

Santander GO Global Equity ESG

9 / 2023

Fund commentary

Market developments:

September once again lived up to its reputation of being a challenging month, pushing down global equity markets across the board (-2% in EUR; -4% in USD). A so-called hawkish pause by the US Fed, messaging a higher-for-longer rate regime, was something the market did not digest that well. The cheery mood up during summer already felt disconnected from the breakout in bond yields across the Treasury curve, hence this month's correction seems rational. The weakness has been most apparent in Tech, consumer discretionary and real estate while, perhaps surprisingly, 'old economy' sectors such as Energy received a boost on the back of higher oil prices, reminding markets where the most recent inflation worries originated from. In general we still see macro data points on-track with a soft landing scenario, yet the recent market pullback comes as no surprise. In a delicate poise, we continue to walk the tight-rope of stagnation and recession, arguing for caution and a Quality tilt in portfolio.

Largest holdings:

Alphabet is the largest active position in the portfolio, with the shares still very reasonably valued. The company also reported very good results, as the company has returned to positive growth again. Publishing and data analytics firm RELX is now our second largest active position, where we believe that the company can be an important beneficiary of AI as the demand for accurate and trustworthy data only increases, something underestimated by the market. We also have high conviction in Visa, which completes our top-3 active positions, as we do not think that there will be significant impact from the renewed discussion on interchange fees. We still like the name as it also benefits quite significantly from the rebound in cross-border transactions.

Performance:

In the month of September, the portfolio had a strong relative performance, despite a negative absolute return. From a sector perspective, our defensive positioning in Consumer Staples, Industrials and Healthcare paid off most, while Energy and Financials detracted. In Staples, Costco Wholesale performed best after its results provided further evidence the company keeps on executing very well, with its value proposition resonating strongly with new and existing

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members, while also surgically lowering pricing as inflation moderates differently by category. On the Industrials side, data analytics company RELX saw a strong rebound after its publishing arm signed a deal with a German academics consortium, after a long protracted negotiation. This was certainly positive for sentiment on the stock, most likely also drawing a line under investor's concerns regarding the profit model in this division. A strong contributor in Healthcare was managed care provider UnitedHealth Group, though this was more reflective of an overall rotation towards defensives than any major company news flow. Furthermore, Japanese bank conglomerate SMFG posted strong returns during the month on the expectation of rising Japanese interest rates once the BoJ starts exiting its YCC policy and monetary conditions will normalize.

During September, we did see some weakness in real estate servicing company CBRE Group as the debate around commercial real estate in relation to higher rates dimmed the lights in the property space in general. In contrast to the earlier expectation that transaction activity would rebound in the latter part of 2023, it seems more likely that will pause until next year, resulting in downward revisions. Life sciences tool maker Thermo Fisher also performed quite weak, suffering from an intra-sector rotation out of cyclical towards more defensive type of Healthcare stocks.

Portfolio changes:

During the month of September we exited the remaining position in STMicro as we've turned more cautious on automotive semi's and the MCU market in general. Instead, we started a new position in Broadcom, which is a high quality fabless chip developer with a strong moat, benefiting from the growth in AI, while still trading at an attractive multiple. During the month we've also slightly trimmed positions in Sony Corp and Accenture, while adding to the likes of Schlumberger, SMFG and Fortinet.

Management expectations:

So far this year, it seems on the one hand headline indices shrugged off the Russia/Ukraine war, US regional banking headaches, a China slowdown and the combination of high inflation with higher rates. On the other hand, however, markets quickly flipped from fears around the consumer, hard landing, and leverage levels to a focus on resilient employment and perhaps even dodging a recession. As the very bearish positioning with which we entered 2023 never really came to fruition, beta has been chased with a rally led by Quality and Growth. But where bad data points did not seem to really unnerve markets, we feel this is becoming less the case so from here. Not only the consumer has begun to tighten their belt after a period of 'revenge spending', but corporate narratives have also definitely turned more cautious as well. As the year progresses, many walls of worry have been climbed, but as second quarter earnings provided limited 'follow-through', not even from the crowded Big Tech space, sentiment tempered. All this plays into

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our Quality focused investment strategy, where we continue to favor companies that offer cash flow security, strong balance sheets and good operational track records.

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