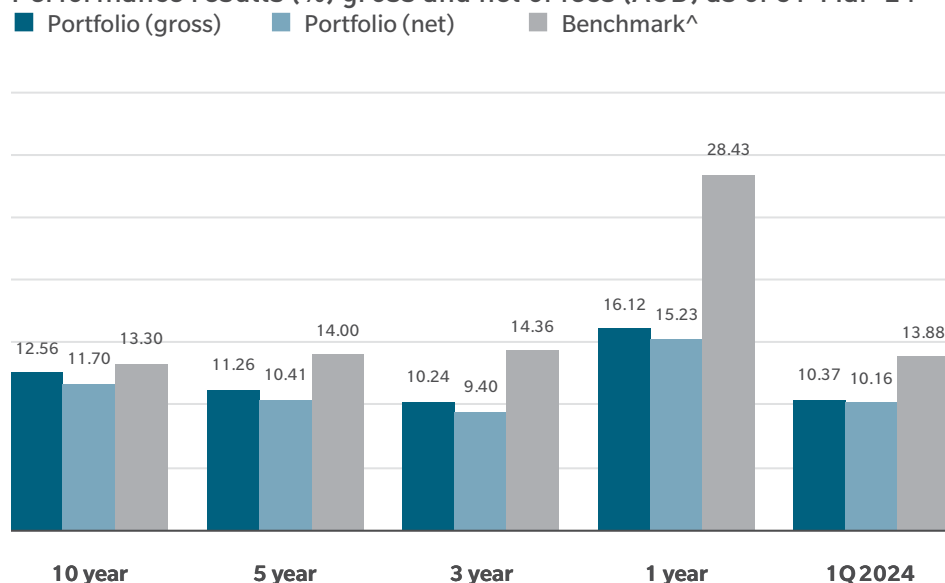
## Global Equities market review as of 31-Mar-2024

- The global equity market rally has continued in 2024 helped by improving economic and earnings data, as expectation of a soft landing becomes a growing consensus.
- Large growth stocks again led the market in the first quarter driven by renewed enthusiasm in artificial intelligence, while defensive sectors lagged. However, growth leadership started to fade in the back half of the quarter alongside the backup in bond yields.
- Anticipation of less restrictive monetary policy continues to provide support to equity markets, although the timing and pace of interest rate cuts are dependent on economic and inflation data in the coming months.
- There are meaningful regional divergences in economic performance, with emerging markets outside of China growing the strongest, trends in the US, Japan and the UK modestly positive, the recovery in Europe uneven and China experiencing deflation.

# Executive Summary



## Performance results (%) gross and net of fees (AUD) as of 31-Mar-24



Source for benchmark performance SPAR, FactSet Research Systems Inc.

For periods of less than one-year returns are not annualized.

**Past performance is no guarantee of future results.**

^ MSCI World Index (net div)

## Sector weights (%) as of 31-Mar-24

	Portfolio	Benchmark^^
<b>Top overweights</b>		
Industrials	19.5	11.2
Health Care	18.0	12.0
Financials	18.6	15.4
<b>Top underweights</b>		
Information Technology	10.5	23.7
Energy	-	4.5
Utilities	-	2.4

### ^^ MSCI World Index

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The MFS Global Equity Trust underperformed the MSCI World Index (net div) in the first quarter of 2024.

### Contributors

- Individual stocks:
  - Apple Inc (not held)
  - Tesla Inc (not held)
  - Rolls-Royce Holdings Plc
  - Walt Disney Co/The
  - Oracle Corp
  - American Express

### Detractors

- Information Technology - Stock selection and an underweight position
- Consumer Staples - Stock selection
- Communication Services - Stock selection
- Individual stocks:
  - Roche Holding Ltd

# Performance Results



Performance results (%) gross and net of fees (AUD) as of 31-Mar-24

Period	Portfolio gross	Portfolio net	Benchmark <sup>^</sup>	Excess return net vs benchmark
1Q 2024	10.37	10.16	13.88	-3.72
4Q 2023	5.02	4.82	5.38	-0.56
3Q 2023	-3.70	-3.88	-0.43	-3.45
2Q 2023	4.03	3.83	7.49	-3.66
FYTD	11.62	10.98	19.49	-8.51
2023	14.58	13.71	23.03	-9.32
2022	-10.97	-11.65	-12.24	0.59
2021	25.54	24.58	29.29	-4.71
2020	4.18	3.38	5.58	-2.20
2019	31.91	30.90	27.86	3.04
10 year	12.56	11.70	13.30	-1.61
5 year	11.26	10.41	14.00	-3.59
3 year	10.24	9.40	14.36	-4.96
1 year	16.12	15.23	28.43	-13.20

Source for benchmark performance SPAR, FactSet Research Systems Inc.

For periods of less than one-year returns are not annualized.

**Past performance is no guarantee of future results.**

<sup>^</sup> MSCI World Index (net div)

## Performance Drivers - Sectors



Relative to MSCI World Index (AUD) - first quarter 2024		Average relative weighting (%)	Portfolio returns (%)	Benchmark returns (%)	Sector allocation <sup>1</sup> (%)	+ Stock selection <sup>2</sup> (%)	+ Currency effect (%)	= Relative contribution (%)
<b>Contributors</b>	Real Estate	-2.3	—	4.2	0.2	—	-0.0	0.2
	Utilities	-2.5	—	6.1	0.2	—	-0.0	0.2
	Consumer Discretionary	-2.7	12.2	11.7	0.1	0.1	-0.1	0.1
	Materials	3.2	10.5	8.1	-0.1	0.0	0.1	0.0
<b>Detractors</b>	Information Technology	-13.9	11.0	17.5	-0.4	-0.6	-0.1	-1.1
	Consumer Staples	3.1	0.1	8.2	-0.2	-0.6	-0.2	-1.0
	Communication Services	0.1	7.7	18.2	0.1	-0.9	0.0	-0.8
	Industrials	9.4	12.1	14.8	0.1	-0.7	0.1	-0.5
	Health Care	5.7	10.6	12.6	-0.1	-0.2	-0.2	-0.4
	Financials	3.4	14.5	15.7	0.1	-0.3	0.1	-0.1
	Cash	0.8	1.0	—	-0.1	—	-0.0	-0.1
	Energy	-4.3	—	15.1	-0.0	—	-0.0	-0.0
<b>Total</b>			<b>10.4</b>	<b>14.0</b>	<b>-0.1</b>	<b>-3.1</b>	<b>-0.4</b>	<b>-3.5</b>

1 Sector allocation is calculated based upon each security's price in local currency.

2 Stock selection is calculated based upon each security's price in local currency and included interaction effect. Interaction effect is the portion of the portfolio's relative performance attributable to combining allocation decisions with stock selection decisions. This effect measures the relative strength of the manager's convictions. The interaction effect is the weight differential times the return differential.

Attribution results are generated by the FactSet application utilizing a methodology that is widely accepted in the investment industry. Results are based upon daily holdings using a buy-and-hold methodology to generate individual security returns and do not include fees or expenses. As such, attribution results are essentially estimates and do not aggregate to the total return of the portfolio, which can be found elsewhere in this presentation. Recent geopolitical events may have impacted or disrupted the pricing of specific securities including the use of fair valuation approaches. Fair valuation practices across pricing sources index providers, pricing vendors, MFS - may not align due to security specific considerations or timing of fair valuation parameters. For instance, decisions to use stale prices vs fair value or on the level of haircut when fair valuing securities are typical sources of discrepancy between pricing sources observed during the events. This may further compound differences between attribution results and actual performance. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please email [DLAttributionGrp@MFS.com](mailto:DLAttributionGrp@MFS.com).

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# Performance Drivers - Stocks



Relative to MSCI World Index (AUD) - first quarter 2024		Average Weighting (%)		Returns (%)		Relative contribution(%)
		Portfolio	Benchmark	Portfolio <sup>1</sup>	Benchmark	
<b>Contributors</b>	Apple Inc	—	4.5	—	-6.7	1.0
	Tesla Inc	—	0.9	—	-26.0	0.5
	Rolls-Royce Holdings Plc	0.9	0.1	47.6	47.6	0.2
	Walt Disney Co/The	1.2	0.3	41.7	41.7	0.2
	Oracle Corp	1.9	0.3	25.1	24.7	0.2
<b>Detractors</b>	Nvidia Corp	—	2.8	—	90.8	-1.5
	Meta Platforms Inc	—	1.6	—	43.6	-0.4
	Roche Holding Ltd	2.0	0.3	-4.4	-4.4	-0.3
	Liberty Broadband Corp	0.5	0.0	-23.0	-25.7	-0.3
	Reckitt Benckiser Group PLC	1.1	0.1	-13.7	-13.7	-0.3

<sup>1</sup> Represents performance for the time period stock was held in portfolio.

Attribution results are generated by the FactSet application utilizing a methodology that is widely accepted in the investment industry. Results are based upon daily holdings using a buy-and-hold methodology to generate individual security returns and do not include fees or expenses. As such, attribution results are essentially estimates and do not aggregate to the total return of the portfolio, which can be found elsewhere in this presentation. Recent geopolitical events may have impacted or disrupted the pricing of specific securities including the use of fair valuation approaches. Fair valuation practices across pricing sources index providers, pricing vendors, MFS - may not align due to security specific considerations or timing of fair valuation parameters. For instance, decisions to use stale prices vs fair value or on the level of haircut when fair valuing securities are typical sources of discrepancy between pricing sources observed during the events. This may further compound differences between attribution results and actual performance. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please email [DLAttributionGrp@MFS.com](mailto:DLAttributionGrp@MFS.com).



## Significant Impacts on Performance - Detractors



Relative to MSCI World Index (AUD) - first quarter 2024		Relative contribution (%)
<b>Nvidia Corp</b>	Not owning shares of computer graphics processor maker NVIDIA (United States) weighed on relative returns. The share price rose as the company reported impressive revenues ahead of investor expectations from the continued demand for its line of generative AI processors.	-1.5
<b>Meta Platforms Inc</b>	Not owning shares of social networking service provider Meta Platforms (United States) weighed on relative performance. The stock price advanced during the quarter as the company reported earnings results ahead of expectations, led by strength in advertising revenue growth in China and a disciplined approach to capex. The company also announced a quarterly dividend and discussed plans to integrate artificial intelligence within its platforms, further supporting the stock price.	-0.4
<b>Roche Holding Ltd</b>	The portfolio's overweight position in pharmaceutical and diagnostic company Roche Holding (Switzerland) hindered relative performance. The stock price declined during the quarter as management reported fiscal year financial results negatively impacted by the strong Swiss franc and provided 2024 guidance below consensus forecasts.	-0.3

## Significant Impacts on Performance - Contributors



Relative to MSCI World Index (AUD) - first quarter 2024		Relative contribution (%)
<b>Apple Inc</b>	Not owning shares of computer and personal electronics maker Apple (United States) contributed to relative returns. The stock price declined as the company reported a slowdown in iPhone demand in China. App store revenues from China were also below analyst expectations. The stock price suffered further after the Department of Justice filed a civil antitrust lawsuit alleging the company monopolized the smartphone market by discouraging innovation that threatens its competitive position or disintermediates the iPhone.	1.0
<b>Tesla Inc</b>	Not owning shares of electric vehicle manufacturer Tesla (United States) benefited relative results. The share price of Tesla fell following softer-than-anticipated earnings for the sixth straight quarter as a consequence of its strategy undertaken at the end of 2022 to sacrifice pricing and margins to drive sales.	0.5
<b>Rolls-Royce Holdings Plc</b>	Overweighting shares of diversified industrial manufacturer Rolls-Royce (United Kingdom) contributed to relative performance. The stock price appreciated as the company reported full-year financial results above expectations, driven by strong performance across all segments. The company also raised its full-year guidance, which further supported the stock.	0.2

## Significant Transactions



From 01-Jan-24 to 31-Mar-24		Sector	Transaction type	Trade (%)	Ending weight (%)
<b>Purchases</b>	MICROSOFT CORP	Information Technology	New position	1.7	1.7
	BECTON DICKINSON AND CO (EQ)	Health Care	New position	1.4	1.4
	CAPGEMINI SE	Information Technology	New position	1.0	1.0
	AMADEUS IT GROUP SA	Consumer Discretionary	New position	0.8	0.9
	TRANSUNION	Industrials	New position	0.8	0.9
<b>Sales</b>	ACCENTURE PLC	Information Technology	Trim	-1.2	1.3
	DANONE SA	Consumer Staples	Eliminate position	-0.9	-
	LIBERTY BROADBAND CORP	Communication Services	Eliminate position	-0.8	-
	3M CO	Industrials	Eliminate position	-0.8	-
	LINDE PLC	Materials	Trim	-0.6	2.2

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## Sector Weights



As of 31-Mar-24	Portfolio (%)	Benchmark^ (%)	Underweight/overweight(%)	Top holdings
Industrials	19.5	11.2	8.3	Schneider Electric SE, Canadian Pacific Kansas City Ltd, Honeywell International Inc
Health Care	18.0	12.0	6.0	Thermo Fisher Scientific Inc, Medtronic PLC, Roche Holding AG
Financials	18.6	15.4	3.2	Visa Inc, Charles Schwab Corp, Willis Towers Watson PLC
Materials	7.1	3.9	3.2	Linde PLC, International Flavors & Fragrances Inc, Air Liquide SA
Consumer Staples	8.9	6.5	2.4	Diageo PLC, Nestle SA, Heineken NV
Communication Services	7.4	7.4	0.0	Comcast Corp, Alphabet Inc Class A, Walt Disney Co
Consumer Discretionary	8.9	10.7	-1.8	LVMH Moet Hennessy Louis Vuitton SE, Cie Financiere Richemont SA
Real Estate	-	2.3	-2.3	
Utilities	-	2.4	-2.4	
Energy	-	4.5	-4.5	
Information Technology	10.5	23.7	-13.2	Oracle Corp, Microsoft Corp, Accenture PLC

^ MSCI World Index

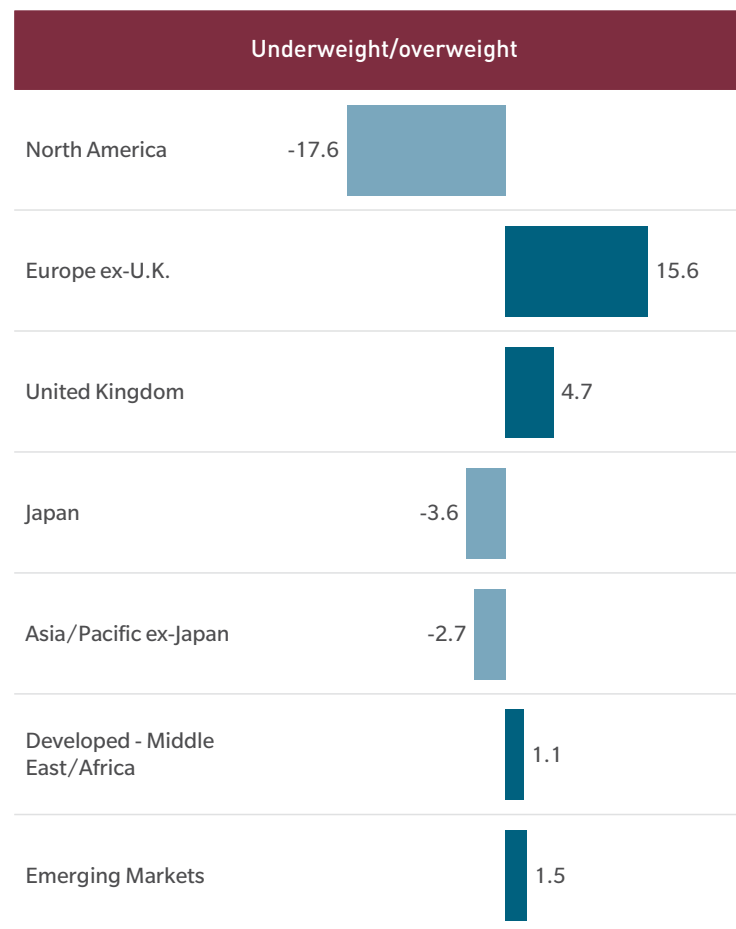
1.1% Cash & cash equivalents

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## Region and Country Weights



As of 31-Mar-24	Portfolio [%]	Benchmark^ [%]	Underweight/overweight[%]
<b>North America</b>	<b>56.3</b>	<b>73.9</b>	<b>-17.6</b>
Canada	3.6	3.1	0.5
United States	52.7	70.7	-18.0
<b>Europe ex-U.K.</b>	<b>29.0</b>	<b>13.4</b>	<b>15.6</b>
France	10.4	3.2	7.2
Switzerland	8.1	2.4	5.7
Spain	2.8	0.7	2.1
Netherlands	2.4	1.4	1.0
Germany	3.1	2.3	0.8
Austria	0.6	0.0	0.6
Sweden	1.0	0.8	0.2
Denmark	0.6	0.9	-0.3
Other countries <sup>1</sup>	0.0	1.7	-1.7
<b>United Kingdom</b>	<b>8.4</b>	<b>3.7</b>	<b>4.7</b>
<b>Japan</b>	<b>2.5</b>	<b>6.1</b>	<b>-3.6</b>
<b>Asia/Pacific ex-Japan</b>	<b>0.0</b>	<b>2.7</b>	<b>-2.7</b>
Other countries <sup>1</sup>	0.0	2.7	-2.7
<b>Developed - Middle East/Africa</b>	<b>1.3</b>	<b>0.2</b>	<b>1.1</b>
Israel	1.3	0.2	1.1
<b>Emerging Markets</b>	<b>1.5</b>	<b>0.0</b>	<b>1.5</b>
South Korea	1.1	0.0	1.1
Mexico	0.4	0.0	0.4



^ MSCI World Index

1.1% Cash & cash equivalents

<sup>1</sup> The portfolio does not own any securities in countries represented in the benchmark in the following percentages: Australia 1.9%; Italy 0.7%; Hong Kong 0.5% and 7 countries with weights less than 0.5% which totals to 1.3%.

# Characteristics



As of 31-Mar-24	Portfolio	Benchmark <sup>^</sup>
<b>Fundamentals - weighted average</b>		
IBES long-term EPS growth <sup>1</sup>	11.1%	13.3%
Price/earnings (12 months forward ex-negative earnings)	19.6x	19.1x
Return on invested capital	11.8%	16.0%
Long term debt/capital	41.2%	37.4%
Dividend yield	1.7%	1.8%
<b>Fundamentals - weighted median</b>		
IBES long-term EPS growth <sup>1</sup>	9.9%	11.0%
Price/earnings (12 months forward ex-negative earnings)	20.9x	22.8x
Return on invested capital	9.7%	13.3%
Long term debt/capital	37.9%	36.3%
Dividend yield	1.6%	1.3%
<b>Market capitalisation</b>		
Market capitalisation (AUD) <sup>2</sup>	329.1 bn	873.8 bn
Market capitalisation (AUD) <sup>3</sup>	133.4 bn	192.9 bn
<b>Diversification</b>		
Top ten issues	23%	21%
Number of Issues	84	1,465
Number of countries	15	23
<b>Turnover</b>		
Trailing 1 year turnover <sup>4</sup>	14%	—
<b>Risk profile (current)</b>		
Barra predicted tracking error <sup>5</sup>	3.94%	—
Active share	87%	—
<b>Risk/reward (since inception)</b>		
Standard deviation <sup>6</sup>	12.17%	12.13%
Information ratio <sup>6</sup>	0.30	—
Upside capture <sup>6</sup>	98.74%	—
Downside capture <sup>6</sup>	89.96%	—

<sup>^</sup> MSCI World Index

**Past performance is no guarantee of future results.  
No forecasts can be guaranteed.**

<sup>1</sup> Source: FactSet

<sup>2</sup> Weighted average.

<sup>3</sup> Weighted median.

<sup>4</sup> US Turnover Methodology: (Lesser of Purchase or Sales)/Average Month End Market Value

<sup>5</sup> Source Barra. The Barra information may not be redistributed, may not be reproduced or disseminated in any form and may not be used to create any financial instruments or products or any indices. The Barra information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Barra, each of its affiliates and each other person involved in or related to compiling, computing or creating any Barra information (collectively, the "Barra Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any Barra Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

<sup>6</sup> Since inception, based on first full month of performance.

## Top 10 Issuers



Top 10 issuers as of 31-Mar-24	Portfolio (%)	Benchmark^ (%)
VISA INC	2.9	0.7
SCHNEIDER ELECTRIC SE	2.7	0.2
THERMO FISHER SCIENTIFIC INC (EQ)	2.5	0.3
MEDTRONIC PLC	2.4	0.2
CHARLES SCHWAB CORP/THE	2.2	0.2
LVMH MOET HENNESSY LOUIS VUITTON SE	2.2	0.4
LINDE PLC	2.2	0.3
WILLIS TOWERS WATSON PLC	2.2	0.0
COMCAST CORP	2.2	0.3
ALPHABET INC	2.1	2.6
<b>Total</b>	<b>23.5</b>	<b>5.2</b>

^ MSCI World Index

# Portfolio Outlook and Positioning



## Sharpening our focus

We acknowledge that the Global Equity strategy has delivered underperformance relative to its benchmark over recent times. We recognize this is disappointing for our clients and is equally disappointing for us. There have been some lessons learnt and time for reflection, which has focused on three key areas: investment philosophy, portfolio construction and risk management.

- 1) **Philosophy** – We remain fully committed to our investment philosophy as long-term investors focused on growth at a reasonable price. Remaining disciplined to this philosophy and approach has not changed over the 36 years since inception back in 1988 and is the hallmark of the strategy’s long-term success. We are stock pickers, looking for companies which exhibit durable, above-average growth at the right valuation, which we believe will outperform over full market cycles. We have historically added most value for clients during times of the biggest challenges in markets, rather than when returns have been exceptionally high or exuberant, as arguably has been the case recently. We are unapologetically long term. This provides a mechanism for us to benefit from mispricing and dislocations and express a differentiated view versus the market whose orientation is increasingly short term.
- 2) **Idea generation and portfolio construction** – We recognize some steps being taken to implement our process better. So, what are we doing specifically?
  - i. **“Thesis retest and drift”** – We have done a huge amount of work to retest the thesis behind our holdings, with a particular focus on (1) reevaluating persistent underperformers, and (2) stocks that look fully valued. We also recognize the need to be sharper at managing “thesis drift” and avoid stocks whose fundamentals are deteriorating but where valuations appear attractive. Perhaps on occasion, we have been too patient in allowing time to solve issues or allow the thesis to come to fruition. We have always had an ongoing, healthy and iterative collaboration with our experienced research team but have added more structure and rigor to the process, stepping up the frequency of interactions even more than we were doing before. This is already starting to make a difference. Recent examples of sales included Bayer, Liberty Broadband (Charter Communications) and 3M. For stocks that look more fully valued, we have taken material trims to Accenture and Stryker.
  - ii. **“Being more agile”** – We recognize the recent challenges of index concentration and the extreme narrowness of markets, which has raised the absolute risk inherent in the benchmark. The good news is that this is creating huge opportunities for long-term investors like us to buy quality stocks at discounted valuations, which are not getting credit from the market and in some cases have been on our watch list for years. We are finding more stocks that meet our criteria across our research platform and have explicitly



## Portfolio Outlook and Positioning



made more time and space for new ideas. We are energized by the opportunities in front of us and have tweaked the process in response, just as a way of organizing things in a way that is actionable. We have funded six new positions so far this year: Microsoft, Becton Dickinson, Cap Gemini, Amadeus, TransUnion, and Air Products and Chemicals.

- 3) **Risk Management** – We believe the process that exists to monitor and mitigate portfolio risk is rigorous and appropriate. In addition to the culture within MFS to question each other on what can go wrong, we conduct semi-annual risk reviews for every MFS portfolio. The framework is multi-faceted and considers not only factors such as style, industry and macroeconomic risk, but also incorporates an analysis of cost, capacity and liquidity. This process forms an effective oversight to confirm that portfolios are being managed in line with their investment mandate and philosophy.

# Portfolio Outlook and Positioning



## Equity market review

Global equity markets have started the year strongly, with the MSCI World Index (net div. in USD) returning 8.9% in Q1, driven by falling inflation and the prospects of lower interest rates fostering optimism for a pick-up in the global economy. The interesting feature of the rally is that returns have been driven mostly by multiple expansion (stocks getting more expensive) rather than higher earnings growth (at this stage). This is a generalization as we recognize some parts of the market have seen earnings growth, albeit not widespread. The expectation is that earnings growth will come through to support the higher valuations. The strongest-performing sectors were information technology, communication services and financials, with more defensive areas such as utilities, consumer staples and health care lagging the market.

From a style perspective, growth has again beaten value, but less extreme compared to last year. The MSCI World Growth Index returned 10.2% (net div. in USD) compared to the MSCI World Value Index return of 7.5% (net div. in USD) for the quarter. The encouraging news is that the equity market was less narrow, with a decoupling and divergence in performance across the so-called Magnificent Seven – Apple and Tesla shares fell 11% and 29% respectively, Microsoft and Alphabet performed similarly to the market, whilst Amazon, Meta Platforms and Nvidia rose 19%, 37% and 82% respectively. As a result of recent moves, Tesla has dropped out of the top seven stocks and Nvidia is now the third-largest company in the world by market value, driven by huge sales and earnings growth from booming demand for its high-powered chips, which are necessary to train large language models amid the recent AI frenzy.

Valuations certainly look stretched in pockets, driving big share price gains in certain parts of the market and areas of excitement, such as artificial intelligence, defense, GLP-1s and bitcoin ETFs. As a result, we are finding a growing opportunity set in stocks with decent growth prospects at reasonable valuations, left behind in the narrow focus of markets.

## Macro background

Investors are pricing in interest rate cuts for most developed markets, although expectations have tempered from where they started the year. The “last mile” of inflation is proving stickier and harder to shift, not helped by ongoing supply constraints, particularly in the Middle East, and resilient labor markets pushing up wage growth. Investors are now pricing in three rate cuts by the US Federal Reserve this year, down from

# Portfolio Outlook and Positioning



earlier expectations of five to six rate cuts. Interest rates in the US are at 5.5%, the highest level in 23 years, with the Fed signaling 75 basis points of cuts this year.

US inflation has fallen to 3.2% from a peak of 9.1% in June 2022, with Eurozone inflation down to 2.6% and UK inflation down sharply to 3.4%, also hitting two-year lows. Central bankers are keenly weighing up when to act, with inflation numbers not yet hitting target levels. The US economy seems to have moved firmly away from recession fears, with the Fed recently raising its growth forecast to 2.1% for this year.

In Europe, economic performance is mixed, with Germany still teetering close to recession. The ECB has signaled that June is the earliest it would cut rates, predicting it will achieve its 2% inflation target next year. The UK economy has also been weak and close to a technical recession.

The biggest policy shift of the quarter was probably in Japan, where the Bank of Japan finally raised its key short-term interest rate to 0.0%, ending eight years of negative interest rates. Whilst the move was small, it was symbolic in recognizing that inflation is seen as the biggest evil, even in Japan which has suffered three decades of stagnation. Elsewhere, China continues to concern many economists, as official growth forecasts continue to ratchet down. The consensus boom area is India, which is taking up the mantle for driving global growth.

## Portfolio performance in Q1

The portfolio underperformed the benchmark in the first quarter. This was mostly due to the underweight to the information technology sector, and stock selection in information technology, consumer staples and communication services. Offsetting this was a positive allocation effect from not owning any real estate or utilities stocks and positive stock selection in consumer discretionary.

At a stock level, the biggest detractors to relative performance were not holding Nvidia and Meta Platforms, together with holdings in Roche, Liberty Broadband and Reckitt Benckiser. Offsetting this was a positive contribution from not holding Apple and Tesla, which fell sharply, as well as holdings in Rolls Royce, Walt Disney and Oracle, which all performed well.

It was pleasing to see the correlation between the Magnificent Seven stocks start to break down, with both Apple and Tesla falling sharply. This bodes well for the unwinding of the extreme concentration and narrowness of markets. Apple was a good reminder of how regulation risks can impact these big stocks as their smartphone dominance comes under increasing scrutiny from US and EU regulators. Tesla is facing competitive

## Portfolio Outlook and Positioning



pressures and responding with price cuts as it fights to dominate the electric vehicle market, which has shown signs of slowdown, as consumers seem unwilling to pay the premium and continue to exhibit range anxiety.

### Portfolio positioning

We continue to adjust the portfolio as we see an increase in the opportunity set of stocks that meet our criteria. As a reminder, we are bottom-up stock pickers, so sector and geographic allocations are merely outputs of the process and not targeted in any way.

The biggest overweight sectors versus the benchmark are industrials, health care and financials. The key change here is that consumer staples is no longer one of our biggest overweights post the sale of our holding in Danone. We continue to like exposure to alcoholic beverages, which exhibit decent growth characteristics and margin potential at attractive valuations.

Within industrials, we believe our holdings are relatively defensive, such as railroads, electrical equipment, aerospace, and professional services firms such as the credit bureaus Experian and Equifax. We added a third credit bureau with the recent purchase of TransUnion. We particularly like the “data” element to the growth story as these companies use AI to mine their proprietary and highly-regulated data sets to optimize the value they add for their customers.

The portfolio’s health care holdings mainly consist of medical devices and life sciences tools companies, which we believe will benefit from above-average secular growth prospects driven by aging demographics, increasing health care spending and product innovations.

Within financials, we favor asset-light financials with less regulation that generate durable growth, strong returns and recurring revenues, such as asset managers, payments, exchanges and insurance brokers. We remain underweight banks as most are too cyclical with a poor history of returns and do not meet the growth and return criteria we look for.

The biggest underweight sectors versus the benchmark are information technology, energy and utilities. The change here is that consumer discretionary is no longer one of our biggest underweights after the recent purchase of Amadeus, which is arguably more a technology business, processing transactions for airlines and providing them with software solutions.

# Portfolio Outlook and Positioning



Within technology, we have taken a sizeable trim to our position in Accenture and bought Microsoft on a similar valuation, after increasing our conviction around the durability of its growth prospects, whilst modelling a narrower range of outcomes. We have also purchased a new position in Capgemini, a consulting business like Accenture but with more margin upside.

Overall, we believe the companies we own have durable growth prospects, competitive advantage and strong pricing power. Given our bottom-up approach, our decisions are not driven by trying to predict the path of macro variables, but we are very mindful of how these impact company prospects and valuations. We believe the portfolio is well positioned, particularly if earnings become more challenged.

## Portfolio activity in Q1

The activity level has increased as we find more stocks that meet our criteria that are not being given credit by the market. The opportunity set looks highly encouraging to us, and we have funded six new positions so far this year: Microsoft, Becton Dickinson, Capgemini, Amadeus, TransUnion, and Air Products and Chemicals. To make space in the portfolio we have exited five stocks: Danone, Liberty Broadband, 3M, PayPal and Adecco.

## Purchases

- We initiated a position in **Microsoft**. We have always admired the strong fundamentals with an entrenched position in enterprise software, a rapidly growing cloud computing business and a strong position in artificial intelligence with its Copilot product. After recent reviews we have increased our conviction in Microsoft's pace and duration of growth and modeled a narrower range of outcomes. We consider the stock's valuation reasonable relative to its long-term growth prospects.
- We initiated a position in **Becton Dickinson**, a medical equipment and supplies business with leading market shares (70% in key products) in most of its categories across medical, life sciences and interventional surgery. It has 85% recurring revenues and a diversified product portfolio that we believe will be resilient in any market environment. We believe the company can deliver mid-single-digit organic revenue growth and high-single-digit earnings growth, and the stock is trading at attractive valuations.
- We initiated a position in **Capgemini**, an IT consulting business. We are optimistic in the secular growth outlook of IT consulting, where

## Portfolio Outlook and Positioning



capital-light, high-return businesses benefit from their customers' need to adapt to technological changes. We believe Capgemini will be able to achieve high-single-digit revenue growth and double-digit EPS growth over the long term. We feel the stock is attractively valued relative to long-term growth prospects and relative to peers.

- We initiated a position in **Amadeus**, which provides booking systems and IT software solutions for airlines and travel agents. The business has economies of scale with high barriers to entry and is hard to disintermediate as it becomes entrenched into booking systems. The GDS (global distribution system) platform connects airlines and travel agents, so that agents can search the airline's inventory for seats with fast real time connections. The IT solutions business is mission critical for airlines, managing their IT and inventory management systems. Without them, they cannot sell tickets or check in and board passengers. This is a high recurring fee business that earns a transaction fee per passenger boarded.
- We initiated a position in **TransUnion**, a global consumer credit bureau. We like the oligopoly structure of the industry with high barriers to entry and durable growth. We believe the company will benefit from improving free cash flow and reduced debt in the next few years. We particularly like the "data" element to the growth story as these companies use AI to mine their proprietary and highly-regulated data sets to optimize the value they add for their customers.
- We initiated a position in **Air Products and Chemicals**, the industrial gases supplier. We believe the company has a defensive and stable business capable of delivering mid-single-digit revenue growth and high-single-digit EPS growth, and there is significant upside potential from several big projects in its backlog.
- We added to existing positions in **Cellnex, Aptiv, Pernod Ricard, Diageo, Burberry** and **London Stock Exchange Group**.

### Sales

- We took a sizeable trim to **Accenture**, the market leading IT consulting business, to manage position size and fund other attractive opportunities, notably Microsoft and Capgemini.

## Portfolio Outlook and Positioning



- We sold the position in **Danone**. We feel less confident in the long-term growth and margin potential of its product categories (dairy, nutrition and water) compared to other consumer staples such as alcoholic beverages. We are also concerned about the ability to deliver on all of the company's sustainability aims and the cost implication of these.
- We sold the position in **Liberty Broadband**, the holding company for John Malone's stake in Charter Communications. We feel the growth and return outlook has become more challenged given slowing broadband growth, increased capital intensity and significant leverage.
- We trimmed **Linde**, the industrial gases company, to fund the purchase of Air Products and Chemicals.
- We sold **3M** and residual positions in **PayPal** and **Adecco** to fund new opportunities highlighted above.
- We trimmed **Schneider Electric, Boston Scientific, Stryker, Cognizant, Rolls Royce, Equifax, Goldman Sachs, Visa, eBay, Sonova, American Express, Abbott Laboratories** and **Comcast** to manage position size and fund the new opportunities highlighted above.

### Summary

The level of absolute returns from equity markets has been well above expected levels in recent times, and portfolio diversification has not helped given the extreme concentration and narrowness of markets. The good news is that we see signs of change. The next decade will look and feel quite different from the last decade. The world has become accustomed to very low interest rates, low and stable inflation, the benefits of globalization and a benign geopolitical landscape. All these factors look set to change. We expect more volatility and a higher risk premium for all financial assets in an uncertain world. In our view, it is best to avoid assets and companies with excessive leverage. Hedge funds and private capital markets are a systematic concern.

Uncertainty is now our certainty. That is why it is right to stay patient as investors. We have reviewed our approach and remain absolutely committed to our investment philosophy as long-term investors focused on growth at a reasonable price. We are stock pickers and unapologetically long term, seeking to invest in companies with durable above-average growth and return prospects at reasonable valuations. We recognize that recent performance has been disappointing for our clients and is equally disappointing for us. We have taken time for

# Portfolio Outlook and Positioning



reflection over this period and recognize some lessons learnt. We are sharpening our focus so that we can again meet the performance expectations that you deserve, and we are confident that as the anomalies in markets unwind our approach will serve you very well going forward.

The commentary included in this report was based on a representative fully discretionary portfolio for this product style; as such the commentary may include securities not held in your portfolio due to account, fund, or other limits.



# Portfolio Holdings



As of 31-Mar-24	Country	Equivalent exposure (%)
<b>Cash &amp; Cash Equivalents</b>		<b>1.1</b>
Cash & Cash Equivalents		1.1
<b>Communication Services</b>		<b>7.4</b>
Comcast Corp	United States	2.2
Alphabet Inc Class A	United States	2.1
Walt Disney Co	United States	1.3
Cellnex Telecom SA	Spain	1.0
WPP PLC	United Kingdom	0.5
Omnicom Group Inc	United States	0.3
<b>Consumer Discretionary</b>		<b>8.9</b>
LVMH Moet Hennessy Louis Vuitton SE	France	2.2
Cie Financiere Richemont SA	Switzerland	1.7
Amadeus IT Group SA	Spain	0.9
Marriott International Inc/MD	United States	0.8
eBay Inc	United States	0.7
Aptiv PLC	United States	0.6
Compass Group PLC	United Kingdom	0.6
Burberry Group PLC	United Kingdom	0.5
Hermes International SCA	France	0.5
Whitbread PLC	United Kingdom	0.4
<b>Consumer Staples</b>		<b>8.9</b>
Diageo PLC	United Kingdom	1.9
Nestle SA	Switzerland	1.7
Heineken NV	Netherlands	1.5
Pernod Ricard SA	France	1.2
Essity AB	Sweden	1.0
Reckitt Benckiser Group PLC	United Kingdom	0.9
Carlsberg AS	Denmark	0.6
<b>Financials</b>		<b>18.6</b>
Visa Inc	United States	2.9
Charles Schwab Corp	United States	2.2
Willis Towers Watson PLC	United States	2.2
UBS Group AG	Switzerland	1.9

As of 31-Mar-24	Country	Equivalent exposure (%)
<b>Financials</b>		<b>18.6</b>
Goldman Sachs Group Inc	United States	1.9
American Express Co	United States	1.5
Aon PLC	United States	1.3
Fiserv Inc	United States	1.1
Fidelity National Information Services Inc	United States	0.9
London Stock Exchange Group PLC	United Kingdom	0.8
Erste Group Bank AG	Austria	0.6
Deutsche Boerse AG	Germany	0.5
Julius Baer Group Ltd	Switzerland	0.4
Grupo Financiero Banorte SAB de CV	Mexico	0.4
<b>Health Care</b>		<b>18.0</b>
Thermo Fisher Scientific Inc	United States	2.5
Medtronic PLC	United States	2.4
Roche Holding AG	Switzerland	1.8
Merck KGaA	Germany	1.6
Boston Scientific Corp	United States	1.5
Becton Dickinson & Co	United States	1.4
Waters Corp	United States	1.4
Abbott Laboratories	United States	1.3
Olympus Corp	Japan	1.0
Cooper Cos Inc	United States	0.9
Stryker Corp	United States	0.6
Sonova Holding AG	Switzerland	0.5
Hoya Corp	Japan	0.5
EssilorLuxottica SA	France	0.5
<b>Industrials</b>		<b>19.5</b>
Schneider Electric SE	France	2.7
Canadian Pacific Kansas City Ltd	Canada	2.0
Honeywell International Inc	United States	2.0
Canadian National Railway Co	Canada	1.6
Legrand SA	France	1.3
Union Pacific Corp	United States	1.2

## Portfolio Holdings



As of 31-Mar-24	Country	Equivalent exposure (%)
<b>Industrials</b>		<b>19.5</b>
Experian PLC	United Kingdom	1.1
Kubota Corp	Japan	1.0
Rolls-Royce Holdings PLC	United Kingdom	1.0
Aena SME SA	Spain	1.0
TransUnion	United States	0.9
United Parcel Service Inc	United States	0.7
Intertek Group PLC	United Kingdom	0.7
Equifax Inc	United States	0.7
Otis Worldwide Corp	United States	0.6
MTU Aero Engines AG	Germany	0.5
Brenntag SE	Germany	0.5
Carrier Global Corp	United States	0.3
<b>Information Technology</b>		<b>10.5</b>
Oracle Corp	United States	2.0
Microsoft Corp	United States	1.7
Accenture PLC	United States	1.3
Check Point Software Technologies Ltd	Israel	1.3
Samsung Electronics Co Ltd	South Korea	1.1
Capgemini SE	France	1.0
Amphenol Corp	United States	0.9
Cognizant Technology Solutions Corp	United States	0.7
Microchip Technology Inc	United States	0.6
<b>Materials</b>		<b>7.1</b>
Linde PLC	United States	2.2
International Flavors & Fragrances Inc	United States	1.2
Air Liquide SA	France	1.0
PPG Industries Inc	United States	1.0
Akzo Nobel NV	Netherlands	0.8
Air Products and Chemicals Inc	United States	0.8

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