

# MFG Global Equity (USD)

AS AT 30 JUNE 2024

## PORTFOLIO MANAGERS

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### INVESTMENT PHILOSOPHY

To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk.

### OBJECTIVES

To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.

### PORTFOLIO CONSTRUCTION

High conviction (20-40 securities), high quality focus.

Portfolio construction with dynamic allocation to cash (typical exposure between 0% - 20%).

Combined Risk Ratio cap of 0.8<sup>^</sup>

## MFG GLOBAL EQUITY (USD)

STRATEGY SIZE	TOTAL GLOBAL EQUITY ASSETS <sup>1</sup>	INCEPTION DATE
USD \$8,360.3 million	USD \$10,184.3 million	1 July 2007

### USD PERFORMANCE<sup>2</sup>

	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
Composite (Gross)	3.3	21.5	5.7	9.4	10.2	11.4	79%
Composite (Net)	3.1	20.5	4.8	8.5	9.3	10.5	77%
MSCI World NTR Index (USD)*	2.6	20.2	6.9	11.8	9.2	6.8	-
Excess (Gross)	0.7	1.3	-1.2	-2.4	1.0	4.6	-
MSCI Min. Vol. NTR Index*	-0.9	8.4	2.7	4.8	7.1	6.0	-

### CALENDAR YEAR RETURNS<sup>2</sup>

	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)
Composite (Gross)	13.9	24.6	-20.2	13.9	11.2	29.7	0.4	25.2	4.7	4.2	6.6	30.8	21.6	11.9	18.3
Composite (Net)	13.5	23.6	-20.8	13.0	10.3	28.7	-0.4	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4
MSCI World NTR Index (USD)*	11.7	23.8	-18.1	21.8	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8
Excess (Gross)	2.2	0.8	-2.1	-7.9	-4.7	2.0	9.1	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5
MSCI Min. Vol. NTR Index*	4.7	7.4	-9.8	14.3	2.6	23.2	-2.0	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0

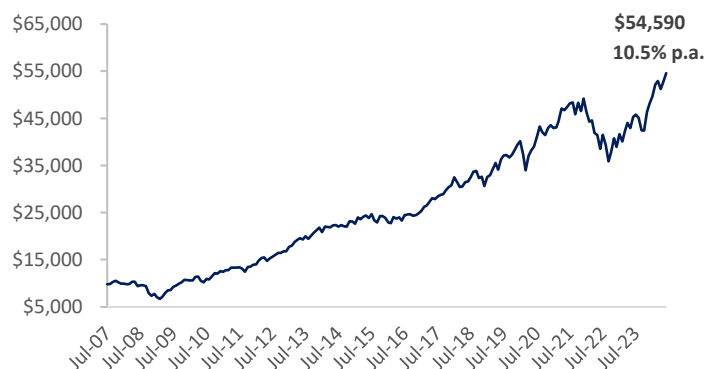
Past performance does not predict future returns.

### STRATEGY FUNDAMENTALS<sup>3,4</sup>

Number of Holdings	28
Return on Equity (%)	43
P/E Ratio (1 year forward)	29
Interest Cover	17
Debt/Equity Ratio	75
Weighted Average Market Cap (USD million)	848,610
Carbon Intensity (CO <sub>2</sub> t/US\$1m revenue) <sup>#</sup>	36

<sup>#</sup> The carbon intensity score is calculated using MSCI data. In a limited number of circumstances, where data is not available or MFG Asset Management deems it appropriate, manual adjustments are made to the MSCI carbon intensity.

### PERFORMANCE CHART GROWTH OF USD \$10,000 (NET)<sup>2</sup>



Past performance does not predict future returns.

<sup>1</sup> Comprised of all Global Equity strategies.

<sup>2</sup> Returns are for the Global Equity Composite ("composite") and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Strategy inception is 1 July 2007. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.

<sup>3</sup> The data is based on a representative portfolio for the Global Equity Strategy. Refer to the Glossary for further information on representative portfolio use.

<sup>4</sup> Please refer to the Glossary for definitions.

<sup>^</sup> Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFG Asset Management should you wish for further details on the calculation.

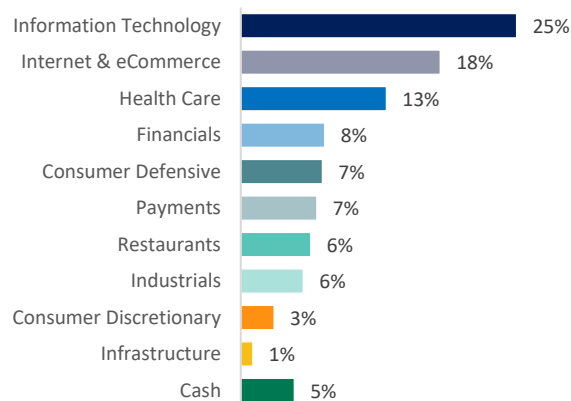
\* Outperformance consistency indicates the percentage of positive excess returns against the benchmark (MSCI World NTR USD Index) for rolling 3 year returns since inception.

<sup>†</sup> All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in [www.magellangroup.com.au/funds/benchmark-information/](http://www.magellangroup.com.au/funds/benchmark-information/).

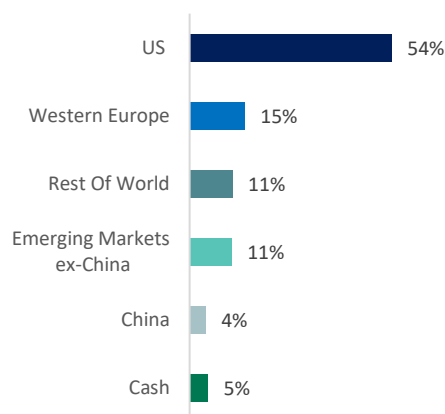
## TOP 10 HOLDINGS<sup>5</sup>

STOCK	SECTOR <sup>4</sup>	%
Microsoft Corporation	Information Technology	7.2
Amazon.com Inc	Internet & eCommerce	7.1
SAP SE	Information Technology	5.1
Intercontinental Exchange Inc	Financials	4.7
ASML Holding NV	Information Technology	4.5
UnitedHealth Group Inc	Health Care	4.4
Apple Inc	Information Technology	4.3
Meta Platforms Inc	Internet & eCommerce	4.1
Intuit Inc	Information Technology	4.0
Netflix Inc	Internet & eCommerce	4.0
	<b>TOTAL</b>	<b>49.4</b>

## SECTOR EXPOSURE BY SOURCE OF REVENUE<sup>5</sup>



## GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE<sup>5</sup>



## CONTRIBUTION HIGHLIGHTS<sup>4,6</sup>

1 YEAR		5 YEARS		10 YEARS	
TOP 5	CONTRIBUTION (%)	TOP 5	CONTRIBUTION (%)	TOP 5	CONTRIBUTION (%)
Amazon	3.1	Microsoft	10.9	Microsoft	26.0
Microsoft	2.4	Alphabet	7.8	Visa	15.8
SAP	2.1	Chipotle	3.9	Alphabet	14.7
Trane Technologies	2.0	ASML	3.5	Apple	12.6
Chipotle	1.9	Apple	3.2	Lowe's	11.2
BOTTOM 5	CONTRIBUTION (%)	BOTTOM 5	CONTRIBUTION (%)	BOTTOM 5	CONTRIBUTION (%)
LVMH	-0.7	US Bancorp	-1.6	Kraft Heinz	-6.7
AIA Group	-0.7	Anheuser-Busch	-1.6	Tesco	-5.8
Nestlé	-0.5	Netflix	-1.4	Lloyds Banking	-2.6
Diageo	-0.5	Alibaba	-1.2	CVS	-1.9
McDonald's	-0.3	Diageo	-1.0	US Bancorp	-1.6

## SUPPLEMENTARY STATISTICAL MEASURES<sup>4,7</sup>

	3 Years	5 Years	10 Years	Since Inception
Turnover	25.7%	20.9%	15.2%	12.1%
Beta	1.0	0.8	0.8	0.8
Tracking Error (% p.a.)	5.0%	6.9%	5.8%	6.8%
Standard Deviation - Strategy	16.9%	15.6%	13.3%	13.9%
Information Ratio	-0.4	-0.5	0.0	0.5

<sup>5</sup> The data is based on a representative portfolio for the Global Equity Strategy. Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding. Refer to the Glossary for further information on representative portfolio use.

<sup>6</sup> The contribution highlight table is actual performance data of a representative portfolio within the Global Equity Composite. Contributions are denoted in USD and are cumulative for each period. Refer to the Glossary for further information on representative portfolio use. The securities identified above do not represent all the securities purchased, sold or recommended for MFG Asset Management's clients in connection with the Global Equity Strategy. The Global Equity Strategy's total returns are available on request.

<sup>7</sup> Supplementary Statistical Measures are calculated after fees in USD against the MSCI World NTR USD Index.

## GLOSSARY

**Beta** A measure of the composite's sensitivity to market movements, with the market defined as the MSCI World NTR USD Index. The beta of the market is 1.00 by definition. A beta greater than 1.00 suggests the composite is more volatile than the market, a beta less than 1.00 indicates the composite has lower volatility than the market and a beta of 1.00 suggests the composite has the same level of volatility as the market.

**Carbon Intensity** A measure of the metric tonnes of CO<sub>2</sub> released per \$1mil USD revenue of a company. Calculated as a weighted average of all stocks in the representative portfolio.

**Contribution** The contribution values at the security level comprise the sum of each security's daily contribution to the return of the total portfolio multiplied by total portfolio growth over the remainder of the prescribed period (i.e. 1 year, 5 years and 10 years). The daily contribution is the movement in the security price multiplied by the security weight in the portfolio.

**Debt/Equity Ratio** A measure of a company's financial leverage calculated by dividing its net debt by stockholders' equity. Calculated as a weighted average of all stocks in the representative portfolio.

**Information Ratio** Is a risk-adjusted return measure that calculates the composite return above the benchmark (MSCI World NTR USD Index), relative to the volatility of those returns. Measured by excess return over the tracking error.

**Interest Cover** Current year earnings before interest and tax divided by net interest expense – a measure of ability to service debt. Calculated as a weighted average of all stocks in the representative portfolio.

**P/E Ratio (1 year rolling forward)** The share price divided by a forecast of earnings per share in one year. Calculated as a weighted average of all stocks in the representative portfolio.

**Representative Portfolio** The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

**Return on Equity** A measure of a company's profitability that takes a company's annual net income divided by the book value of its shareholder equity. Calculated as a weighted average of all stocks in the representative portfolio.

**Standard Deviation** measures how widely individual performance returns, within the composite, are dispersed from the average or mean value.

**Turnover** A measure of the representative portfolio's trading activity, which is calculated by taking the lesser of purchases or sales and dividing by the average net assets of the measurement period.

**Tracking Error** Calculated as the standard deviation of the difference between the return of the composite and its benchmark (MSCI World NTR USD Index) and used as a measure of relative consistency of performance to the benchmark.

**Weighted average market cap (USD Million)** The average market capitalisation of all companies in the representative portfolio, with each company weighted according to its percent held.

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The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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The Global Equity composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the Global Equity strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The composite was created in December 2011.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing [client.reporting@magellangroup.com.au](mailto:client.reporting@magellangroup.com.au).

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USD is the currency used to calculate performance.

GLOBALUSD45473

## Market Commentary

### 3 months

During the June quarter the MSCI World Index gained 2.6% in USD. Markets globally diverged with returns being driven by two distinct themes: 1) central banks and governments balancing a slowing of inflation with economic data prints and gauging the right level for interest rates, and 2) continued optimism around the building of infrastructure (chips, data centres) for Generative Artificial Intelligence. Companies that are well positioned to benefit from these new growth opportunities performed well while companies more at risk if demand growth slows too much were weaker. Consequentially, Information Technology (+11.4%) and Communication Services (+8.1%) were by far the strongest sectors in the June quarter, while economic sensitives gave back some of the first quarter gains, with Materials (-3.5%), Consumer Discretionary (-2.3%), Industrials (-2.2%), Energy (-1.3%) and Financials (-0.4%) all lower.

The huge investments, an arms race, to build capacity and capability in Artificial Intelligence rolled on this quarter and share prices followed. US markets were strongest regionally, given it is the home to most major technology companies, with the Nasdaq Composite up 8.3%, followed by the S&P 500 index up 3.9%. Decoupling trends further accelerated as US imposed tariffs on China's electric vehicles and further limited China's access to semi-conductor-related equipment. The US election in November 2024 is filling much column space, but we do not see many areas of truly material policy differences. Most, including us, see Trump's more likely policies as broadly more positive for US corporates and thus equity investors.

After a 20% gain in the March quarter, Japan's Nikkei 225 index dipped 2% in the June quarter. In March the Bank of Japan raised rates from -0.1% to a range of 0.0%-0.1%, the first rise in 17 years and its first move out of negative rates in eight years. It hopes to protect the Yen from further devaluation and cool its above-target 2.8% inflation. Unions have successfully been bargaining for higher wages.

Europe's Euro Stoxx 600 index was broadly flat in the quarter, down by 0.2%. President Macron called a snap election in France, causing a sharp sell-off in French bonds and stocks on concerns of a right-wing government gaining control. Europe's recovery is in its early stages with the euro area and UK growth turning positive and disinflation bringing inflation to 2.5% in the EU and 2% in the UK – good news for policy makers. Indeed, the ECB cut its policy rate by 25bp in June. The EU and UK unemployment rates were 6% and 4.4% respectively in May 2024. The German 10-year Bunds rose to 2.5% from lows of just under 2% in December 2023.

Australia's ASX 200 was down 1.1%.

In China the CSI 300 index fell 3.3% as policy support remained modest. Economic activity was led by improving exports while the consumer remains very cautious, preferring to save rather than spend. May data showed retail sales rose 3.7% yoy, exports rose 7.6% yoy and the USD–CNY remains above 7.2. The Third Plenum begins on July 15 where China's government lays out its long-term growth target.

### 12 months

The MSCI World Index rose strongly this past year, by 20.2% in USD, fuelled by the significant investments being made to unlock the productivity and growth opportunities that will be enabled by AI and Generative Artificial Intelligence. At the same time, economic growth has held up well, particularly in the US, despite tight monetary policy around the world to bring inflation back down to acceptable levels of closer to 2%. This reflected an improving outlook in many cyclical sectors as both fiscal policy and strong corporate spending have driven growth.

All sectors rose in local currency terms, with Information Technology (+38.8%) and Communication Services (+38.2%) clear beneficiaries of the strengthening growth anticipated from AI, followed by Financials (+25.0%), Industrials (+17.7%) and Energy (+16.4%) revealing the expectations of cyclical recovery. The weakest sectors were Consumer Staples (+2.8%) and Utilities (+5.7%).

The S&P 500 index (USD) added 22.7% and the Nasdaq gained 28.9% in the year to end June 2024. The top five S&P 500 stocks are Microsoft, Apple, Nvidia, Alphabet and Amazon and the impressive performance has rested largely on these stocks. All are important players in driving technological innovation. The Federal Reserve has kept rates at 5.5% in seven consecutive meetings, with the last 25 basis points hike in July 2023. The consumer price index measured inflation at 3.3% in the 12 months to May – down from 4.1% a year earlier – while the Core PCE, (which the Fed focuses on) resumed slowing in May (after three stable months at 2.8%) hitting 2.6%. The 10-year US Treasury yield finished the year at 4.4%.

Europe's Euro Stoxx 600 index (EUR) rose 10.7% for the year. After weakening up to October 2023, markets turned as it became clearer that disinflation was taking hold and the growth slowdown would not become a significant economic downturn. Food and energy prices, which had been particularly painful for Europeans, fell back quickly while household wealth is improving modestly. Household disposable incomes are rising at ~5.8% with employee compensation rising at a similar rate. European Union and China trade relations became increasingly difficult over the past year, and this could have profound impacts on multinationals operating across both jurisdictions. Tariffs on Chinese EVs and other measures seem likely as the EU tries to derisk its economy and supply chains.

Japanese shares had another strong year, as the Nikkei 225 index advanced 19.3% in Yen (7% in USD). The Japanese share market has benefited from improved corporate governance, a weak Yen benefiting exporters (such as its car industry) and changes in regulations on investment accounts that have also boosted share purchases. In March 2023, the Tokyo Stock Exchange (TSE) requested companies to take "action to implement management that is conscious of the cost of capital and stock price". The evidence of changes is increasingly widespread and has been a material factor in boosting shareholder returns in Japan.

China's CSI 300 index fell 9.9% over the year, though has been closer to flat in the past six months. China's growth outlook has stabilised as exports are picking up to fill the gap being left by weak domestic consumption.

This is tied to poor consumer confidence, as much household wealth remains tied to real estate where prices continue to fall as the market digests oversupply.

Australia's ASX 200 index (AUD) ended the year up 12.1% after a strong first half with a relatively stable currency at around 66c. Australia's economic growth has remained positive but weak, while population growth is strong (up 2.5% as last measured in December 2023 principally due to net migration) and inflation is easing, slowly. Unemployment is low and labour markets tight, so wage inflation is holding at around 4%.

## Strategy Commentary

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### 3 months

The strategy recorded a positive return for the quarter to June 2024. The stocks that contributed the most in local currency terms over the period were Apple, Alphabet, Amazon, Microsoft and Netflix. Apple and Alphabet both rallied over 20% as the market gained greater clarity on the prospects for both to capture strong future growth, especially related to the implementation of Generative Artificial Intelligence. At the June Worldwide Developer Conference (WWDC) Apple showcased "Apple Intelligence", which will be available only on iPhone 15 Pro and later models, thereby likely driving a faster replacement cycle. Alphabet is continuing to innovate and experiment in Search while also reducing costs and improving profits in Cloud. Amazon and Microsoft are superbly positioned as the two dominant cloud providers and growth is gradually reaccelerating while Netflix continues to reveal progress on capturing consumers and delivering a strong ad-supported model.

The stocks that detracted the most in local currency terms in the quarter were Mastercard and Visa, Lowe's and LVMH. The US Supreme Court, in one of several surprising moves of late, rejected a settlement of a 2005 anti-trust lawsuit against the two payment networks relating to interchange fees (which are received by banks not the card issuers) and this has unnerved investors. We do not anticipate changes to the "Honour All Cards" rule and so do not see a material financial impact as likely. Risks for deteriorating discretionary spend – given tight monetary policy and lack of change in interest rates – saw LVMH and Lowe's share prices retrace ~13% each, with the weak Chinese consumer in focus for LVMH. Lowe's is delivering good results in a period of weak spending on housing-related items (even given low housing turnover) but is being held back by sustained high interest rates. We anticipate this will improve when the US Federal Reserve does cut rates. Housing supply remains below natural demand in the US.

### 12 months

The strategy achieved a return of over 20% for the year to end June 2024. The largest absolute contributors were the holdings in Amazon, Microsoft, SAP, Trane Technologies and Chipotle Mexican Grill, which all rose strongly, led by Trane at 74% and tailed by Microsoft at 32%. Almost all of these have benefited from compelling outlooks associated with reaccelerating growth in Cloud, with AI adding fuel to the long-term opportunity apparent for each. Trane is seeing robust demand for its products as net zero targets and rising regulations regarding emissions drive investment. Its backlogs are at record levels. Chipotle Mexican Grill is winning share in US eating out occasions as it continues to grow restaurants at over 8% pa, while its healthier menu and still compelling relative value win over customers.

The largest detractors in the year were AIA (1299 HK), LVMH, Nestlé and Diageo. We reduced our holding in then exited AIA in the final quarter. While AIA 2023 results were solid and the business continues to execute well, managing to a conservative balance sheet, the outlook failed to meet expectations and we are wary of the prospects for its large China/ HK exposure given the weakness amongst consumers. LVMH has fallen as the business is now cycling a period of exceptional growth at the same time consumers are tightening their belts and the important luxury Chinese shopper is focusing on saving. We believe wealthy consumers globally remain in rude financial health but do expect a period of slower growth. We exited Diageo in January 2024, after disappointing results in Latin America and our reassessment of how much longer it would take to bring spirits consumption in the US back to trend from extremely elevated levels. Nestlé has had some struggles within its business, while also being less aggressive with price increases to pass through cost inflation, but we expect these issues will abate later this year.

*Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.*

## Portfolio Positioning

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Over the past year we have repositioned the portfolio to reduce our exposure to Consumer Staples where we expected revenue growth to be pressured by the roll back of aggressive pricing and where management teams were not executing well. These were our holdings in Diageo, Reckitt Benckiser and PepsiCo. We added Colgate-Palmolive as our analysis suggested the worst was behind it and the coming few years should see the company recover margins with steady market share gains in key markets. Elsewhere we halved our Utilities exposure as real rates remained a headwind and regulatory risks became greater, and switched our holding in WEC Energy into Eversource Energy given greater valuation dislocation and prospects for better outcomes as it repositions and exits poorly performing assets. In Healthcare we added Styker and

Novo Nordisk, both of which we view as executing superbly and having strong growth prospects given innovation by each. We sold Novartis, as, with the sale of Sandoz, the science risk is now less diversified, and we felt growth opportunities were stronger elsewhere.

We exited our small Safran holding and added Republic Services – we like the long-term prospects for both companies but Republic is a lower beta exposure and the change helps us balance risk in the portfolio.

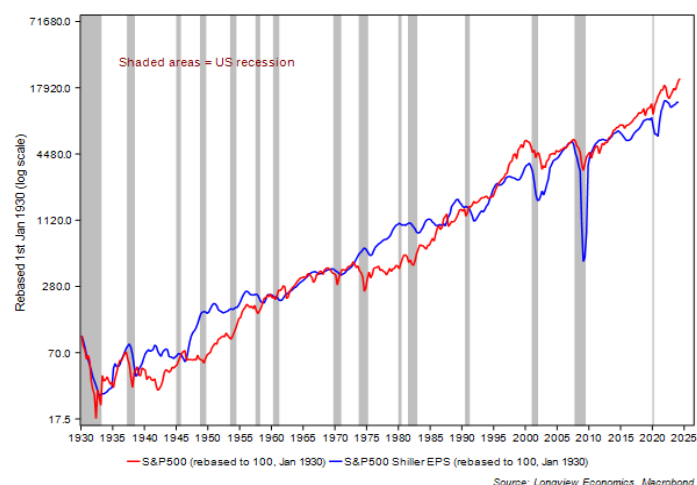
Given concerns on the prospects for Chinese domestic consumption and our expectation of sustained high policy rates in the US, which we felt would weigh on US discretionary expenditure more than the market anticipated, we reduced our holdings in LVMH, McDonald's, Yum! Brands, Chipotle and Visa. We added to Netflix, Amazon, Microsoft, SAP and Intercontinental Exchange when we felt the pricing gave us an opportunity to achieve significant long-term returns. We allowed the strong outperformance of Trane Technologies to run so its position size increased from 2.4% to 3.5% across the year.

## Outlook

As we look to the years ahead, we see a good backdrop for global equities and for the portfolio of companies we hold. In conclusion, we see the interest rate backdrop as reasonably benign and potentially a positive, earnings outlooks as positive for investors, and no evidence at present of rising geopolitical or financial shocks that would drive a need to be on alert.

### Growth in earnings

Over the very long term the stock market is all about earnings growth. That is, over the very long term the multiple placed on expected earnings growth will wax and wane around average levels. Earnings are the driving force of the stock market.



US S&P 500 & EPS (rebased to 100 in Jan 1930, log scale)

Over shorter horizons, the multiple placed on a company's earnings or cash flows will significantly influence returns. Barring short-term pullbacks of ~5-10%, markets tend to trend higher along with earnings, except in a cyclical bear market. Causes of these bear markets are usually one or a combination of three factors: a recession, tight money, or a shock (such as an oil price shock or banking crisis). We see none of these as likely in the coming year (though shocks are called shocks because we do not foresee them!)

### Interest rates

We continue to expect US 10-year Treasuries to trade within a 50bp range either side of 4% and to stay similarly flattish in Europe with the balance of risks for these yields tending to the downside. Policy (cash) rates, in most major developed economies, should begin or continue to be cut as inflation slows. Elsewhere Japan has finally moved its cash rates above zero to 0.1%.

### Growth in economies

European consumers should sustain some improvement ahead though productivity in Europe remains low – always a headwind to performance. The US consumer is showing signs of weariness, especially at the lower end of incomes, though with equities and housing prices still up comfortably year over year, household wealth is up 9% and overall spending should be ok. Fiscal policy in the US was a big driver of economic growth in calendar year 2023 but this is no longer a driver. Investments in technology and supporting industries look likely to sustain a solid, if slightly slower, US economic growth path with nominal US GDP growth currently above 5%. Any material slowing is likely to be met with Fed policy rate cuts and we do not anticipate a recession any time soon. China has retained a 5% GDP growth goal though this may be revised in July at the Third Plenum. With weak housing, low inflation, an ageing population, low consumption expenditure and recent deterioration in industrial production, exports growth will be critical. China's large investments in value-added manufacturing have resulted in significant capacity and cost-competitiveness so more protectionist policies elsewhere, like tariffs, seem likely. The issue of Taiwan and its independence from China remains unresolved and potential for flare-ups is high.

### Sovereign debt

Government deficits are apparent in most countries around the world today and are often raised with us as a point of concern. Concerns on the levels of public debt have, at times, led to a sharp repricing of debt and equities. Elections that shift governments to parties more likely to spend recklessly bring short-term event risk; e.g., Liz Truss's UK government and the current concerns over Le Pen's showing in France. In the US, neither party seems particularly worried about budget deficits and government debt to GDP is currently around 124%. For context, the ratio is 262% in Japan, ~30% in Australia and ~80% in Europe's EU and in China. We do not see the primary deficit in the US as sufficient to cause risk premiums to blow out for now – solving this issue will require a period of strong economic growth or tax rate increases down the road.

### The next leap forward

The advances in AI and Gen AI are not yet apparent in the revenues or earnings of ~95% of companies and for now, the ramifications are really only showing up in huge capital spending on semiconductor chips and data centres to enable AI use. However, innovation is evident and the potential for meaningful change in time is likely to be unlocked as companies and governments invest to capture the opportunity and protect the value of unique data. We own meaningful stakes in the companies we believe can lead in the digitisation

shift including AI and deliver market-leading growth and returns.

### Winning companies with outsized opportunity

DIGITALISATION AND AI ADOPTION					
WORK	ADVERTISING	SHOPPING	ENTERTAINMENT	SPENDING	INVESTING
SAP	Google	Mastercard	NETFLIX	amazon	ASML
Meta					
Microsoft	INTUIT	LVMH	Apple	VISA	ice

ADAPTING GLOBAL INFRASTRUCTURE	QUALITY, RESILIENT COMPOUNDERS WITH PRICING POWER
ASML	Nestlé
Brookfield	Yum!
LOUIS VUITTON	UNITEDHEALTH GROUP
TRANE	McDonald's
REPUBLIC SERVICES	stryker
	Apple
	Colgate
	L'ORÉAL

Source: MFG Asset Management Ltd, selected holdings of a representative portfolio for the Global Equity Strategy as at 30 June 2024.

We anticipate our portfolio companies can keep delivering better-than-expected results over time and are yielding high and growing cash flows from their operations today. Innovation alongside execution excellence is at the heart of the companies we own as we believe these factors position them to succeed and outgrow their respective industries.