

# Santander GO Global Equity ESG

9 / 2022

## Fund commentary

### Market developments

Global equity markets continued their decline in the month of September, down over 6%, with sentiment remaining persistently bearish. Europe, in particular, remains vulnerable, visible in the fund flows again benefiting the United States and pushing the US dollar even higher. Without a resolution to the Ukraine war, with President Putin even increasing the stakes recently, and the terms-of-trade shock facing Europe, cheap valuations alone will not be enough to reverse fortunes in the region. The sector-by-sector backdrops also starkly differ with some perceived beneficiaries, such as Energy, also facing regulatory concerns, whilst commodities and banks are also experiencing push and pulls. In general, the firm commitment in sorting inflation cannot happen without doing economic harm, but the velocity with which we have seen a global recession becoming consensus is striking, nonetheless. Hence, as growth continues to weaken across the board and rates keep climbing, equity investors seek refuge again in the stronger balance sheet stocks. Concurrently, our strategy remains 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 US pharma company Eli Lilly & Co., which is regarded as one of the strongest innovators in the pharma space, reflected in a very promising drug pipeline, particularly on Alzheimer's disease. Our second largest active weight is Cheniere Energy, which is our preferred pure-play on significantly rising US LNG exports. AstraZeneca completes our top-3 active positions, also enjoying one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries.

### Performance

September has been a strong month from a relative perspective, outperforming the benchmark. Also year-to-date the strategy has shown a slight outperformance relative to the benchmark. Strong stock picking in Energy, Healthcare and Technology added most to performance in September. The main positive contributor in Healthcare was Eli Lilly, lifting on positive Alzheimer's trial results from its peers Biogen and Eisai, also giving more confidence in the success of Eli Lilly's antibody Alzheimer drug called Donanemab. In September, another good contributor was UnitedHealth, up on the news the US DoJ's challenge of its takeover of Change Healthcare was rejected, paving the way for deal close. Within the Energy sector, the best performing stock was Cheniere Energy, benefiting from still elevated gas prices and the company's dominant position in the US LNG export market, reflected in another earnings guidance upgrade. Aspen Technology also performed well during the month of September, seeing a strong spending backdrop for its energy customer base as well as more synergy potential from the business combination with Emerson Electric. On the flipside, we detracted somewhat in Real Estate with our investment in CBRE Group, which continues to be hurt by rising rates

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even though the company itself should be relatively insulated from this. Also Sony Group detracted from performance, mainly because of concerns of lower discretionary spend on items such as gaming and consumer electronics going forward.

## Portfolio Changes

During the month of September, we sold our position in Booking Holdings because we think platform activity has peaked as travel spend is largely discretionary. Moreover, we also feel management is relatively unresponsive to our engagement on remuneration, lowering our conviction level on the company's sustainability credentials. We used the proceeds to add slightly to our positions in Crown Holdings, a US beverage can manufacturer, as well as Apple, which we believe can remain relatively resilient in this market environment. Furthermore, we trimmed CBRE Group a bit as sentiment in real estate remains weak. Finally, we started a new position in Unilever Plc, the British/Dutch global consumer staples bellwether, which is an interesting restructuring name with a strong sustainability profile, still trading at an attractive valuation.

## Management expectations

Without a clear circuit breaker, the balance of risks for global equity markets still looks skewed to the downside. Valuations are not yet near trough levels and with a highly uncertain trajectory of earnings estimates, the set-up for equities remains tricky. Moreover, several technical and sentiment indicators are again at panic levels. However, as easy it is to get incrementally negative on the way down, the reverse might also be true, one in which every rebound might be looked at with suspicion and deemed a 'head fake'. The danger of that, of course, is that you might lose out of attractive opportunities, which inevitable arise too in this kind of market environment. For example, we shouldn't rule out a scenario of a Fed pivot towards a potential restart of quantitative easing, something which can arguably lead to a market relief rally. Hence, following a barbell approach where we can quickly shift gears if needed to, remains our preferred route to market. So far our exposure to high quality companies with strong operational track records helped us from a relatively point of view and we see no reason for a change in tack just yet.

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