sasfin Wealth

Sasfin Global Equity Model (SGEM)

Quarterly Review – Q4 2023:

1 October 2023 – 31 December 2023

sasfin.com

PERFORMANCE

Total Return (%) - Period ended 31 December 2023

	Quarter	YTD	1 Year	3 Years[1]	5 Years[1]	Since Inception[1, 2]
SGEM	12.1	22.4	22.4	4.8	11.3	9.6
MSCI ACWI[3]	11.0	22.2	22.2	5.8	11.7	8.4

Source: Morningstar

Note:

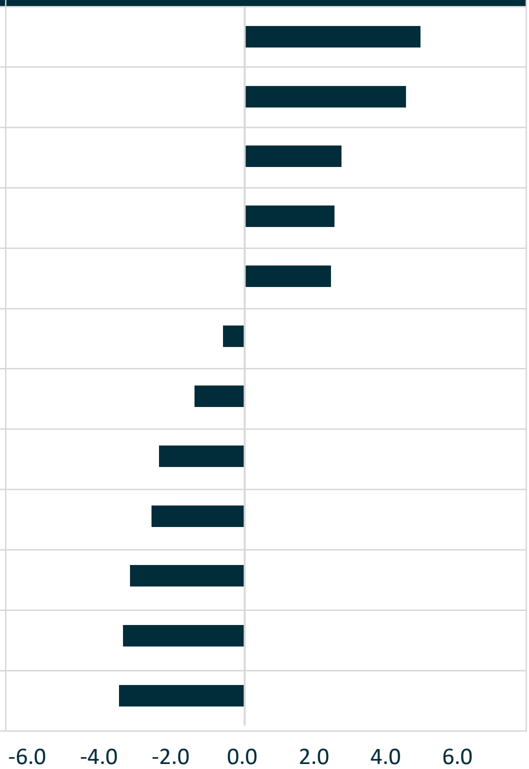
1 – Annualised

2 – Inception date: 31 December 2014

3 – MSCI All Country World Index

Portfolio Positioning (% Weight)

Sector	SGEM	MSCI ACWI	Under/Over (%)
Consumer Discretionary	16.0	11.1	
Cash	4.5	-	
Health Care	13.9	11.2	
Consumer Staples	9.3	6.8	
Communication Services	9.8	7.3	
Materials	4.0	4.5	
Energy	3.2	4.5	
Real Estate	-	2.4	
Utilities	-	2.6	
Industrials	7.5	10.7	
Information Technology	19.6	22.9	
Financials	12.4	15.9	



Source: FactSet

MARKET COMMENTARY

Global equity markets did not spoil the festivities as a "Santa Rally" extended gains for the MSCI All Country World Index ("MSCI ACWI"). The index, which represents a broad measure of global equity markets, gained 11.0% during quarter, reversing declines from the prior quarter and then some.

The primary factor driving equity markets higher during the quarter has been the view among market participants that central banks will begin cutting interest rates in 2024. Stock prices tend to exhibit an inverse relationship with interest rates, expectations of lower interest rates typically lead to higher stock prices owing to the lower discount rate used to price future cash flows or profits.

The Federal Open Market Committee meeting held during December appeared to vindicate such a viewpoint. Following the gathering, US Federal Reserve ("Fed") chairman, Jerome Powell, addressed the public with a dovish tone as the Fed's outlook now suggests that it could implement multiple rate cuts during 2024. This stands in contrast to the message echoed in September by the Fed, that interest rates would stay higher for longer.

Underlying the Fed's softening tone has been the continued decline of inflation from levels seen a year ago. While current inflation still remains above the Fed's target of 2.0%, Fed officials estimate that inflation will continue to trend towards this level. Powell further noted that the Fed did not want to wait for the 2.0% level to be reached before easing on interest rates.

With markets sniffing out the possibility of lower interest rates, the risk aversion experienced in the prior quarter reversed course. As a result, we saw the "safe haven" of the US dollar weaken during the quarter. This was evidenced through the decline of the US Dollar Index, which measures the performance of the greenback against other major currencies, which fell close to 5%. Lower rates, specifically real rates, galvanised demand for gold. Central banks continue to stock up bullion, leading the price of the yellow metal to surge 11.1% during the quarter, closing at $2,078/ozt.

Information Technology ended the quarter as the best performing sector. This sector is regarded as being longer duration in nature. This implies that it is relatively more sensitive than others to changes in interest rate expectations. Adding to the sector's relative outperformance was the continued positive sentiment towards the potential impact of Artificial Intelligence ("AI"), with technology stocks expected to be the largest beneficiaries at this point.

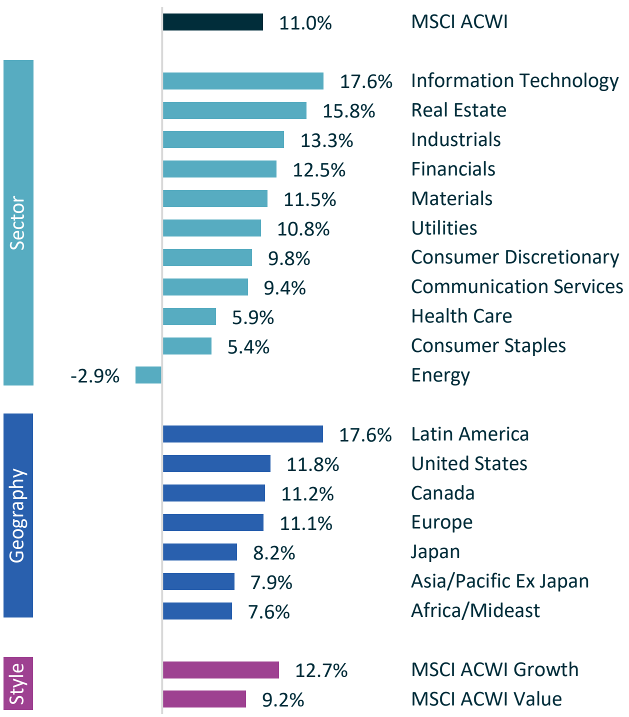
Perhaps more surprising was the broadening out of the equity rally. Gains made earlier in the year were largely isolated to a small group of stocks expected to benefit from the AI "mania" that swept through the market during 2023, with the "Magnificent Seven" notorious benefactors (refer to "Outlook and Way Forward" section for more detail).

The broader equity rally was evidenced by the majority of sectors registering positive gains during the quarter. After Information Technology, the best performing sectors during the period were Financials, Industrials, Materials and Real Estate. A combination of interest rates expected to fall and the willingness among market participants to take on more risk served as drivers behind the positive moves in these sectors.

The one sector that did disappoint, and the only one to have registered a negative return for the quarter, was the Energy sector. Having threatened to breach the $100 a barrel level at the end of the last quarter, the price of Brent crude fell close to 20% over the last three months, closing out the year at $77 a barrel.

One factor driving the price of oil lower has been the expectation of weaker demand from China. The region continues to grapple with a low-growth environment post covid as well as a mounting debt crisis in the property sector with local governments appearing to be heading towards a similar outcome. Chinese equities were standout underperformers during the quarter. Major bourses registered declines as the ruling party continued to tighten its control, be it over the country's central bank or its technology sector.

MSCI Index performance (USD %)



Source: FactSet

PERFORMANCE AND ATTRIBUTION

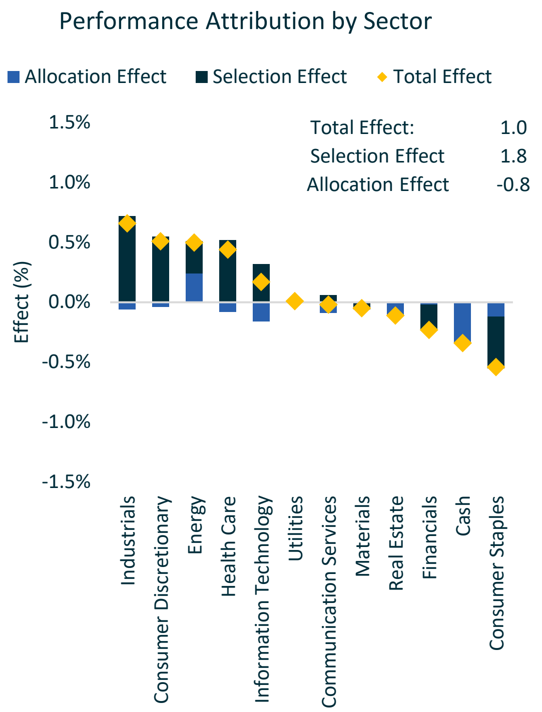
The SGEM ended 2023 on a positive note, returning 12.0% during the quarter and outperforming its benchmark, the MSCI ACWI, which returned 11.0% during the period.

The relative outperformance was driven by the Selection Effect, which refers to the performance and weighting of individual stocks held in the SGEM relative to the benchmark. The standout sector during the quarter from this perspective was Industrials. Regarding the SGEM's exposure to this sector, we saw strong double-digit gains from both Honeywell and Siemens. The latter, a European-based industrial conglomerate, delivered better-than-expected results, exhibiting a strong recovery from the negative impact of the Russia/Ukraine conflict that emerged in the prior year.

The Consumer Discretionary sector was another standout performer as our holdings in Amazon, Home Depot and Nike delivered price gains in excess of the benchmark. Amazon currently faces an antitrust lawsuit brought forward by US regulatory authorities suggesting that the e-commerce giant is unfairly operating a monopoly with regards to its online retail business. The outcome and potential consequences of the case brought forward by the Federal Trade Commission remain uncertain as antiquated antitrust laws, as pertains to technology and the internet, are pitted against a growing movement in Washington to curb the power of Big Tech giants such as Amazon.

What is rather more evident is that Amazon continues to improve the profitability of its e-commerce operations which are bolstered by Amazon's highly lucrative and fast-growing advertising business. Conversely, AWS, the cloud computing arm of Amazon, has experienced somewhat of a slowdown over recent quarters as customers looked to reduce costs. However, recent results and commentary from management seem to suggest that the slowdown in growth may be close to its nadir. Additionally, demand for AI services via the AWS platform may serve as a catalyst, possibly leading to an acceleration in growth going forward.

We are currently underweighting the Information Technology which counted against us from an Allocation Effect (SGEM sector weighting relative to benchmark) given the strong performance of the sector during the quarter. However, the SGEM's individual holdings within the sector all outperformed the benchmark with semiconductor names, **ASML and Nvidia**, notable standouts. It is important to state upfront that recent export restrictions imposed by US regulatory authorities may serve as a headwind to these firms down the line. Said restrictions effectively prohibit the sale, to China, of certain high-end microchips, as well as the tools and equipment used to manufacture said chips.



Source: Morningstar

That said, demand for Nvidia's "AI chips" remains incredibly strong and tools that are not subject to any export restrictions are being acquired in large batches by ASML's Chinese customers.

While all but two of the holdings within the SGEM returned a positive gain during the quarter, there were certain stocks that underperformed the benchmark. The majority of these stocks are located within the Consumer Staples and Health Care sectors. Given the prospect of a lower interest rate environment, market participants may have increased their risk appetite, shifting away from these more "defensive" sectors.

Beginning with Consumer Staples, from a specific stock perspective, two of our holdings, Nestle and Philip Morris, underperformed but the worst performing counter was spirit-maker Diageo which saw its stock price decline during the quarter. The owner of brands such as Johnnie Walker and Smirnoff, expects a slowdown in demand for spirits across certain regions such as Latin America. Customers are expected trade down to cheaper alternatives amidst a challenging macroeconomic environment in the region.

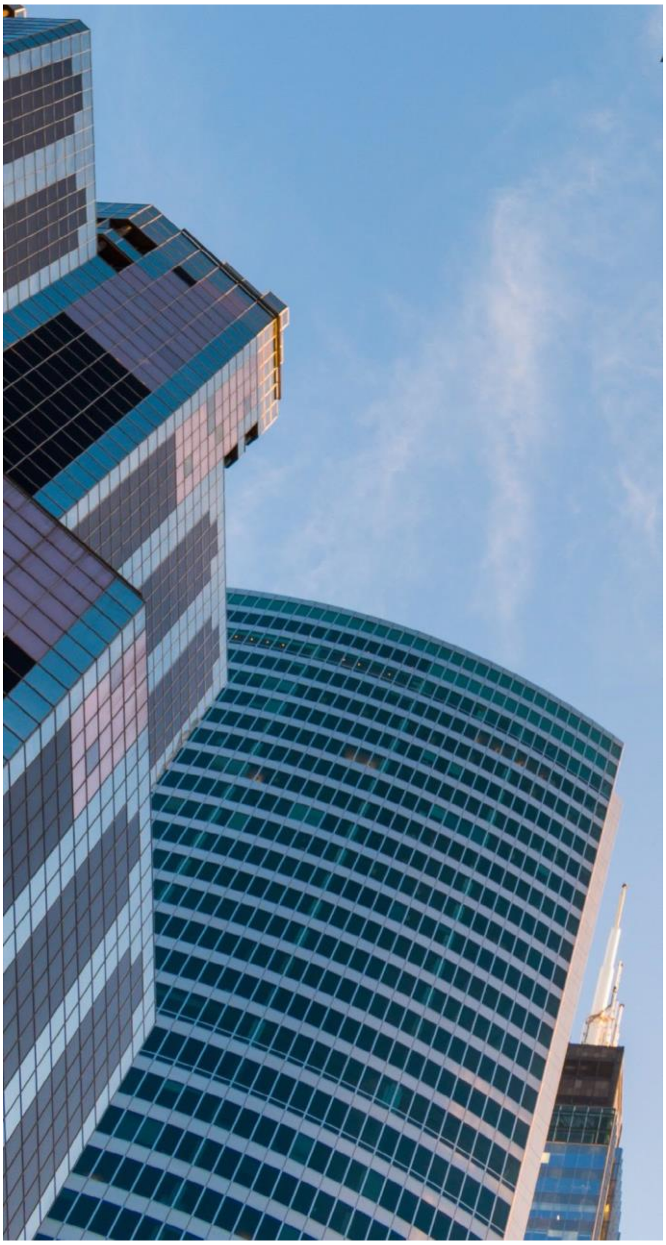
Our holdings in the Health Care sector, which include Johnson & Johnson, Thermo Fisher and UnitedHealth registered modest gains during the period but did underperform the benchmark. We will be watching Johnson & Johnson closely to observe how it performs without its consumer business that it spun off earlier in the year.

Thermo Fisher continues to work through the headwind of covid destocking and the political hullabaloo that precedes a US presidential election, the latest of which is scheduled to take place in less than a year, maintains a cloud over the stock price of UnitedHealth. Healthcare reform remains a hot button topic for politicians but given the political gridlock within the US government, regardless of the 2024 election outcome, It is quite probable that not much will change.

One Health Care stock that did outperform during the quarter was IDEXX. The world's leading veterinary diagnostics company experienced a challenging third quarter as concerns mounted over a pullback in veterinary visits by pet "parents" following a surge in pet ownership during covid.

While visitations continue to decelerate during the fourth quarter, the company continued to exhibit the strong pricing power that it possesses. We remain positive on the company owing to its combination of exceptionally high returns on capital and above average growth prospects which we believe justifies what some might regard as a "lofty" valuation.

Given the concerns that continue to surround China as an investment destination, one stock that remains a question mark for us is AIA. The Hong Kong-based insurance company provides investors with access to what appears to be a rather attractive growth opportunity – the world's largest population that is underpenetrated in terms of insurance services. At least that is the foundation of our thesis. Despite the seemingly attractive investment opportunity, the market environment in China has not been favourable for reasons mentioned above and has resulted in continued underperformance from the counter.



TOP PERFORMING STOCKS			BOTTOM PERFORMING STOCKS		
COMPANY	**GICS SECTOR**	**CONTRIBUTION (USD %)**	**COMPANY**	**GICS SECTOR**	**CONTRIBUTION (USD %)**
Siemens	Industrials	1.3	Diageo	Consumer Staples	(0.0)
ASML	Information Technology	1.2	AIA	Financials	(0.0)
Microsoft	Information Technology	1.0	Johnson & Johnson	Health Care	0.1
IDEXX	Heath Care	1.0	Berkshire	Financials	0.1
S&P Global	Financials	0.9	Nestle	Consumer Staples	0.1

Source: Morningstar

CHANGES IN HOLDINGS

During the quarter we added one new holding to our portfolio, namely social media giant Meta and we exited our position in AIA.

Meta endured a precipitous fall during 2022 as it began to invest heavily in the "metaverse", a fancy term for virtual/augmented reality. Returns from this venture are some way from materialising, if they ever do, which has led many to question whether pursuing such a path, which is also proving quite costly, will prove worthwhile in the long run.

To temper expectations, Meta CEO Mark Zuckerberg has focused on cutting costs but remains committed to building out what he believes will be the next evolution of the web. Investors were somewhat satiated by the firms cost cutting measures. What has certainly breathed new life into the counter's stock price, was the launch of ChatGPT and the explosion of generative AI. Meta has been hard at working building out its AI capabilities. It has already launched its own large language model (called LLaMA) to compete against ChatGPT. It has also been developing various AI capabilities that will improve the functionality of its advertising business.

In somewhat of a crossover with its metaverse ambitions, the firm, in partnership with Ray-Ban, has developed a pair of sunglasses that will function as a digital assistant for the wearer. Whether such device garners mass adoption remains to be seen but what is clear to us is that Meta possesses the capabilities to thrive in the world of the future.

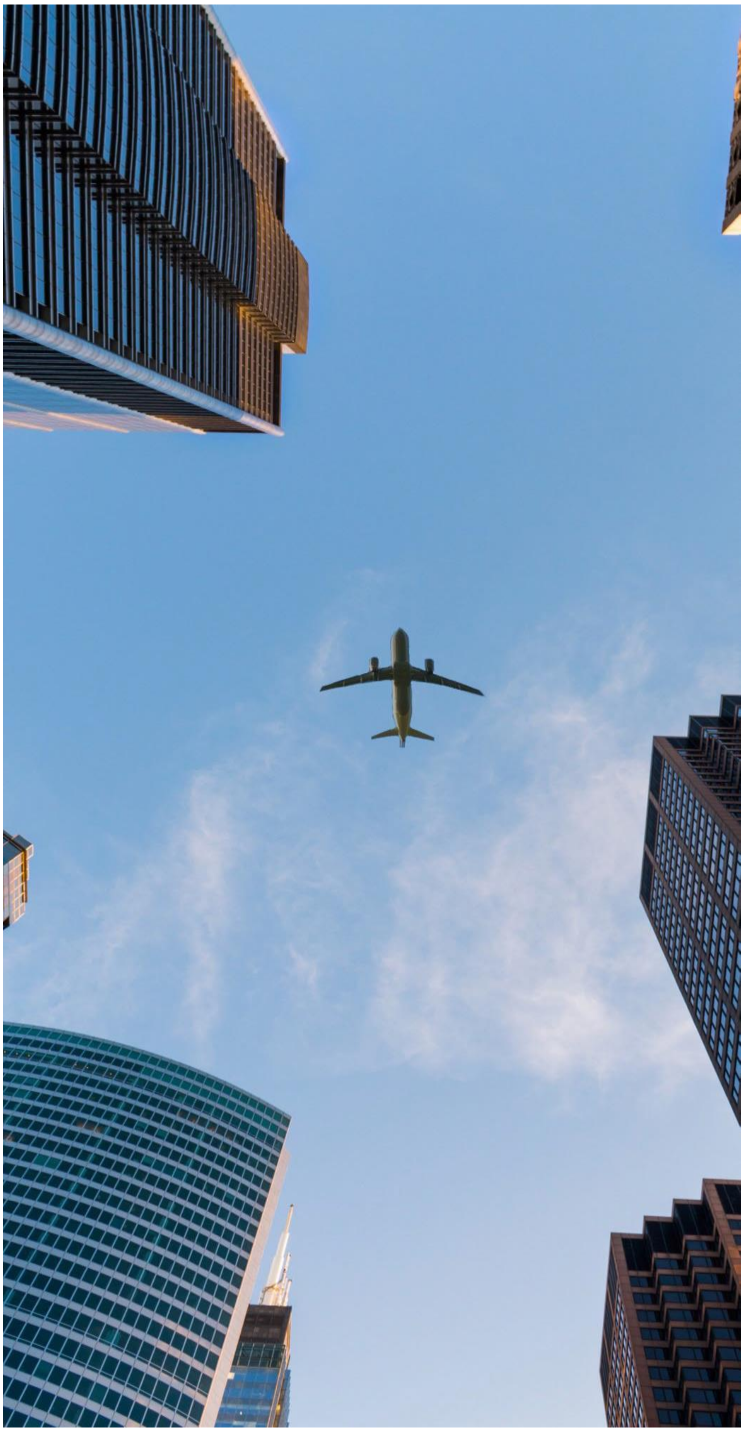
Returning to the present, it is worth mentioning, as many forget or are unaware, that Meta is a highly cash generative business. The firm earns incredibly high margins from its digital advertising business, which allows it to pursue its adventure into the metaverse.

The firm has not one or two but three social media platforms with over one billion users – Facebook, Instagram and WhatsApp. Admittedly Meta faces fierce competition in this space from TikTok but it appears to have navigated this threat quite adeptly by developing a similar short-video product that not only competes with the Chinese-owned company, but monetise just as well, if not better.

The continual interference by the ruling party in China, in a bid to entrench its power, specifically the power of the party's leader, president Xi Jinping, remains a concern for us. Our concerns have only mounted as more evidence emerges regarding the level of indebtedness within the real estate sector as well as at a local government level.

Such factors have certainly played a role in the negative sentiment that has gripped Chinese equities for some time now. Our holding in AIA has been no exception, underperforming the broader market.

While the Asian insurance giant does offer an ideal entry point into the Chinese equity market, circumstances outside of its control have soured our interest in the holding to the point that we have decided to exit our position.



OUTLOOK AND WAY FORWARD

"Time in the market beats timing the market". This is a quote we often refer to as it is foundational to our investment philosophy. For us, this means that we do not make investment decisions based on predictions as to when business cycles may turn, when central banks will adjust interest rates or even when a recession may occur. Rather, we try and buy quality businesses that offer attractive growth prospects at prices we believe to be reasonable.

We provide this backdrop given the relative outperformance by the SGEM during the quarter. We certainly did benefit from falling interest rates, and we welcome such occurrences without complaint. What we do want to make clear is that we did not make our investment decisions based on a view that we believed interest rates would begin to fall during the quarter.

Rather, the companies that delivered double-digit returns during this period, as well as those that did not, are held with a specific objective in mind. Our goal is to create shareholder wealth over the long-term. We aim to achieve this objective by investing in the quality-growth businesses as we believe that they are well-positioned (based on our current expectations) to grow, or more accurately compound, wealth over the long-term.

The compounding of wealth over the long-term does not stem from changing macro variables such as economic growth or interest rates, though they do certainly have an impact. Instead, it is founded on the ability of these companies to consistently generate high returns on capital which they can redeploy into attractive growth opportunities. This leads to said companies increasing, over time, their profits or free cash flows, whichever term you prefer – we prefer the latter.

The Magnificent Seven

One particular cohort that has proven incredibly successful at growing said cash flows is the so-called "Magnificent Seven". The posse is made up of Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia and Tesla. With the exception of Tesla, the SGEM holds, and has done so for quite some time, the majority of the gang, with Meta a recent addition. For those that might ask why we do not own Tesla, it is not because we view the company in a negative light. Rather, we have specific criteria that must be met before considering a stock as a suitable investment for the SGEM.

In the case of Tesla, while it does generate high returns on capital currently, it has only done so for a short period of time, rendering it unable to pass our "quality" test.

We are well aware that we could miss out on gains that the electric vehicle maker may generate over the next few years, but we are willing to miss out on this possibility. We will continue to abide by our investment philosophy as we believe this will ultimately enable us to create wealth over the long-term. That said, assuming Tesla is able to pass our "quality-test" down the line, it would certainly be up for consideration.

The Magnificent Seven garnered much attention in 2023 having outperformed the broader market by some way. At the start of 2023, some, particularly in the financial media sphere, had begun to raise concerns, that for certain members of the "seven", their best days were behind them. The surge in the seven's stock prices during the year has only served to fuel these concerns. According to the sceptics, not only are some of these companies past their sell-by date but those in the dissenting camp believe the increase in their stock prices is based on speculation around AI (more on this below). Simply put, they view these stocks as too expensive, their 2023 gains fuelled purely by speculations and offer poor return prospects for investors

Another concern raised, which is not new, is the sheer size of these companies. Apple and Microsoft have market caps of close to $3 trillion, each. Alphabet, Amazon and Nvidia trade above the $1 trillion mark and Meta is well on track to reinstate its membership within the trillion-dollar club.

Given the concerns raised, as well as the fact that these companies make up a fair portion of the SGEM, should we be worried?

Before taking you through our thinking, we believe it is worthwhile to provide some context to the Magnificent Seven's stock price moves over the past year.

As mentioned, during 2023, the cohort outperformed the broader market by some way. Even the worst performing stock of the bunch, Apple, returned close to 50% this year, well ahead of the 22.2% return for the benchmark MSCI ACWI. However, if you look at the performance of these stocks over a two-year basis, the outcome is quite different. 2022 was a challenging year for the seven, with all experiencing sharp declines, some even losing more than half their value. Combined with their strong 2023 outperformance, some have manged to recover their losses from 2022, while some still remain in negative territory on a two-year basis. The MSCI All Country World Equal Weighted Index, which provides a view of the performance of the average stock in the benchmark rather than being influenced by large cap stocks such as the Magnificent Seven, declined a little over 9% over the two years.

OUTLOOK AND WAY FORWARD

This means, that with the exception of Tesla, which declined somewhat more than 9.0% over the two years, the other members of the Magnificent Seven outperformed the average stock in the benchmark. However, their outperformance was not as sizable over the longer period. . Two points worth taking away from this exercise. Firstly, context matters greatly when evaluating a stock's price performance. Secondly, it is human nature to suffer from recency bias, placing more emphasis on what happened most recently.

Returning to the matter at hand as to whether we are concerned about holding six of the seven magnificent bunch. "No" is our answer but it does come with an element of equivocation. One could make an argument that the best days for these firms are behind them, as the rate of growth they experienced over the past decade is unlikely to be repeated. That said, the economic moats and secular trends that underpinned much of their growth remain intact. Digital advertising, the bread and butter for the likes of Alphabet (parent company of Google) and Meta, is unlikely to continue to grow at 20% per annum. Customers are, however, still expected to shift their advertising spend away from traditional media formats in favour of digital. This provides the backdrop for continued above-market growth rates, albeit at a pace slower than the prior decade. Google still holds a near complete monopoly of search, above 90% market share outside of China, and Meta's user base, which extends to nearly half the world's population, cannot be ignored.

Despite its rapid adoption over the past few years, cloud computing still accounts for a relatively small proportion of global IT spend. More recently, we have seen many companies cut back on expenses, including IT spend, which led to a slowdown in cloud computing growth. However, given the low penetration rate, the trend of companies around the globe shifting their computing needs to the cloud, is expected to persist for many years to come. As such, this secular trend will remain a key driver for the likes of Amazon, Microsoft, Alphabet and Nvidia.

The AI evolution

The above rationale for holding the Magnificent Seven, six in our case, may come across as somewhat positive, bordering on lukewarm. Truthfully, we are quite excited in terms of what the next chapter may hold in store for the gang. Our excitement, which may also mask a small amount of nervousness on our part, is founded on what we are currently seeing in terms of AI.

As a starting point, we readily admit that we are still very much at the beginning phase of this trend. A trend that we think, as do many others, has the potential to become one of the most significant technological breakthroughs to date.

The latest developments in AI could serve as a catalyst to the drivers mentioned above, namely digital advertising and cloud computing. Through AI, digital advertising could become more personalised. Creatives now have the ability to build engaging campaigns at the click of a button. Return on such investment will be faster and more accurate. From a cloud computing perspective, companies that are looking to adopt AI into their organisation will, at least in the near-term, turn to the cloud service providers such as Alphabet, Amazon, Meta, Microsoft and Nvidia for the tools needed to reach their AI goals. All this said, we are on scratching the surface as to the potential of AI.

The seven, for the most part, are arguably the best positioned companies in the world to deliver AI to the masses. You may be asking yourself, why is that? In its simplest form, AI can be broken down into two components, hardware and software. Software consists of the AI-related models and applications whereas hardware is made up of the AI microchips, data centers, and end-user devices used to train and/or run AI software.

From a hardware perspective, Nvidia, a semiconductor chip designer, is regarded as the de facto standard in terms of the microchips used to process AI workloads. Nvidia enjoys this leadership through a combination of its market leading GPUs (graphic processing units), its networking capabilities and its growing software ecosystem called CUDA. Alphabet would be the first to dispute this claim given what it has built in terms of its in-house designed AI chips. It is also worth mentioning that many of the seven have developed their own in-house AI chips as well. That said, most users are eager to access Nvidia's chips, and can do so through cloud service providers such as Amazon, Microsoft and Alphabet. Nvidia has also begun to offer such a service but, currently not to the same scale.

In addition to providing access to hardware, Alphabet, Amazon, Meta, Microsoft and Nvidia also offer users access to AI models and applications which continue to grow in number as well as capability, at a rapid pace.

We mentioned that along with excitement, recent developments in AI also elicited an element of nervousness on our part. As much as AI could potentially benefit these firms it also could lead to a scenario where some of their business models are completely upended.

OUTLOOK AND WAY FORWARD

Could search through the Google browser become meaningless? Users may instead turn to their digital AI assistant for their search needs, effectively destroying Google's digital advertising model. Will AI lead to an entirely new productivity suite of tools that renders Microsoft Office obsolete? These may be low probability events at this stage, but they still linger in the back of our minds as we continue to witness improvements in AI, over a very short space of time.

We unequivocally acknowledge that much uncertainty still prevails around how profitable AI will be, if at all. In the case of Nvidia, AI is proving to be a major driver for the firm, with its sales set to double and profits quadruple. What is a bigger concern for the chip designer is how sustainable its stratospheric growth will prove to be. Competition is likely to be fierce which could potentially serve as a major headwind for returns on capital down the line. Uncertainty aside, we reiterate again that these firms are at the forefront of the AI evolution, top of the funnel, gatekeepers if you will. This means they are well positioned to benefit from gains that arise from AI. Gains that could potentially dwarf those that arose from the dawn of the internet era.

What about Apple?

The eagle-eyed amongst you may have noticed that we have omitted a certain name regarding our AI overview. One of the seven, the largest one in fact, has been somewhat reticent in its approach to the technology. Apple is arguably the best positioned company to benefit from AI, at least from a consumer perspective. This comes down to its dominant position in consumer electronics, the iPhone, as well as the juxtaposition of AI and privacy. Most people would likely prefer their data not be sent to a cloud for AI computing purposes but rather that it remained on their device. Apple is notorious regarding its pro-stance towards privacy. It also worth mentioning that the new iPhones, which run on custom silicon, microprocessors designed in-house by Apple, are capable of performing AI-related workloads.

So why then has Apple been so quiet regarding AI? This question is particularly relevant given the broader challenges facing the company. Our "core" concern surrounding the iPhone maker is "Where will its future growth come from?". Apple operates in a fairly mature market. Despite receiving a boost during covid, as work-from-home led to a surge in demand for iPhones, MacBooks and iMacs, the longer-term trend shows a gradual increase in the replacement cycle for the iPhone.

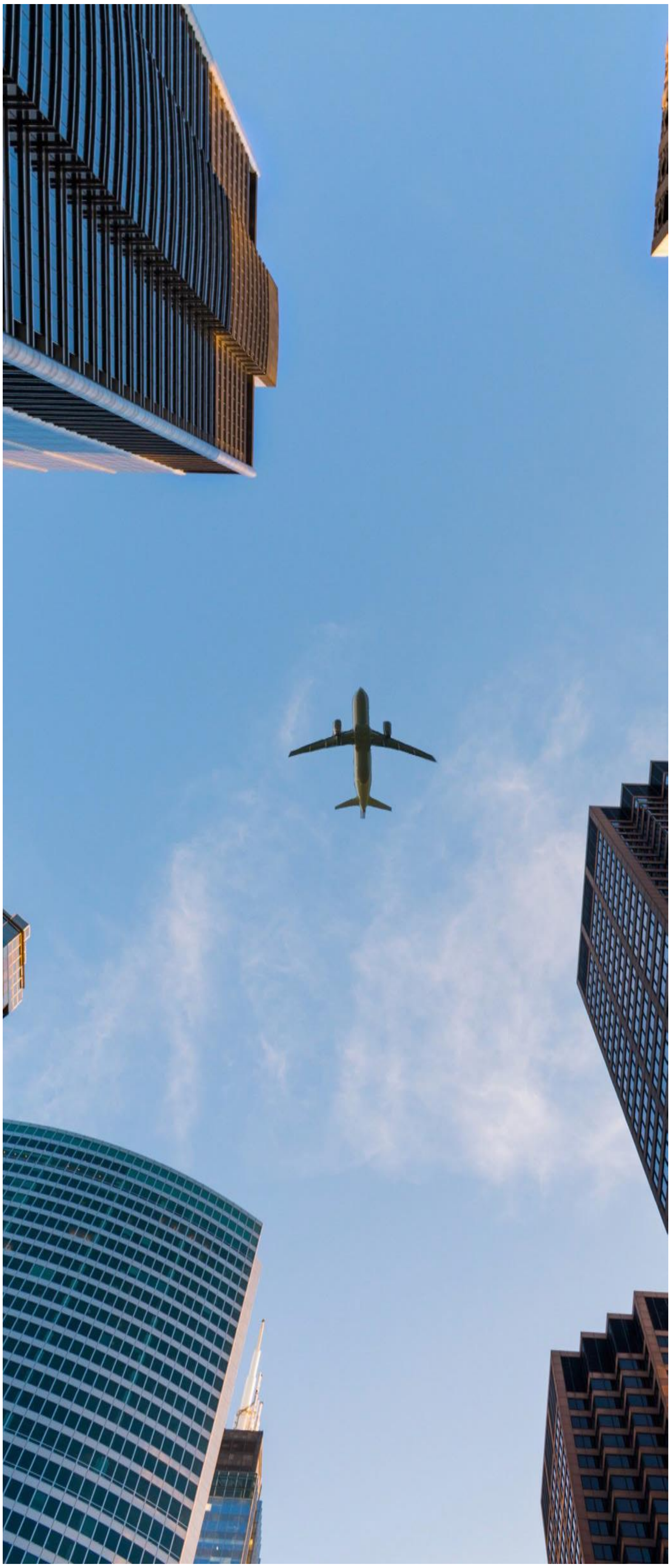
One could point to the growing influence of its services business as a beacon of hope. The relevance of this factor lies in the higher profitability of services over hardware sales and the recurring nature of such spend in the form of a subscriptions. As Apple transitions from a predominantly hardware business to a combination of both hardware and software, the valuation of the business can be expected to rise. However, being viewed as more than just a hardware company may not prove to be sufficient to justify Apple's increase in market value, which ballooned from around $1 trillion prior the pandemic to triple that size as at the end of 2023.

One could also point to new products and geographies. Apple recently launched its Vision Pro headset, an augmented reality device. This could potentially be a game changer for the company if headsets replace smartphones as the centrepiece of the digital ecosystem, much as smartphones replaced PCs. Only time will tell, but right now there is a lot of uncertainty in terms of user adoption which is not helped by the hefty price tag. Apple is also looking to India as a new market for growth. The country certainly has the population size to garner excitement but whether there will be sufficient demand for premium products remains to be seen in a country where a vast number of the inhabitants live below the poverty line.

The biggest unknown and potentially biggest game changer for Apple will be its approach to AI. Apple has been much quieter than the other seven regarding its AI ambitions and strategy. Given the vertically integrated model that the company operates in terms of hardware and software, one could easily view Apple as a natural contender to lead the AI evolution. However, until the firm shows its "AI hand", it will be difficult to ascribe value to the firm in this regard.

Our concerns for the stock voiced, we are not pre-empting a sale of the company out of the SGEM, at least not yet. Risks and headwinds noted, the company still warrants careful consideration. The strength of the Apple brand has allowed the company to develop a powerful ecosystem which effectively "locks" people into the Apple world. The company has an installed base of around 2 billion devices and vast amount of resources at its disposal – the company has almost $200 billion in cash sitting on its balance sheet. For now, we will continue to evaluate the merits of owning the world's largest company. If circumstances evolve to a point whereby our analysis reveals that Apple no longer meets our investment criteria, including our hurdle rate of return, we will act accordingly.

OUTLOOK AND WAY FORWARD



Conclusion

The seven enjoyed a magnificent 2023, in fact they have enjoyed a magnificent decade or two. Despite the concerns raised, we are of the view that it still makes sense to own these businesses.

We need to remind ourselves that these are highly cash generative companies, that possess sizable economic moats and operate in markets with attractive growth opportunities. We anticipate that for the most part, they will remain just that, perhaps growing at a moderated pace as they have matured over the years. Even if their growth does moderate, they still possess the ability to earn high returns on capital. The sizeable excess economic profits that are generated can be reinvested back into growing markets which in turn would lead to massive free cash flow generation. A cursory glance at just how profitable these firms are or just how much cash they “spit out” will provide some comfort as to the size of their respective market caps.

The impact of AI remains an unknown but could prove to be a game changer for these firms, one way or the other. Assuming it lives up to hype, the seven are incredibly well positioned to reap the benefits. There is a risk that their stock prices may already reflect the future gains that AI could deliver. If one merely views AI as an over-hyped theme, bound to run out of steam, then perhaps there is an element of vulnerability in their respective valuations. One, if not all, of their stock prices could suffer a sharp fall followed by a round of “I told you so” and hearty back slapping amongst the AI sceptics.

One could also argue that their prices do not sufficiently reflect the gains that could be made from AI in the future. Of course, nobody can say with certainty just how much benefit will accrue to these firms, but we openly admit that we are positive over the future prospects of AI.

What we can do is return to our investment philosophy. The Magnificent Seven, specifically those that we hold, fit the mould of what we regard as quality growth businesses. Taking a longer-term view, we believe that they are still trading at reasonable valuations, some more so than others, given our current expectations. We will therefore continue to invest in these companies to the point that they still fit within our quality-growth framework and offer a reasonable return over the long-term.

PORTFOLIO CHARACTERISTICS					
	SGEM	MSCI ACWI		SGEM	MSCI ACWI
Quality[3]			**Valuation[3]**		
ROE	37.0%	15.3%	P/Earnings	25.0x	16.5x
ROIC	22.2%	7.8%	P/Book	8.8x	2.6x
EBIT	24.5%	13.5%	P/Sales	5.8x	1.9x
Gross Profit	51.6%	34.5%	FCF Yield	4.5%	4.8%
Growth[3]			**Risk/Volatility[2]**		
Sales growth[1]	12.3%	6.3%	Beta	0.9	1.0
Earnings growth[1]	17.8%	8.7%	Std Deviation	14.6	15.4
Size[3]			Sharpe Ratio	0.6	0.5
Market cap	USD688bn	USD469bn	Sortino Ratio	0.9	0.8

Source: FactSet, Morningstar

Notes:

1 – Trailing twelve months 3-yr annualised growth rate

2 – Risk statistics calculated since SGEM inception (31 December 2014)

3 – SGEM Quality, Valuation and Size characteristics calculated using weighted averages, SGEM Growth characteristics reflect median values

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