Sasfin Global Equity Model (SGEM)

Quarterly Review – Q1 2024:
1 January 2024 – 31 March 2024

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PERFORMANCE

Total Return (%) - Period ended 31 March 2024

	Quarter	YTD	1 Year	3 Years[1]	5 Years[1]	Since Inception[1, 2]
SGEM	11.2	11.2	25.0	7.0	11.1	10.6
MSCI ACWI[3]	8.2	8.2	23.2	7.0	10.9	9.0

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	17.5	10.9	
Health Care	15.4	11.1	
Information Technology	27.6	23.7	
Communication Services	10	7.6	
Cash	1.0	-	
Materials	4.3	4.2	
Energy	2.9	4.5	
Real Estate	-	2.2	
Utilities	-	2.5	
Financials	12.6	16.1	
Consumer Staples	2.5	6.4	
Industrials	6.3	10.8	

-8.0 -6.0 -4.0 -2.0 0.0 2.0 4.0 6.0 8.0

Source: FactSet

MARKET COMMENTARY

Global equities continued their positive momentum from last year as the MSCI ACWI gained 8.2% for the first quarter of 2024. Stock market gains, for the most part, could be attributed to the same factors that drove equity markets higher last year, namely artificial intelligence and the prospect of interest rate cuts.

While these remain the key drivers behind equity markets, they do continue to evolve. Despite inflation levels maintaining their downward trajectory, many central banks, in particular the US Federal Reserve ("Fed"), have resisted the urge to pull the trigger and commence cutting interest rates. This may have something to do with US inflation edging slightly higher during February to 3.2%, up from 3.1% in the previous month. The outlook for the number of rate cuts by the Fed during the year has also reduced from six to three as the yield on the US 10 Year increased 38 basis points during the quarter to close at 4.20%.

An additional nuance is the makeup of the companies driving markets higher. Gains derived during 2023 were somewhat narrow with a small group of companies, namely the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) accounting for an outsized portion thereof. In contrast, the performance of some of the "gang" during this quarter has left many wondering whether the moniker still applies and perhaps some may even start referring to them as the Good: Nvidia (+83%), Meta (+37%), Amazon (+18.7%) and Microsoft (+12%), the (not so) Bad: Alphabet (+8%), and the Ugly: Apple (-11%) and Tesla (-29%).

As opposed to a handful of stocks driving the market higher, gains have begun to broaden out and we saw strong performances by cyclical stocks within the Energy, Financial and Industrial sectors. The Fed may have dampened the macro picture after reducing its projections for interest rate cuts, but it did upgrade its forecast around economic growth for the year. The combination of the two macro variables may be underpinning the positive performance seen within cyclicals.

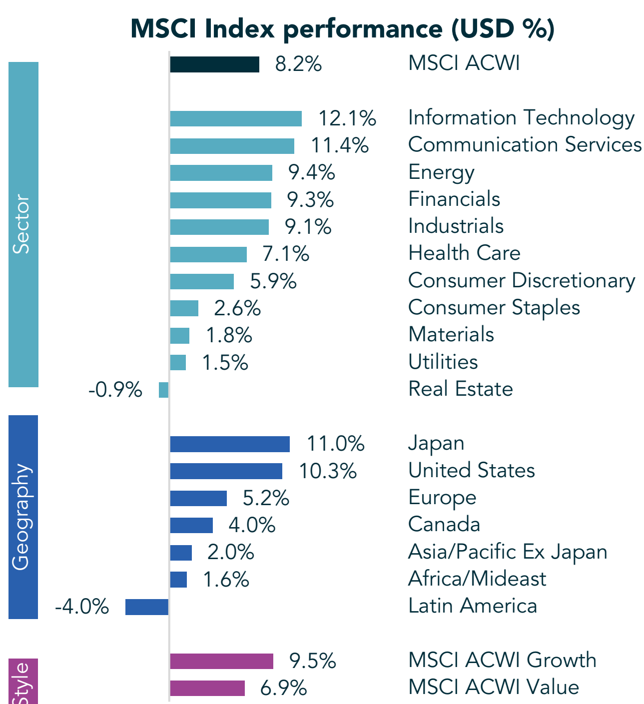
Energy stocks have also been boosted by an increase in the price of oil during the quarter with Brent crude and WTI closing the quarter at $87 (+12%) and $83 (+16%) a barrel respectively. Tensions in the middle east aside, other factors contributing to rising oil prices include and improved outlook for economic growth as well as Opec+ members, which include Saudi Arabia and Russia, extending voluntary production cuts in an attempt to lift prices higher.

As mentioned, the AI theme continues to influence market sentiment and it remains the primary reason behind the Information Technology and Communication Services sectors ending the period as the top performers.

In particular, semiconductor and related hardware stocks, which fall under the Information Technology sector, remain the primary beneficiaries of the AI gold rush taking place. Nvidia, the poster child for the AI evolution, saw its market cap soar past the $2 trillion mark during the quarter making it the third most valuable company in the world. AI heavyweights, Alphabet and Meta were the primary contributors to the gain by the Communication Services sector.

Regionally, the top performing major market during the quarter was Japan. In fact, Japanese equities have been relative outperformers for over a year and there are a host of factors driving their upward moves. These include initiatives by the Tokyo Stock Exchange to compel companies to invest in their businesses and improve shareholder returns, tax incentives that will encourage households to reallocate savings into equities and possibly the decline in investment appetite for China.

Chinese equities continue to underperform as a slowdown in growth and concerns over an indebted property sector linger. Elevated debt levels, be it Chinese real estate or even US government debt have led many investors, as well as central banks to continue to allocate funds to gold. The price of the yellow metal reached new highs during the quarter as it closed the period at $2,214/ozt. Adding to its allure are the anticipated rate cuts by the Fed as well as other central banks. Bullion does not provide a yield and as rates come down, so gold glows ever brighter.



Source: FactSet

PERFORMANCE AND ATTRIBUTION

The SGEM enjoyed a strong start to 2024, returning 11.2% during the quarter and outperforming its benchmark, the MSCI ACWI, which returned 8.2% during the period.

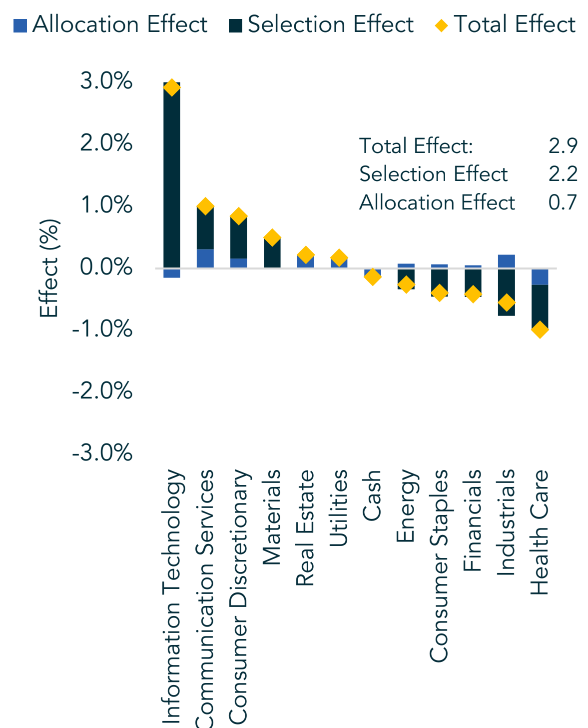
The Selection Effect, which refers to the performance and weighting of individual stocks held in the SGEM relative to the benchmark, was the largest contributor to the relative outperformance. The individual stocks in question that performed well during the quarter were those that are at the forefront of the AI paradigm shift that is currently taking place.

To be more specific, the majority of our holdings within the Information Technology sector (**ASML, Constellation Software, Microsoft** and **Nvidia**) as well as **Meta** (Communication Services) and **Amazon** (Consumer Discretionary) all outperformed the broader market during the period.

Within the Consumer Discretionary sector, our holdings in luxury counters were also strong performers during the quarter. Luxury conglomerate **LVMH** reported a better-than-expected set of numbers during the quarter, elevating its stock price higher. A plurality was used as we added a second luxury counter to our stable, namely **Ferrari.** The luxury automotive brand delivered another strong set of results during the quarter and its stock price reacted accordingly, continuing to rise well after the reporting date.

Finally, despite forecasting rather anaemic growth for the year, **Home Depot** has experienced a steady rise in its stock price. The increase could be related to an improvement in US home sales which have endured a recent slowdown as mortgage rates shot up. The anticipation of rate cuts by the Fed may also be adding impetus to the positive sentiment behind the home improvement retailer.

The relative outperformance stemming from our individual holdings within the Communication Services sector can be ascribed to Meta (as mentioned above) and **Disney**, the latter of which we opted to exit during the quarter (refer to the "Changes in Holdings" section for more detail). Disney management highlighted in its most recent set of quarterly results that its currently loss-making streaming business is headed towards breakeven later this year. This would be achieved through a combination of cost-cutting measures and an expected increase in subscription revenue, as its lower-cost subscription, that includes advertisements, will likely drive subscriber growth as well as lead to more advertising revenue.



Source: Morningstar

The company's stock price reacted staunchly to the news as well as a number of other strategic announcements from CEO Bob Iger. That said, Disney has been a significant laggard over the past three years. A cloud remains over the future of the company as the media landscape continues to go through tectonic shifts.

We opted to take advantage over the strength in the stock price of the media conglomerate and exited our position (for more detail refer to the "Changes in Holdings " section).

Despite our optimism around Health Care, the sector continues to underperform on a relative basis. During the quarter, our holding in **UnitedHealth**, a health insurance and managed care organisation faced a number of headwinds. The firm suffered a cyberattack during the quarter that prevented it from processing a number of medical insurance claims. This setback, concerning as it may have been, was only temporary as UnitedHealth has managed to restore system functionality and begun to process the backlog of claims.

A second headwind, though arguably temporary in nature as well, has been a continued increase in medical insurance utilisation by elderly patients. Many individuals delayed surgeries over health fears during the Covid-19 period and are now opting to undertake elective procedures such as hip or knee replacements. It is likely that medical utilisation costs will begin to normalise once the backlog of elective procedures has reduced.

PERFORMANCE AND ATTRIBUTION (cont.)

Finally, the health insurance giant will likely remain a concern for investors as we move closer towards the US presidential election which takes place in November this year. Fears that healthcare reforms may be introduced, by either party, that negatively impacts the profitability of companies within the health care sector, are likely to remain as the two candidates pander to voters.

On a balance of probabilities, any proposed changes around health care are unlikely to pass either the House or Senate floor, with deadlock remaining the de facto outcome over major policy changes.

While the majority of our holdings in the Information Technology sector delivered strong gains during the quarter, the same could not be said for **Apple**. The iPhone maker endured a challenging quarter as it lost its crown of the world's largest company to Microsoft.

Apple is facing investigations from regulators in both the US as well as Europe around its market dominance with particular emphasis around its App store practices. In addition, the firm has, at least for now, been labelled an "AI loser" as it is yet to meaningfully illustrate its strategy around AI. Shoots of how it may address this issue have begun to emerge as Apple recently abandoned its plan to build a car, reassigning many of the employees to work on the firm's AI efforts. Contributing towards the stock's negative sentiment have been concerns surrounding iPhone demand, particularly within China.

Concerns over a slowdown in growth hampered the performance of our holdings in the Consumer Staples sector. **Philip Morris**, the world's largest tobacco company, reported a weaker-than-expected results during the quarter, lowering its previous outlook for the year ahead. **Diageo**, the company that owns brands such as Guinness, Johnnie Walker and Smirnoff, continues to face growth headwinds in Latin America and packaged food giant **Nestlé** also reported weaker-than-expected results as it warned over slower sales growth as higher prices are likely to lead to consumers reducing their spend.

The largest decliner within the SGEM portfolio during the quarter was **Nike**. The firm reported earnings ahead of expectations during the quarter, but a somewhat gloomy outlook portrayed by management, at least over the short-term, fostered negative sentiment around the sportswear giant. In addition, investor concerns have mounted over Nike losing market share in running shoes to rival brands, specifically Decker's Hoka and Swiss-based On Running.

TOP PERFORMING STOCKS			BOTTOM PERFORMING STOCKS		
COMPANY	GICS SECTOR	CONTRIBUTION (USD %)	COMPANY	GICS SECTOR	CONTRIBUTION (USD %)
Nvidia	Information Technology	3.6	Apple	Information Technology	(0.4)
ASML	Information Technology	1.3	UnitedHealth	Health Care	(0.3)
Meta	Communication Services	1.2	Nike	Consumer Discretionary	(0.3)
Amazon	Consumer Discretionary	1.1	Nestle	Consumer Staples	(0.3)
Microsoft	Information Technology	0.7	S&P Global	Financials	(0.1)

Source: Morningstar

CHANGES IN HOLDINGS

The first quarter of 2024 was unusually busy for us so far as portfolio activity is concerned. During the period we exited our positions in Diageo, Disney and Philip Morris. We also introduced three new holdings into the portfolio namely, Ferrari, Novo Nordisk and Adobe.

We have long held **Diageo** owing to the high quality nature of the counter. The brands in its stable, which include the likes of Johnnie Walker and Smirnoff, are world-renowned and remain sought after by the consumer. Quality aside, we have been less enamoured by the growth delivered by the spirits company in recent years. Adding to our concerns are macroeconomic headwinds emanating from South America which prompted management to reduce the growth outlook for the firm. While we believe the firm will continue to produce high returns on capital and maintain its status as a quality stock, the lack of growth opportunities remains a concern. With this in mind, we believe the capital invested in Diageo could be better deployed in more attractive quality-growth opportunities.

Similarly, our decision to exit **Philip Morris** simply came down to our view on the growth prospects for the tobacco industry. The company has historically earned high returns on capital and we expect it to continue to do so for years to come. However, we expect the traditional tobacco industry to continue to shrink. We are also concerned that the newer form of smoking, be it vaping or in the case of Philip Morris, IQOS branded heat sticks, are unlikely to replace lost growth and profitability. As such, it no longer fits our mould of a "quality-growth" business and we opted to exit our position in the company.

Our decision to exit **Disney** was arguably one of the most difficult we have made since the inception of the SGEM. A key strength of Disney is that the company possesses a stable of globally recognised IP in the form of animated characters, comic book heroes and science fiction legends. The media conglomerate is able to monetise these characters multiple times over, through film, television, theme parks and merchandise, be it toys or clothing. In addition, Disney owns the world's most recognisable sporting network, ESPN, as well as a number of television networks.

All this said, one has to also take a step back and realise that the world of film and television is not what it used to be. We are currently in the midst of a major paradigm shift. The proliferation of the internet as well as faster internet speeds has enabled an alternative form of video content delivery, namely streaming.

The internet has also given rise to a new form of entertainment that is highly addictive. Social media, be it Facebook, Instagram, YouTube or TikTok offers a quick dopamine fix as opposed to sitting down in front of a television to watch a movie or a thirty-minute formulaic sitcom.

Gaming, particularly mobile gaming, has also shifted more "eyeballs" away from televisions screens. The net result of streaming, social media and gaming is a continuing trend of "cord cutting" as consumers cancel their expensive cable or satellite subscriptions for cheaper, more addictive forms of entertainment. One could argue that Disney might still benefit from cord cutting as it grows its streaming platform, Disney+. It has however become increasingly obvious that the economics for streaming are not as profitable as the old linear television model.

We may still find ourselves at the beginning of the streaming evolution, but it seems that streaming pioneer Netflix is quite content to operate at relatively lower operating margins and Big Tech companies are willing to run their streaming platforms at low margins, possibly even loss-making, as streaming forms part of the bigger flywheel for these companies. Such an environment does not augur well for Disney as the competitive forces are seemingly fiercer than ever before. From a sporting perspective, even ESPN is facing challenges in the form of increasing costs to acquire sporting rights for the likes of the NFL, NBA and NHL.

Perhaps the most disappointing challenge facing Disney is that the company seems to have lost its creative spark. Audiences may have flocked to theatres to watch the final instalment of the Avengers series, but viewership for related Marvel franchises has shown a worrying decline ever since Tony Stark snapped his fingers and destroyed Thanos. Movie releases are no longer resonating with audiences as they did in the past. The rerelease of previous Disney hits, revamped to reflect the current times, at least from the viewpoint of Disney creatives, has drawn the ire of many loyal fans. The "updated" versions no longer exude the feel of bygone era Disney movies, instead focusing on topics that provide fuel for the culture wars gripping America.

The last time Bob Iger became CEO, the company faced a similar challenge in the creative space and he was able to revitalise the business through the acquisition of Pixar and later Marvel. Shareholders will be hoping he can pull off something similar as he tries to reinstall magic into this kingdom but for us, the fairy tale of Disney turned out to be exactly just that.

CHANGES IN HOLDINGS (cont.)

Our first addition to the SGEM portfolio during the quarter was software firm **Adobe**. The firm is best known for its creative design applications such as Photoshop as well as those used to read and edit PDF documents, a file format that was invented by Adobe. Adobe also offers a range of digital marketing tools, that can be utilised to better understand a customer's engagement with the various digital channels of an organisation.

A decade or so ago, Adobe transitioned its business from that of a perpetual licence model to one that is subscription-based. The impact has been transformative for Abode. Revenue growth has increased meaningfully as customers adopted the subscription model which has resulted in Adobe possessing a high-quality revenue base that is over 90% recurring in nature.

Despite the firm's long track record of success, some have grown concerned over the threat that generative AI may pose to Adobe. Simplistically, generative AI enables users, through the use of a simple text prompt, to generate content, such as images, audio or video.

The ease at which content can now be generated could potentially lead to a reduction in the number of "creative types" that are currently employed to "manually" produce content. This would of course have an adverse impact so far as Adobe's subscription numbers are concerned.

We take a slightly different view. It is quite likely that the forthcoming explosion of AI-generated content will require even more creatives to curate and edit images. In addition, the nature of generative AI may open the door to the world of content creation to even non-creative types as AI will facilitate ease of use.

To this end, Adobe has developed its own generative AI model called Firefly. Rather than replacing creatives, Firefly will instead serve as an assistant, enabling the user to increase their productivity. Trained on Adobe's extensive database, Firefly will provide content creators with a variety of imagery that can be generated through a simple text prompt. Along with the highest fidelity, the user will also be able to customise the images generated, again through a text prompt. Marketers will be able to combine Firefly with Adobe's digital marketing tools to generate entire marketing campaigns at a much faster rate. In addition, campaigns can be more targeted as content can be personalised for the individual,

Admittedly, we are still in the early stages of generative AI but Adobe seems well positioned to reap the rewards of this new technological trend.

Our second addition during the quarter was Italian automaker **Ferrari**. The stock may be classified within the auto industry, but we view it through the lens of luxury. For many, owning a car with a prancing horse badge represents the epitome of success. The quality of the brand filters through into its industry-leading returns on capital, a reflection of the underlying quality of the firm. The desirably from those that are able to afford the audacious price tag of a Ferrari is evidenced through its long-standing order book. This provides investors such as ourselves with extended visibility into the future as to the company's earnings potential.

Possessing a level of comfort around future earnings is bolstered by the firm's almost-unmatched ability to raise prices, regardless of the economic environment. From our perspective, healthy customer demand and the ability to consistently raise prices is a strong indicator that the firm will be able to grow its earnings on a sustainable basis. Like the car, the company's stock price does trade at a premium but given the strength of its iconic brand and the consistent level of earnings growth that we expect the firm to deliver, we believe that such a premium is warranted.

Our third and final addition during the quarter was **Novo Nordisk**. The Danish-based pharmaceutical firm has a track record stretching back over 100 years and today it is a market leader in antidiabetic medication, specifically the type 2 variety.

In a somewhat strange turn of events, researchers found that one of the active pharmaceutical ingredients ("API") used in its type 2 diabetes treatment, semaglutide, led to weight loss in patients. The API, semaglutide, is a class of medication that is called glucagon-like peptide-1 or GLP-1. One role of the GLP-1 is to prompt the body to produce more insulin, which reduces blood glucose (sugar). GLP-1 in higher amounts also interacts with the parts of the brain that reduce appetite and signal a feeling of fullness.

Over the past few years demand for Novo Nordisk's various GLP-1 drugs has grown at a healthy clip for diabetic purposes. However, once it was discovered that these drugs could also be used for losing weight, demand skyrocketed. In fact, demand has been so strong that Novo Nordisk has been unable to keep up with supply. Some diabetics have been unable to receive their required dosages of Ozempic, the marketing name of Novo Nordisk's current type 2 diabetic treatment, that contains requisite semaglutide.

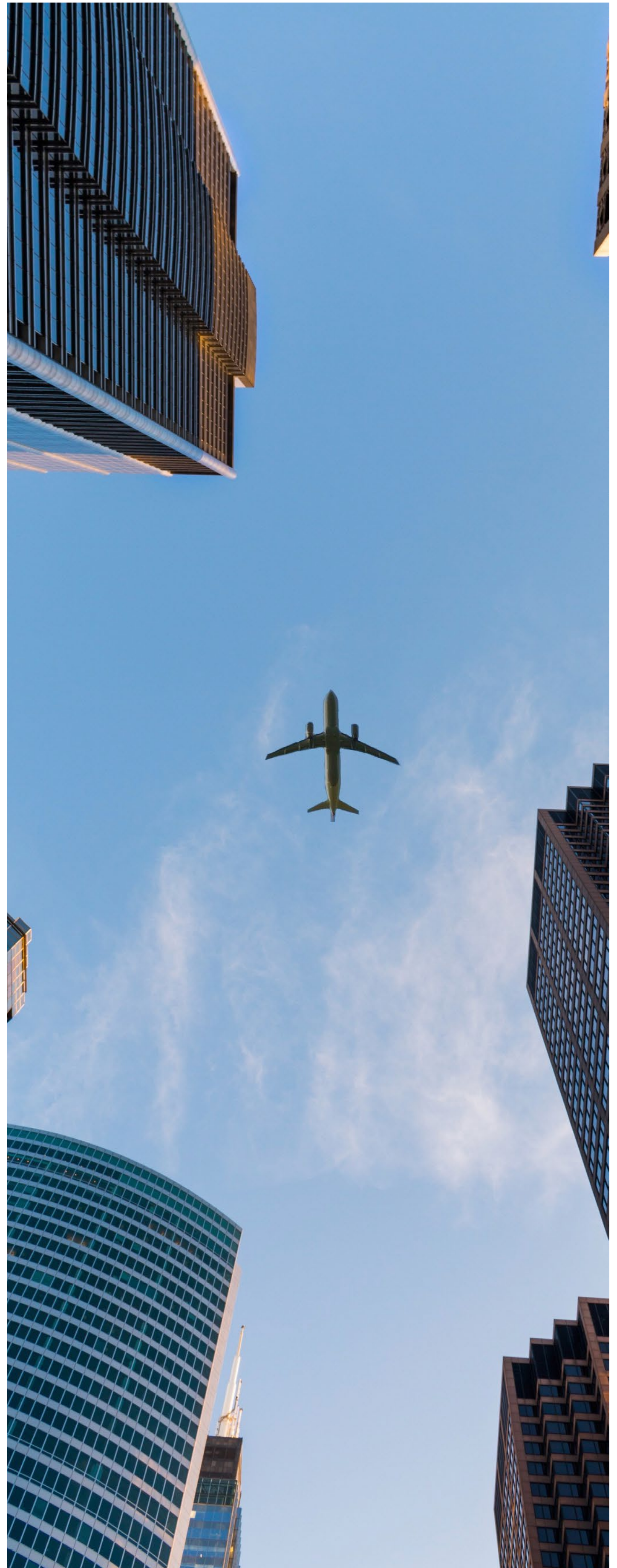
CHANGES IN HOLDINGS (cont.)

Novo Nordisk has been hard at work to address supply issues. An important point to note is that The bottleneck does not stem from producing the API, semaglutide, but rather from the delivery mechanism, an injection pen that is filled with the API.

In this regard, Novo Nordisk has been investing in increased capacity both through expansion of its existing facilities as well as through acquisitions. In this regard, the firm recently acquired Catalent, a contract manufacturing organisation (CMO). The increased capacity will enable Novo Nordisk to meet demand for Ozempic as well as Novo Nordisk's weight-loss specific drug Wegovy. Wegovy contains a higher dosage of semaglutide and has been approved by the FDA specifically to reduce the risk of cardiovascular disease.

This recent development speaks to the additional use cases of the GLP-1 drug beyond diabetes. Obesity is a major issue around the world, particularly in the US, and leads to a number of comorbidities such as type 2 diabetes and cardiovascular disease. Novo Nordisk is currently conducting studies to identify other diseases or ailments that could be treated through the use of GLP-1 drugs.

Given the expanding capabilities of the drug, going forward, it is still possible, that even with increased capacity, Novo Nordisk may still struggle to keep up with demand. In addition, trying to estimate how large the GLP-1 market may become given the growing number of uses cases is proving to be quite a challenge. Some experts are forecasting a market size for these drugs that could reach anywhere between $100 and $200 billion a year. Combine this seemingly attractive opportunity with Novo Nordisk's industry-leading returns on capital and we have a company that certainly fits our quality-growth mould.



OUTLOOK AND WAY FORWARD

Consensus around interest rate cuts will continue to vacillate as economic data points and comments from central bankers shape the thinking of investors. At this point in time, the odds seem to favour central banks cutting interest rates sometime this year. That said, it is not a given that interest rates will be reduced anytime soon, nor do we have any certainty around the quantum.

We prefer not to base our investment decisions based on interest rate movements. Attempting to forecast interest rates over the short-term is an incredibly difficult exercise and trying to predict where interest rates may land over the next five to ten years is arguably nigh on impossible. Even the Fed, with its army of PHDs who have access to exclusive data pools struggle in their predictions of future interest rates.

Instead, we prefer to focus on understanding the underlying earnings and cash flows of individual companies. For certain companies, we have a higher level of confidence in our ability to estimate their earnings further out into the future. The companies in question are those that are considered, at least from our viewpoint, to be high quality in nature. Quality is somewhat of a subjective term but could be best thought of much in the same way that Sherlock Holmes did when examining a portrait in the classic "The Hound of the Baskervilles", stating "I know what is good when I see it".

While the concept of quality might be esoteric for some, one can adopt certain quantitative measures to uncover the level of quality for a business. Arguably the best metric in this regard is the returns on capital generated by a business. Simplistically, how much profit a business generates on the capital that it has reinvested back into the business. Companies that generate high returns on capital, on a consistent, basis would likely fit the bill as quality archetypes.

Returning to our previous point as to why these "quality businesses" allow us, with some confidence, to forecast their future earnings, the answer can be found, strangely enough, in their quality. A number of studies have shown that the highest quality businesses tend to remain just that. The studies clearly illustrate that quality is a persistent factor.

As a result, if we can have some confidence that a firm can maintain its high return on capital, we are one step closer to estimating its future earnings with a level of certainty, though not absolute.

Identifying quality, however, only covers half of our objective. In addition to estimating future earnings, we seek to identify those companies that we believe have a higher probability of growing their earnings, preferably above the overall market.

Over the long-term, a company's stock price tends to follow its underlying earnings, the fundamentals if you will. It therefore stands to reason that those companies that are able to grow their earnings over the long-term, are also likely to experience a concomitant increase in their respective stock prices.

In order for a business to grow its earnings base, consistently, over the long-term, it needs to be able to reinvest its earnings into investment opportunities. If a company cannot reinvest its earnings back into the business, perhaps it does not operate in a market with a large enough set of investment opportunities, it is faced with the choice of hoarding excess cash on its balance sheet or returning it to shareholders.

This is a challenge that we faced regarding two of the companies that we sold during the quarter, Diageo and Philip Morris. Both companies in their own right could be considered high quality as both have consistently generated high returns on capital. However, they are both faced with the same challenge of not having sufficiently attractive reinvestment opportunities. Instead, management have opted to share the excess with shareholders in the form handsome dividends and buybacks.

We are not opposed to companies returning cash to us but we would prefer to be invested in businesses that are able to reinvest the excess earnings into large opportunities at similarly high rates of return on capital. We consider this to be very much the case for both Adobe and Novo Nordisk, two of our recent introductions to the portfolio. We are of the view that these two are operating at the coal face of two themes that are likely to experience significant growth, namely generative AI and weight-loss drugs.

In terms of generative AI, we are still in the very early stages of this theme. Over the next few years, we expect companies to continue to invest heavily in their AI capabilities. Those that are located at the top of the funnel to provide access to AI, be it hardware, software or combination of the two are well positioned to benefit from this theme.

OUTLOOK AND WAY FORWARD (cont.)

In this regard, we expect to see above average growth from the likes of Adobe, Alphabet, Amazon, ASML, Meta, Microsoft and of course Nvidia. We have not included Apple in this list as the iPhone maker has been somewhat reticent in terms of its AI plans. This may change at Apple's next developer conference which is scheduled to take place in June. Rumours are that Apple may open the curtain as to how it will incorporate AI into its ecosystem going forward but whether the announcement will serve as a catalyst is open for debate at this point.

The firm certainly needs a shot in the arm given the headwinds currently blowing its way. Slowing iPhone demand and antitrust investigations have cast a dark cloud over the organisation. Other Big Tech names have not escaped the Eye of Sauron. Alphabet, Amazon and Meta are facing challenges from regulators on multiple fronts. Even semiconductor names such as ASML and Nvidia have to endure ever-evolving regulatory hurdles as US authorities restrict the sale of their latest hardware lest it find its way into the hands of the Chinese military.

Regulation may indeed be an overarching factor hanging above growing secular themes. Fears surrounding the negative consequences of AI, the affordability of GLP-1 drugs for the average American or even the power and influence that a handful of companies may wield as a result of the above may yet play a part in how the economic landscape evolves. A number of national elections are taking place this year, notably the US presidential election, and this will only serve to bolster uncertainty around the type and impact of future regulation.

One final aspect worth mentioning, that comes as part of the territory when markets go up is that valuations follow suit. Many are arguing right now, much as they were last year, that valuations are too high and the market is overvalued.

A key ingredient to the so-called market melt-up is that the very themes we have mentioned above, that offer attractive growth opportunities, are fundamentally responsible for certain firms becoming too expensive.

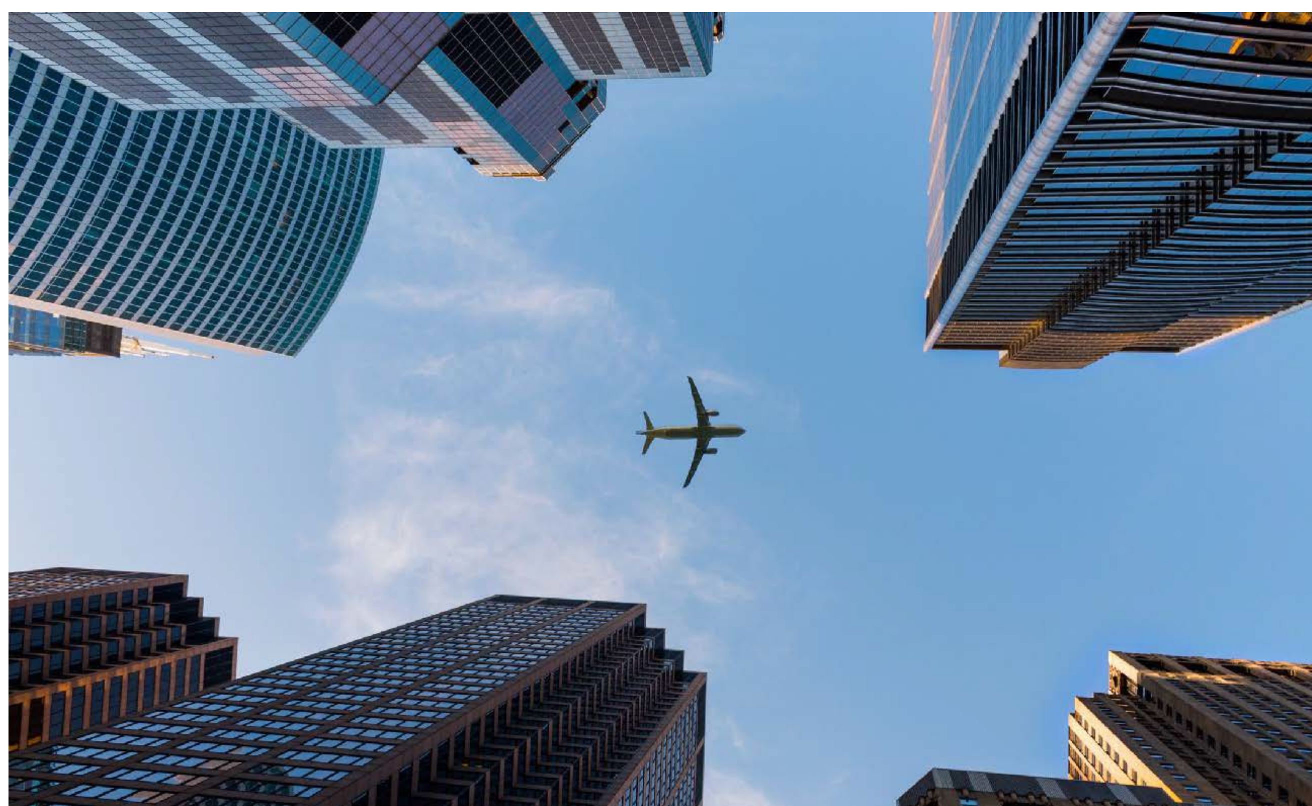
We would argue that there may indeed be an element of truth to this line of thinking and there are a few names out there riding the AI wave without a fundamental backing to support their upward trajectory. For the companies that we do hold and that have benefited from these themes, we believe the fundamentals are there to support their valuations.

While they may appear to be more richly-valued than the broader market, the so-called premium at which they trade is underpinned by notably higher margins, returns on capital, and growth. We are comfortable to pay a fair price for a business, even if it may seem on the face of it, to be quite expensive.

From our perspective, something that is less appreciated by the market, in general, is the persistence of quality-growth businesses. What we mean by this is that the market often underestimates the ability of these businesses to continually earn high returns on capital whilst still growing at above-average rates. Using a simple multiple as a metric may provide a sense of relative valuation but it does a poorer job at encapsulating the quality and growth of the firm. We prefer to determine what we believe to be the intrinsic value of a business and whether the current price offers both a reasonable margin of safety as well as a rate of return above our hurdle rate. If the above criteria can be met then to paraphrase Mr Holmes, "we know a quality-growth business when we see it".

PORTFOLIO CHARACTERISTICS					
	SGEM	MSCI ACWI		SGEM	MSCI ACWI
Quality[3]			**Valuation[3]**		
ROE	41.3%	15.3%	P/Earnings	28.7x	17.7x
ROIC	27.3%	7.9%	P/Book	10.7x	2.8x
EBIT	28.7%	13.3%	P/Sales	7.8x	2.1x
Gross Profit	55.0%	34.3%	FCF Yield	3.9%	4.4%
Growth[3]			**Risk/Volatility[2]**		
Sales growth[1]	14.1%	9.0%	Beta	0.9	1.0
Earnings growth[1]	19.5%	13.8%	Std Deviation	14.5	15.2
Size[3]			Sharpe Ratio	0.7	0.5
Market cap	USD894bn	USD526bn	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, SGEM Growth characteristics reflect median values



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