Discovery

# Goldman Sachs Global Growth Share Portfolio Fund

December 2024

## Global Market Review

Global equities fell slightly during the quarter, declining by -0.1%. The period was defined by shifting narratives- U.S. election, surging dollar, persistent inflation, and slower-than-expected rate cuts, all of which contributed to heightened volatility. Nevertheless, equities ended 2024 on a strong note, posting an impressive 18.7% gain for the year.

While inflation had eased significantly since 2022, progress stalled during the quarter as U.S. inflation rose to 2.7% in November. The Federal Reserve (Fed) cut rates twice in Q4 but signalled they would adopt a slower approach to further rate cuts in 2025 due to persistent inflationary pressures. Meanwhile, the U.S. economy remained resilient, with GDP growing by 3.1% in Q3, reflecting strong underlying activity. In the Eurozone, inflation followed a similar pattern, rising to 2.2% in November. However, European Central Bank (ECB) indicated that further rate cuts are likely in 2025, emphasizing a clear path forward as region grapples with sluggish growth.

US equities outperformed other regions, driven largely by the earnings of "Magnificent 7" stocks. Emerging markets underperformed developed markets, weighed down by investor concerns over the impact of Trump's proposed tariffs, particularly on China.

Growth stocks outperformed value stocks during the quarter, with large-cap stocks leading gains. Information Technology and Consumer Discretionary were the top performing sectors, fuelled by strong growth in the "Magnificent 7" companies. Conversely, Materials and Healthcare were the weakest sectors during the quarter.

Risks during the quarter included geopolitical tensions and uncertainty surrounding the implication of Trump's proposed trade tariffs.

## Performance Overview

In Q4 2024, the I Acc share class of the GS Global Equity Partners ESG Portfolio returned -1.7% on a net basis, underperforming the benchmark MSCI World Index by 150 bps. Since inception, the portfolio has delivered 8.0%, underperforming the benchmark by 163 bps on an annualized net of fees basis.

During the quarter, our positioning within **Information Technology** and stock selection in **Communication Services** sectors supported portfolio returns, while our positions in **Health Care** and **Materials** sectors detracted the most from relative returns. From a country perspective, our positions in **Taiwan** and **France** supported performance while our holdings in the **US** and **Netherlands** detracted the most from relative returns.

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# Performance Commentary

| Top Contributors | Ending Weight (%) | Relative Contribution (bps) | Top Detractors | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|---|---|---|
| Marvell Technology | 2.1 | +97 | DSM-Firmenich | 2.4 | -97 |
| Morgan Stanley | 4.2 | +66 | American Tower Corporation | 2.0 | -59 |
| Salesforce | 3.0 | +58 | AstraZeneca | 2.0 | -58 |
| TSMC | 1.9 | +43 | Danaher Corporation | 2.9 | -56 |
| Amazon | 5.4 | +37 | Estee Lauder Companies | 1.7 | -53 |

**Top contributors to portfolio performance**

**Marvell Technology**, an American fabless semiconductor company, was the biggest contributor to relative returns during the month. The stock outperformed on the back of a strong earnings report in December where the company demonstrated strong momentum in AI revenues driven by Amazon (Marvell's AI chips customer) and strong demand for broader AI infrastructure. The company also provided better than expected guidance for its revenues which also contributed to the stock's outperformance. We continue to like the name as management remains confident that demand tailwinds for their AI products will continue, driven by growth in existing customers and new customers using Marvell products, which would further drive strong earnings growth going forward.

**Morgan Stanley**, an American multinational investment bank and financial services company, was the other key contributor to relative returns during the quarter. The main driver of positive stock performance was Trump’s win in the US Presidential elections. With Trump winning the US election, there are expectations of higher for longer US interest rates, lower regulations and pickup in capital markets activity, factors that would potentially benefit the company. We expect the company to continue inflows in mid-high single digit driven by market share gains, leveraging workplace and retail channel through acquisition of Solium and E*Trade. A capital-light model and improvement in returns over the past also adds to our optimism on the stock.

**Top detractors to portfolio performance**

**DSM-Firmenich**, a Dutch-based innovator in nutrition, health, and beauty, was another key detractor from returns during the quarter. The stock underperformed on the back of a macro-driven risk off environment impacting higher beta businesses such as Consumer Chemicals. It was also partly impacted due to profit booking by investors post a strong YTD performance. Whilst the company indicated a stronger guidance than originally expected in the latest respective quarterly updates, the market is cautious around this year’s recovery not being replicated to the same degree into 2025. We continue to monitor short term end market dynamics and remain confident in the ability of the stock to likely outperform relevant end markets.

**American Tower Corporation**, the US-based operator of telecommunications infrastructure, was another key detractor to relative returns during the period. The stock price underperformed as the company faced significant headwinds in India and Latin America, affecting its growth prospects in these regions, which ultimately lead to an exit from the Indian market. Also, Latin America continues to grapple with challenges stemming from issues with Oi, the potential for further consolidation, and the impact of foreign exchange rate fluctuations. We continue to like the company as it is a global tower leader with an attractive business model and sustained demand for its extensive global communications infrastructure portfolio. With global interest rates starting to normalize, this should add to the attractiveness of the offering.

# Portfolio Activity – Key Buys and Sells

During the quarter, we had 8 new initiations and 3 eliminations.

We initiated a position in **ASML**, the Dutch based producer of extreme ultraviolet lithography (EUV) machines used in the production of computer chips and semiconductors for AI applications. ASML is the largest semi cap company in the world, with market share of 21%. We believe there are few pillars which are key to our investment thesis – ***Lithography Monopoly, N2 Fab buildout driving EUV demand, and Services growth.*** ASML has a monopoly in leading-edge Lithography with 100% share in EUV and is the driving force of ASML's topline growth. We expect strong growth from EUV tools in CY25 as customers like TSMC build capacity for N2, which is the next generation node in semiconductor manufacturing. With continuing growth in Services segment, we expect the company to likely deliver strong returns and strong margin expansion by CY28. Additionally, the valuation premium has reduced considerably compared to the US peers, despite no change in competitive positioning.

We initiated a position in **Cooper Companies**, US based medical device company. The company has two thirds of business in manufacturing and distributing contact lenses with a focus on specialty lenses and the remaining 1/3rd in women's health and fertility products. While there are no synergies between the two divisions, both grow nicely and have demographic tailwinds behind them (increased myopia due to higher screen time and more fertility problems due to women delaying childbirth). Strong **contact lens growth market** and **huge investments** by the company are the key pillars of our investment thesis. Contact lens market is a strong growth market and is relatively recession proof. Cooper is an innovator and market share gainer in the industry. The company has made investments in capacity, distribution, ERP systems and R&D in addition to dilutive M&A in fertility. Recent results have shown margins uplift, unit economics and better cash flows.

We initiated a position in **Eli Lilly & Co,** a US-based multinational pharmaceutical company. The company is a **market leader in obesity and type 2 diabetes (T2D) drugs**. While the company has an attractive portfolio of drugs that help address several health issues like neuroscience, endocrine functions, and animal health products, it has seen tremendous growth from its new GLP-1 drugs, which people have been using for diabetes and weight loss. **Beyond obesity**, the company has a long history of developing drugs to treat a variety of conditions. While it currently has a plethora of drugs in clinical trials, we expect four near-term major drug likely to be launched outside of GLP-1. We have taken advantage of the recent price weakness following the revenue miss to give the portfolio exposure to the fast-growing industry of treatment for obesity and other illnesses.

We initiated a position in **National Grid**, the UK based investor-owned utility company which is focused on the transmission and distribution of electricity and gas. The investment case of National Grid is driven by its **key role in enabling the energy transition**. We believe the company is poised to benefit from the increased demand driven by increasing adoption of rooftop solar and should be able to make an attractive return on investments/equity as it operates under a stable and attractive regulatory environment both in the UK and in the US. On financial front, the company is now funded for two years beyond the five-year plan which implies very secure 10% RAB (Regulated Asset Base) growth and 6-8% EPS growth. There are few utilities with comparable visibility on earnings growth.

We initiated a position in **UnitedHealth** (UNH), a US based player with significant scale in health insurance (commercial, Medicare and Medicaid) as well as several businesses that combined fall under its Optum brand. Here the company also offers care delivery (physicians and long-term care facilities), pharmacy benefit management as well as a healthcare IT business. We are taking advantage of the share price weakness as we believe UNH is well positioned to improve its profitability in 2025. Additionally, a Republican win is likely to make that path easier as pressure on premiums is likely to be less severe under the new administration. Structurally, we think UNH is a well-positioned managed care company, and its vertically integrated business model can improve care at lower costs in a transition to a value-based-care model.

We initiated a position in **Home Depot**, an American multinational home improvement retail corporation. Founded in 1978, Home Depot is the world's largest home improvement retailer offering products across categories including lawn & garden, appliances, electrical, lighting and building materials. Post the COVID normalization, we believe the home improvement spends have bottomed out and are likely to inflect. Additionally, rate cuts stand to benefit the space in multiple ways including recovery in Existing Home Sales, reduction in HELOC (Home Equity Line of Credit) borrowing costs and increasing discretionary spending. Within this backdrop, Home Depot has been successfully gaining market share long-term at the cost of smaller traditional retailers, which is likely to continue. Driven by its scale of operations and supply chain / distribution infrastructure, Home Depot has notable business productivity which should be hard to replicate. Additionally, the company has been investing in the Complex Pro (small homebuilders, large-scale renovators) opportunity which should further increase growth prospects and TAM given strong right-to-win. Home Depot's leadership is renowned in the industry with strong execution and capital allocation.

We initiated a position in **GE Vernova**, an US-based energy equipment manufacturing and services company. After an extended cyclical downturn with several operational issues along the way, GEV is at the beginning of their next significant gas turbine cycle with the potential for a return to growth in their nuclear business with wind less of a concern. GEV fits 3 of our investment frameworks: Supply / Demand Tension, Cost Structure Change and Consolidation. The core of GEV's profitability comes from the Gas Power business where GE sells industrial gas turbines to utility and industrial users with decades of higher profit service revenue following the initial sale. Gas power has emerging as the likely preferred power source for AI and reshoring which GE Vernova will be a primary beneficiary. GEV has a leading position in small modular reactors, as well as content on 65 of the current 90 nuclear power sites in the U.S. We see the potential for order growth over the next 2-years from both of these businesses to support earnings power in the out-years vs. 2023 contribution of only $1bn of sales annually or 2.5% of sales focused on services. GEV is currently winding down their off-shore wind operations and domestic on-shore wind is at a crossroads as policy and usefulness given current power needs. We see the return of growth in on-shore as a positive contributor to growth as they earn low-double digit EBIT margins, but a shift towards more gas or nuclear would be even more valuable.

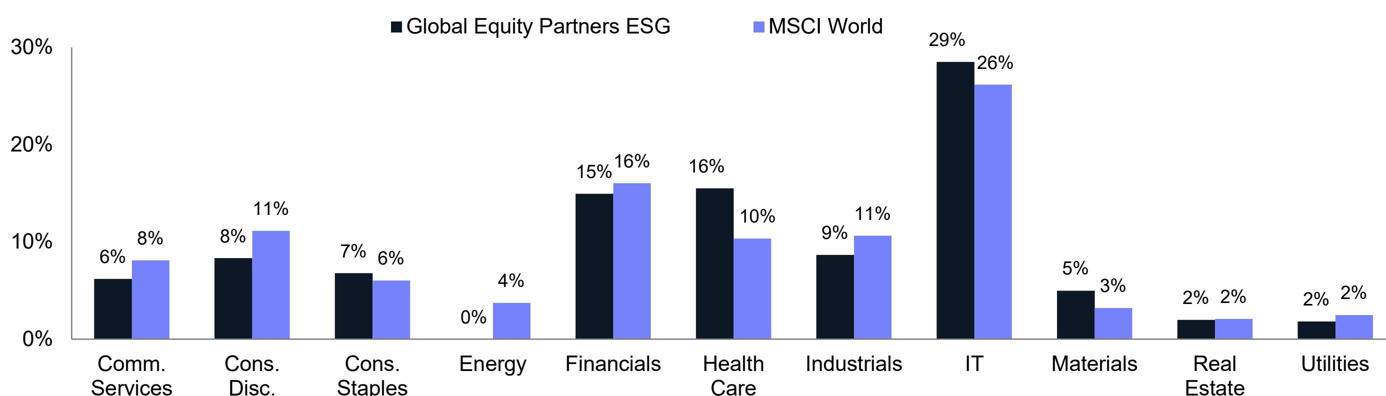
We initiated a new position in **Hermes**, a French luxury design house and manufacturer. Hermes delivers consistent share gains in the strong luxury industry as a result of their scale, strong customer base, and high quality management team. Hermes scale drives continued share gains as the company can invest in marketing and capex to continue to drive the flywheel. Hermes management is very long term oriented and has consistently shown to protect the brand above all else with a track record of exceptionally consistent execution. ROCE has consistently remained very high over time (consistently >20%). Hermes customer base is one of the highest end among luxury peers and the timeless, “quiet” nature of their products make them less at risk of shifts in fashion. Hermes is committed to controlled supply growth (6-7% pa) as they are focused on upmost quality and desirability which drives persistently low supply relative to demand. This also makes them one of the most resilient luxury companies during downturns given the more timeless nature of their products, the persistently low supply, their exposure to ultra high net worth individuals, and their high degree of vertical integration. Also, Hermes has very limited controversies around labour and customer relations.

Moving to exits, we sold out of our position in **Nike**, the US based supplier of athletic shoes and apparel, due to changed conviction. The competitive dynamics in the space have changed post the entry of new players like ON and Hoka. These players have been able to gain customer traction at the cost of Nike which has seen deterioration in customer base and poor channel checks. Additionally, the company's turnaround revolves around product innovation but given lower ambiguity, we feel the turnaround will take longer and will potentially be more expensive than initially expected. Hence, we are eliminating the stock and allocating capital elsewhere.

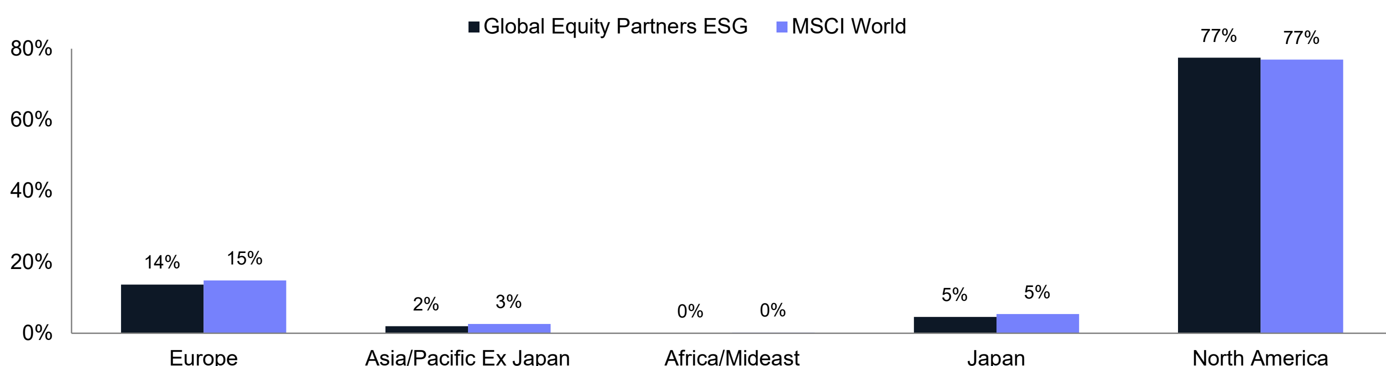
We sold out of **Nestle**, the Swiss multinational food and drink processing conglomerate on the back of changed conviction. Nestle’s capital market day was reassuring and did indicate towards the end of downward revisions. The event focused on medium-term growth and return to high double digits operating margin. However, it seems unlikely for the company to gain further margin expansion and reaching the previous guidance range. Combined with high leverage and thus, halt of the share buy-back programme means EPS growth is likely to be muted over the next 3 years. While shares remained attractively valued, turnaround stories in the Staples sector takes a long time and with stock offering limited upside potential, we had a change in conviction. As such, we decided to eliminate the stock and allocate capital elsewhere.

We sold out of **Neste**, a Finnish producer of Renewable Diesel and Sustainable Aviation Fuel. The stock has been a long-term holding in GEP and one of the key underperformers over the last ~12 months. The primary reason for weakness in the share price has been a drastic change in the supply/demand dynamics in renewable fuel markets. Over the last 12 months, a strong wave of capacity additions coupled with negative, regulatory driven downside surprises on the demand side have tipped the market into oversupply putting pressure on results. In addition to the negative market dynamics, there have been some company specific issues, such as operational missteps in ramping-up new renewable refining capacity, further weighing on shares. While we are somewhat comfortable on company-specific issues, our medium-term outlook for the industry is a bit challenged. Hence, we are exiting the stock on reduced conviction.

## SECTORAL POSITIONING




## REGIONAL POSITIONING




## COUNTRY POSITIONING

| Country | Portfolio (%) | MSCI World (%) | Active (%) |
|---|---|---|---|
| United States | 77.5 | 73.8 | 3.7 |
| Netherlands | 4.4 | 1.1 | 3.3 |
| Taiwan | 1.9 | 0.0 | 1.9 |
| United Kingdom | 4.8 | 3.4 | 1.3 |
| Sweden | 2.0 | 0.8 | 1.2 |
| Spain | 1.6 | 0.6 | 0.9 |
| Japan | 4.6 | 5.4 | -0.8 |

Source: Source: FactSet, MSCI as of December 2024. Goldman Sachs Asset Management, December 2024

## TOP 10 HOLDINGS

| Company Name | Portfolio (%) | MSCI World (%) | Active (%) |
|---|---|---|---|
| Microsoft | 7.2 | 4.3 | 2.9 |
| Amazon | 5.4 | 3.0 | 2.4 |
| Morgan Stanley | 4.2 | 0.2 | 4.0 |
| S&P Global | 4.1 | 0.2 | 3.9 |
| Alphabet | 4.0 | 3.0 | 1.0 |
| NVIDIA | 3.8 | 4.7 | -0.9 |

| | | | |
|---|---|---|---|
| Northern Trust Corporation | 3.0 | 0.0 | 3.0 |
| Waste Management | 3.0 | 0.1 | 2.9 |
| Salesforce | 3.0 | 0.5 | 2.5 |
| Procter & Gamble | 3.0 | 0.6 | 2.4 |

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| Period | Gross Return | Net Return | Differential |
|---|---|---|---|
| 1 year | 6.17% | 5.54% | 0.63% |
| 2 years | 12.72 | 11.38 | 1.34 |
| 10 years | 81.94 | 71.39 | 10.55 |

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