Sasfin Global Equity Model (SGEM)

Quarterly Review – Q1 2025:

1 January 2025 – 31 March 2025

sasfin.com

What is the Sasfin Global Equity Model (SGEM)?

The SGEM is focused on compounding wealth for investors over the long-term.

We aim to achieve this objective by investing in high-quality businesses at a fair price.

To us, a high-quality business is one that can sustainably generate above-average returns on incremental capital and reinvest the excess into sizable growth opportunities. Companies that are able to do this, will deliver superior compounded earnings growth well into the future. Over the long-term, the market will in turn reward wealth-compounding companies, in the form of higher stock prices.

The ability of a business to sustainability generate above-average returns on capital can essentially be ascribed to three factors. It's competitive advantage relative to its rivals, the strength of its management team and its solid financial position, best encapsulated in the form a rock solid balance sheet and healthy cash flows.

We seek to identify businesses that offer these characteristics.

While these businesses may appear relatively more expensive than others, we believe that the market often underappreciates their ability to continue to compound over the long-term. We therefore seek to invest at a fair price. One that reflects our belief around the businesses ability to continue to earn above-average returns on capital. To channel the world's most famous investor, Warren Buffet, we would rather invest in a wonderful business at a fair price, than a fair business at a wonderful price.

Performance

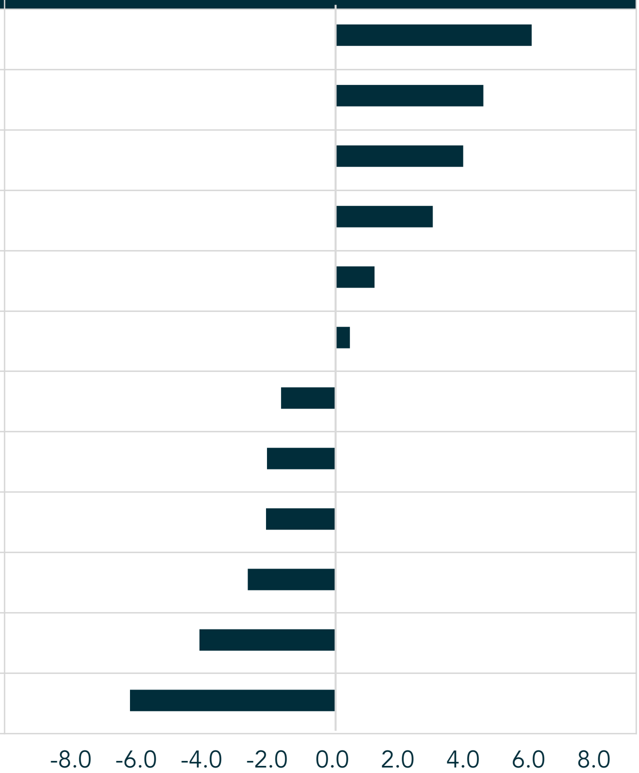
Total Return (%) - Period ended 31 March 2025

	Quarter	YTD	1 Year	3 Years[1]	5 Years[1]	Since Inception[1, 2]
SGEM	(2.5)	(2.5)	3.1	7.1	12.5	9.9
MSCI ACWI[3]	(1.3)	(1.3)	7.2	6.9	15.2	8.9

Source: Morningstar
Note:
1 – Annualised
2 – Inception date: 31 December 2014
3 – MSCI All Country World Index

Portfolio Positioning by sector

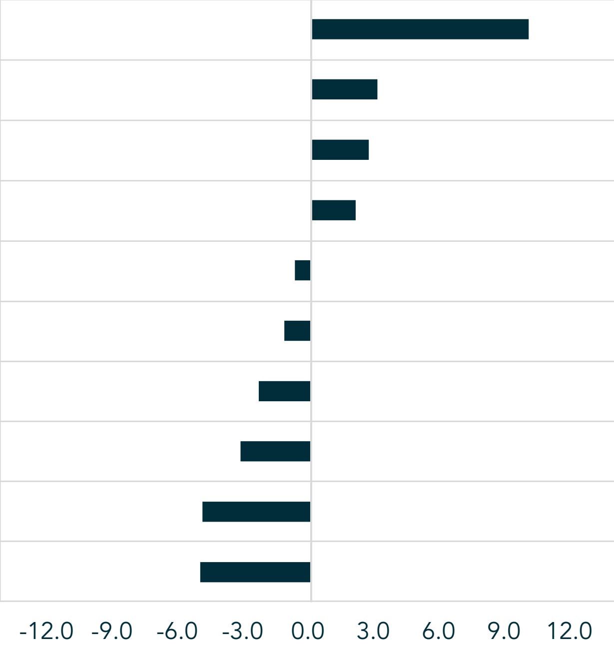
Sector	SGEM Weight (%)	MSCI ACWI Weight (%)	Relative weighting: (under)/over (%)
Consumer Discretionary	16.6	10.6	
Health Care	14.8	10.3	
Cash	3.9	-	
Communication Services	11.1	8.2	
Information Technology	24.6	23.4	
Materials	4.1	3.6	
Financials	16.4	18.1	
Industrials	8.5	10.6	
Real Estate	-	2.1	
Utilities	-	2.7	
Energy	-	4.2	
Consumer Staples	-	6.3	



Source:
Morningstar

Portfolio Positioning by region

Sector	SGEM Weight (%)	MSCI ACWI Weight (%)	Relative weighting: (under)/over (%)
United States	74.1	64.1	
Europe	18.5	15.5	
Canada	5.4	2.8	
Cash	2.0	-	
Latin America	-	0.7	
Middle East / Africa	-	1.2	
Asia Pacific	-	2.4	
China	-	3.2	
Far East (excl. China)	-	5.0	
Japan	-	5.1	



Source: Morningstar

U.S. equities endured a challenging quarter with the **S&P 500 index** ending the quarter down 4.4%. Investors, particularly foreign investors outside of the U.S, have grown concerned around the possible negative impacts of "Trumponomics". The U.S. Federal Reserve ("Fed") slashed its forecast for GDP growth to just 1.7% and raised its expectations around inflation as it factored the impact of tariffs into its economic outlook.

The concept of "American exceptionalism" has also come into question. For decades, the U.S. has led the world in terms of new technologies, with artificial intelligence ("AI") the latest in a long line of developments. A little unknown Chinese startup called "Deepseek" threatened to upset the apple cart, casting doubt over the idea that America still leads the pack, at least when it comes to technology. The Chinese firm showcased an AI model that was just as capable as the leading fronter models developed by American tech firms. The Chinese firm was however able to do so at a fraction of the cost – millions vs. billions. Though the true cost of development was significantly higher than originally reported by the media, the fact that a Chinese firm was able to develop a technology competitive with that of the U.S. continues to linger. U.S. technology firms fell sharply on the news. The tech-heavy **Nasdaq index**, slid into correction territory, having declined 10.3% during the quarter.

European equities were a key beneficiary of U.S. weakness as investors switched into "safer" alternatives. The **STOXX Europe 600 index** outperformed its U.S. counterparts having gained 5.8% during the quarter. Equities were further boosted by plans of European leaders to incentivise investment in European equities as well as increase spending in certain sectors. Of particular focus will be the defence sector. The long-standing peace dividend era draws ever closer to an end, as Trump continues to dangle the threat of NATO withdrawal.

Asian equities were mixed during the quarter. Hong Kong-listed technology equities led the **Hang Seng Index** 16.1% higher. Cheap valuations and the emergence of Deepseek attracted investor's attention to the cohort despite the threat of higher tariffs. Mainland Chinese equities were however negatively impacted by the growing trade war with the U.S. as the **CSI 300 Index** ended the quarter down 1.0%.

Japanese equities underperformed during the quarter as the **Nikkei 225 index** fell 10.1%. Factors that contributed towards the negative performance include the impact of tariffs as well as higher interest rates. The Bank of Japan raised the country's key interest rate by 25bps to 0.5%, its highest level in 17 years.

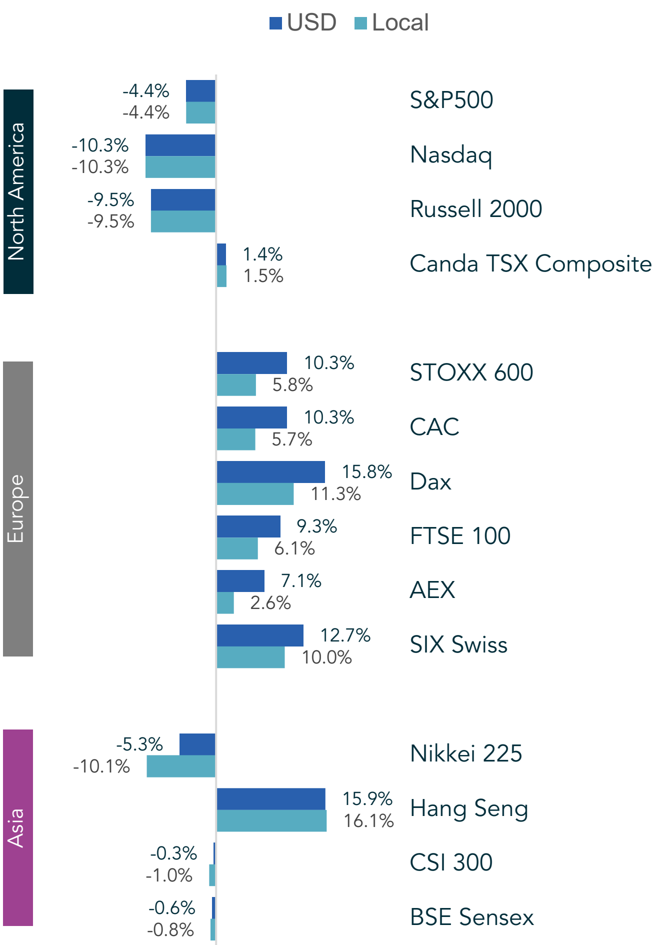
The BoJ's previous rate hike in July of last year surprised the market, causing panic to spread as the yen carry trade unwound. The increase was far less eventful this time round as the yen continues to strengthen against the U.S. dollar.

The **U.S. dollar** also slid against major European currencies as investors weighed the impact of slowing GDP growth for the U.S. against a rosier outlook for the European region. Despite the prospect lower economic growth, the Fed has kept its powder dry, opting not to cut interest rates. The fall in U.S. real yields, which exclude inflation, reflect the outlook for lower growth. The yield on the 10-year Treasury inflation-protected securities ("Tips") fell 39bps to 1.85% during the quarter.

Gold ended the period at $3,123/ozt, a gain of almost 20%. Concerns, specifically those of central banks, around U.S. dollar weakness, has led to sharp gains in the price of the yellow metal.

Oil prices ended the quarter relatively unchanged from the start of the year. An outlook of lower economic activity as well as increased production combined to keep the prices of Brent crude and WTI in check. The pair ended the quarter at $71 and $75 a barrel respectively.

Major Global Indices performance (%)



Source: FactSet

Performance and attribution

The SGEM ended the quarter down 2.5%, underperforming, its benchmark's (MSCI ACWI), which declined 1.3% during the period.

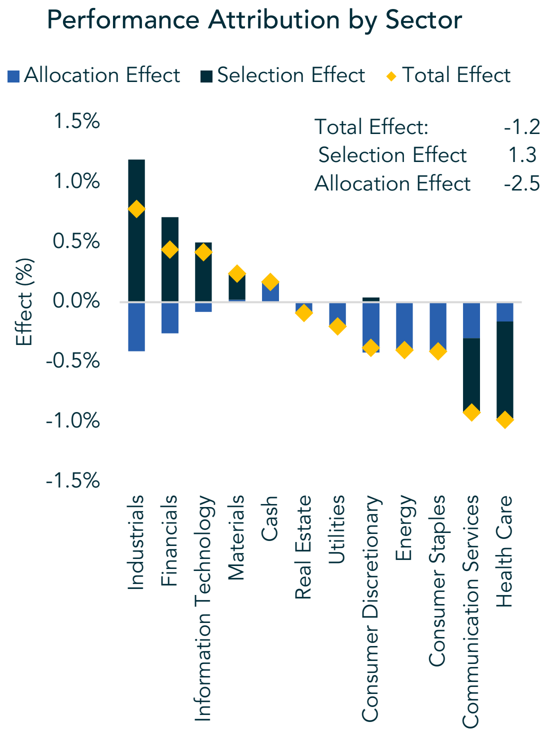
Broadly speaking, the SGEM's quarterly underperformance can be ascribed to:

- An underweighting of the Consumer Staples, Energy, Financials and Industrials, all of which outperformed the broader market.
- An overweighting towards the Communication Services and Consumer Discretionary sectors, as both underperformed the broader market.
- An underweighting of China and Europe, as both regions outperformed the broader market.
- An overweighting of the North America region which underperformed the broader market.

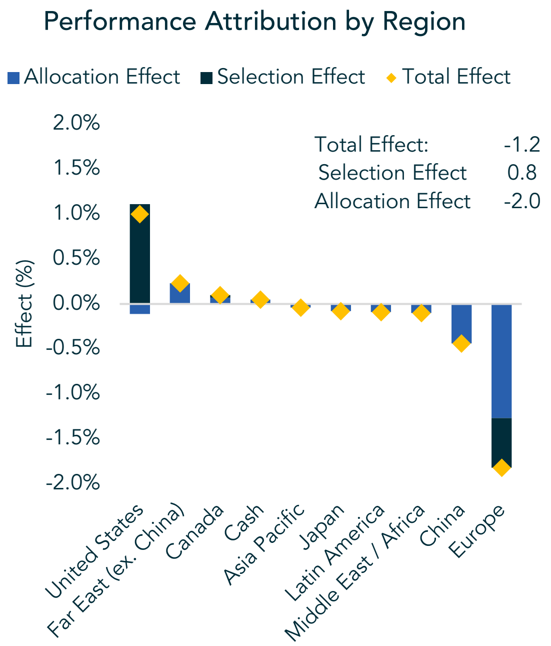
From a stock specific perspective, the largest detractors from performance were US Big tech names **Alphabet, Amazon, Apple, Meta, Microsoft and Nvidia**, the Magnificent six if you will. As we entered 2025, the "six" were trading at what you might consider "frothy" levels, leaving them vulnerable to any bad news. Concern had already begun to mount over the quantum of AI capex spend, relative to its potential return. The Deepseek moment effectively tipped the scales, casting further doubt around the enormous investment into AI infrastructure spend, the majority of which flows into the bank account of Nvidia. Their fall was amplified by the idea that U.S. may no longer be in the lead when it comes to AI. There is a growing belief that the cracks are beginning to show in the American exceptionalism ideal.

Stock price performance aside, the fundamentals of these companies still remain incredibly robust as evidenced by their most recent set of quarterly results. Despite their colossal size, five of the six Mega cap firms are still growing at above average rates, albeit at a slower cadence than their long-term history. All six remain highly profitable and their balance sheets are well protected by the large piles of cash that they have accumulated over the years. There are also signs that their investments in AI are starting to contribute to their performance but would need to increase meaningfully to appease investor concerns around capex spend.

Other specific stocks that were notable detractors from performance were **Novo Nordisk and Adobe.** Regarding the former, The Danish-based pharmaceutical firm fell sharply during the quarter following a somewhat disappointing trial result from CagriSema, the latest weight-loss drug in its pipeline.



Source: Morningstar



Source: Morningstar

Performance and attribution (cont.)

Judging by the market's reaction, investors have grown increasingly concerned that generative AI poses a significant risk to Adobe's business. Modest growth, at least by Adobe's standards, has not helped convince investors otherwise. Our view, at least for now, remains that Adobe will be able adapt to the new paradigm of generative AI and return to a path of double digit growth. That said, we will continue to monitor the firm's progress closely and make necessary changes, if required.

Despite the relative underperformance by the SGEM, there were a few bright spots during the quarter, notably our holdings within the Industrial sector. Siemens, an industrial conglomerate, as well as aerospace parts supplier, TransDigm, produced strong results during the period, exceeding the market's expectations. German-based Siemens also benefited from the trend of foreign investors shifting funds out of the U.S. and into Europe.

TOP PERFORMING STOCKS			BOTTOM PERFORMING STOCKS		
COMPANY	GICS SECTOR	CONTRIBUTION (USD %)	COMPANY	GICS SECTOR	CONTRIBUTIO N (USD %)
Berkshire	Financials	0.8	Nvidia	Information Technology	(1.1)
Siemens	Industrials	0.8	Alphabet	Communication Services	(1.0)
Visa	Financials	0.6	Amazon	Consumer Discretionary	(0.9)
Linde	Materials	0.4	Novo Nordisk	Health Care	(0.7)
TransDigm	Industrials	0.3	Microsoft	Information Technology	(0.6)

Source: Morningstar

Changes in holdings

There were no new additions nor did we exit any positions during the quarter.

Outlook and way forward

The majority of the companies that the SGEM is invested in are listed in the U.S. Of our U.S. holdings, a sizable weighting (30%) is currently allocated to the "Magnificent Six", namely Alphabet, Amazon, Apple, Meta, Microsoft and Nvidia. Much of our underperformance during the quarter can be ascribed to these names. At the same time, if we extend the lookback period further out, the "Six" were net positive contributors to the SGEM's performance.

When a stock experiences a sizable price decline, it is only natural to question whether or not you should still hold onto that stock. It is painful and our brains are wired to avoid pain. Making decisions based on emotion is not a good idea when it comes to investing. Instead, one should revisit the reasons that made up your investment case in the first place and determine whether or not they still hold up. Arguably, the biggest determinant of an investor's long-term performance is not what stocks they buy and sell. Rather it is their temperament. This holds especially true during periods of turbulence, when panic levels spike and many react by selling their holdings. Many never return, to their detriment.

We do however have to be cognisant of how the world is evolving, especially in an environment where Donald Trump is attempting to reshape the geopolitical status quo. It is quite possible that Big tech gets caught up in the political trade wars. Europe and China could easily retaliate with their own tariffs and fines.

At the moment it is still not clear how the new geopolitical order will shape out. Companies are also likely to adapt themselves to the new environment making it even more difficult to try and predict the second and third order effects of Trump 2.0.

What we do have more confidence in when it comes to predicting the future, is the ability of certain companies to consistently generate above average returns on capital and create value for their shareholders. The persistence or better yet, resilience, demonstrated by these firms is underpinned by a number of structural factors. These include sizable competitive advantages, exceptional management teams, solid balance sheets that can weather just about any environment and sizable growth opportunities.

It is under this framework that we still remain confident in our holdings of the Magnificent Six, at least for the most part. Questions marks do remain over the heads of one or two. The same could be said for our other holdings in American-based companies. In our eyes, they remain high quality businesses that we are comfortable to hold, at least for now.

That being said, an argument could be made for increasing our exposure to more European or even Asian companies. The possibility of a weaker U.S. dollar could raise the attractiveness of equities in these regions.

We are however not prone to forecasting currency movements. We regard the exercise as lying somewhere between exceedingly difficult and next to impossible. Geography and currencies aside, what is more important from our perspective is whether the company in question meets our requirements around quality and growth.

If a company can meet our rather high expectations in these areas then it will become a matter of price, what we are willing to pay for these companies. In times of market turbulence, some of the best investment opportunities often arise. Quality rarely goes on sale but when it does, one needs to be ready.

Portfolio characteristics					
	SGEM	MSCI ACWI		SGEM	MSCI ACWI
Quality[3]			Valuation[3]		
Return on Equity (ROE)	39.9%	15.9%	P/Earnings	25.6x	17.2x
Return on Invested Capital (ROIC)	26.1%	8.1%	P/Book	9.4x	2.8x
Earnings Before Interest and Tax (EBIT)	31.1%	13.9%	P/Sales	6.9x	2.2x
Gross Profit	56.3%	35.7%	FCF Yield	3.7%	4.4%
Growth[3]			Risk/Volatility[2]		
Sales growth[1]	15.1%	5.1%	Beta	0.9	1.0
Earnings growth[1]	18.0%	2.3%	Std Deviation	14.3	14.8
Size[3]			Sharpe Ratio	0.6	0.6
Market cap	USD897bn	USD597bn	Sortino Ratio	1.0	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 market cap weighted averages

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