

# Santander GO Global Equity ESG

7 / 2024

## Fund commentary

Market developments:

In a month characterized by many twists and turns, equity markets experienced anything but a summer lull in July, though still ending in slightly positive territory (+0.8% in EUR; +1.8% in USD). From political shocks on both sides of the Atlantic to a broad based consumer slowdown, more China weakness and significant momentum rotations - July had it all. In the US, an assassination attempt on Donald Trump, followed by President Joe Biden pulling out of the presidential race soon after, causing shockwaves initially, eventually settling down with a muted market impact. As we shifted from macro to micro, earnings season provided food for market bears, in particular with lots of consumer-oriented stocks coming under pressure, whether it was China exposure for luxury goods or weaker discretionary spend in the US. We also witnessed the first bumps in the road regarding the AI euphoria, with the theme increasingly being judged through a "prove it with profit" lens. As a result, towards month-end, we saw violent rotations from crowded mega cap positioning to beta chasing in small- and midcaps and from growth to value names, sending a strong reminder that consensus positioning can quickly turn into an investors' enemy.

Largest holdings:

Our top active position is Alphabet, as we believe that with its leading positions in Search, Cloud and the investments into its AI platform, Alphabet has a long runway for growth with attractive returns. To us, Alphabet is also an AI winner and beneficiary of increased Ad spending during this US election year. AstraZeneca is our second largest active position, a UK pharma company that enjoys one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries. Cyber security play Check Point Software completes our top-3 active positions, where we see a number of catalysts on the horizon including its product refresh cycle, the interconnection across its products coming to fruition and the company's positioning of its Infinity AI Copilot functionality.

Performance:

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In July, the portfolio had a slightly negative absolute return, lagging behind the world index. Sector wise, our positioning in Real Estate helped performance best, while sectors such as Consumer Discretionary, Financials, Industrials and Materials detracted most during the month.

In terms of stock selection, by far most positive contribution came from real estate service operator CBRE Group, helped by a strong earnings report with core metrics beating expectations across the board. With its advisory and global workplace solutions businesses growing faster, in addition to indicating a stabilizing property backdrop, management felt confident enough to raise full-year guidance. A solid earnings report sent shares of Check Point Software higher as well. Encouraging trends in its billings and product revenue growth with easier comps coming up helped give confidence to hit its guidance. Also the announcement of Nadav Zafrir as the new CEO (effective December 2024) was taken positively, bringing in an excellent track record, strong customer relationships and reviving hopes to make strategic deals.

On the flipside, Dell Technologies was our largest detractor in July as the lack of incremental capex raises from the hyperscalers has taken some fuel out of the AI fire. Growing debates around the ROIC on GenAI spend has caused investors to think more about the path from AI build-out to AI monetization and whether we've entered a phase of overinvesting or not. In similar vein, Alphabet also traded off on the lack of incremental AI spending headlines. The belief that too much spend for too little benefit is starting to take hold in the debate around AI. We are not overly concerned this is indeed the case, but at the same time acknowledge many AI-related names are running out of new catalysts for the moment. US pharma company Eli Lilly struggled somewhat during the month, partly because its peer Roche provided promising data points on its competing anti-obesity drug which might dent Lilly's and Novo Nordisk's market dominance in the long-term. We are less convinced that will happen, but in the near term it does act as a slight overhang for these stocks.

#### Portfolio changes:

In July, we sold our remaining position in Deutsche Boerse due to lack of catalysts and mixed operational execution. We used proceeds to increase the weight of our smallest active positions in portfolio such as Sony Corp, Apple, AMD and S&P Global. During the month of July we also added a new name to the portfolio: Builders FirstSource, a supplier of building materials and prefab component to the construction industry in the US. The recent pullback provided a nice entry point for a stock that is still very attractively valued, generates high returns on capital and benefits from a structural demand supply mismatch in the US housing market. Furthermore, to keep portfolio valuation further in check, we have taken

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profits in several high-fliers (e.g., Meta Platforms, Hitachi, Novo Nordisk) and added to higher FCF yielding holdings (e.g., CBRE Group, Waters Corp, UnitedHealth Group).

Management expectations:

Status quo positioning is a tricky proposition when tables suddenly turn as they did in July, causing large systemic de-risking and moves towards neglected areas of the market. Even though this rotation adversely impacted Big Tech, overall equity performance broadened out with roughly 65% of stocks outperforming the MSCI World index, driven by small caps and defensives. It's not so much that earnings reports have been so stellar to justify this shift, the assumption that earnings downgrades ex the "Mag 7" might have bottomed in combination with rate cut hopes supported the case for a market broadening. As we await more earnings results in the coming weeks, however, any outlook cuts or suggestions of deteriorating operating environments, will provide clues whether this fierce rotation can continue to hold. To keep the portfolio robust and weather tricky late summer seasonality, we have added towards higher FCF yielding names. Rather than making aggressive bets on where the next momentum wave will flow to, we stay the course in putting conviction into those stocks that continue to show operational excellence and earnings strength.

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