

# Santander GO Global Equity ESG

8 / 2022

## Fund commentary

### Market developments

The month of August was quite two-faced for global equity markets, initially continuing the rebound we saw in July, but eventually ending down around -2%. What got lost in the run-up and ultimately hit back towards the back-end of the month were actually the same concerns hurting markets year-to-date, most notably the continuation of high inflation and an overall global economic slowdown. In addition, US House speaker Nancy Pelosi's visit to Taiwan, followed by military drills of China in the area, spooked markets in an already tense geopolitical environment. Also nervous labor markets with on the one hand strikes and tough wage negotiations, while on the other end hiring freezes and even layoffs in the Tech space, for example, added to the market turmoil. We do see some sunlight piercing through the clouds with the notorious supply chain bottlenecks slowly easing and most commodity prices coming off peak highs, which ultimately should pair back to more normalized levels. However, at this stage, we still see macro data points mixed, keeping us firmly up the Quality curve in terms of portfolio positioning.

### Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being Cheniere Energy, which is our preferred pure-play on significantly rising US LNG exports. Our second largest active weight is US pharma company Eli Lilly & Co., one of the strongest innovators in the pharma space which is reflected in a very promising drug pipeline. US managed care provider UnitedHealth Group completes our top-3 active positions.

### Performance

August has been a tough month from a relative point of view, underperforming the benchmark. Year-to-date the strategy has shown a slight outperformance relative to the benchmark, though. Strong stock picking in Energy added most to performance in August. Main positive contributor in the Energy sector was Cheniere Energy, benefiting from skyrocketing gas prices and the company's dominant position in the US LNG export market. Another good contributor for the month was Elevance Health, helped by the extension of Affordable Care Act subsidies as part of the Inflation Reduction Act (IRA), signed in the US by the Biden Administration. Also Trane Technologies rebounded due to the IRA, most likely seeing strong order intake for its climate control products needed for the decarbonization of buildings. On the flipside, however, our positioning in Materials and Consumer Staples sectors turned out to be performance detractors. Within Healthcare, our holding Haleon suffered on the back of unexpected litigation risk from a recently filed Zantac lawsuit, in which Haleon was mentioned together with several other Pharma companies. Haleon's potential exposure, mainly inherited from former parent Pfizer, is relatively small, but the stock was hurt nonetheless. Furthermore, some renewed concerns on "Open Access", or 'free' academic research, caused underperformance of our holding in RELX, a publishing and data analytics company.

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## Portfolio Changes

During the month of August, we have sold our remaining holding in DSM, a Dutch specialty ingredients company. We are concerned about DSM's ability to pass on steeply rising costs in a weaker demand environment, hurting already weak FCF generation. Instead we used the proceeds to add to our position in Haleon. We also sold out of pharma company GSK as we got concerned about potential US litigation regarding Zantac, allegedly linked to causing cancer. A new position in the portfolio is Tesla, the global number one EV manufacturer, where we continue to see strong execution and improved cash flow generation. We like how Tesla remains firmly ahead of the competition and really leads the strong trend towards EVs. Furthermore, within Consumer Discretionary we also reduced our holding in AutoZone and added to Home Depot. During August we slightly trimmed Cheniere Energy, where we are taking some profits after a very strong run, while adding to Neste Oyj. Other smaller adjustments have been an increase to our weight in Trane Technologies, at the expense of Bank of America, while also reducing AstraZeneca a bit in favor of Amazon.com.

## Management expectations

Global equity markets remain in a precarious place. The rather unambiguous hawkish Fed meeting at Jackson Hole late August proved to be a reality check for equities, indicating the hope for a more dovish policy stance were premature. It is clear continued elevated inflation and the nervous response by central banks, result in demand destruction that is finding its way through both the consumer and industrial complex. Therefore, a recession in both the US and Europe seems more a question of when rather than if. To prepare ourselves against a further weakening of the economic backdrop, we have firmed up on our exposure to high quality companies with strong operational track records, some of which are now starting to trade at very attractive valuations. As we moved passed earnings season and seems management commentary has turned more cautious, we remain vigilant and on the look-out for bright spots to capitalize on with our strategy.

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