# Goldman Sachs Global Equity Income Share Portfolio Fund

July 2024

## Global Market Review

Global Markets posted modest gains of 1.6% in the month of July 2024, marking the sixth monthly gain this year. The performance was driven by weaker inflation, raising hopes that central banks might reduce interest rates in the coming months. July proved to be a volatile month as markets absorbed several notable economic developments. A weaker-than-expected US Consumer Price Index (CPI) reading early in the month, combined with softer US labour market data, reassured investors that Federal Reserve (Fed) might cut interest rates soon, with the first expected cut in September. Global disinflation continued, with June inflation slowing to 2.5% in the Eurozone, 2.7% in Canada, and holding at the 2.0% target in the UK.

The combination of these macroeconomic factors contributed to an optimistic investor sentiment. Stocks gained in July despite heightened volatility. Investors shifted away from large-cap technology-related stocks worldwide— particularly those focused on Artificial Intelligence (AI), and moved toward discounted small-cap stocks, given their sensitivity to interest rate cuts. This shift caused value style investments to significantly outperform growth stocks, which fell during the month. Real Estate led the market, with Financials and Utility also performing well. Meanwhile, Information Technology and Communication Services sectors struggled during the month. As for Japan, the market experienced high volatility during the month, reaching a historical high earlier in July but then correcting sharply. This decline partly reflected the weakness in global tech stocks and the strengthening yen, as the Bank of Japan (BoJ) hiked the interest rate to 0.25%. Chinese equities fell in July, attributed to continued challenges in the real estate sector and spillover effects of the broader economy. However, the Chinese authorities have implemented measures to provide liquidity support to the financial system, aiming to stimulate and support economic growth amid these challenges. Non-macroeconomic risks remain elevated particularly due to U.S. political uncertainty ahead of elections and escalating tensions in the Middle East, both of which have contributed to the increased overall uncertainty.

## Performance Overview

The Global Equity Income Portfolio outperformed the MSCI World by 112 bps over the month. When looking at region level attribution, stock selection in North America and Europe were the greatest contributors to relative performance, while our underweight to Japan and stock selection in Asia ex-Japan were the largest detractors. At the sector level, stock selection in Health Care and our underweight to Information Technology were the greatest contributors to relative returns, whereas stock selection in Industrials and Energy were the only significant detractors from performance.

## Contributors

**Bristol-Myers Squibb**, a global biopharmaceutical company, was the greatest contributor to relative performance. Over the period, Bristol-Myers Squibb reported strong Q2 earnings and raised its full-year guidance. The company reported EPS of $2.07 vs expectations of $1.63 and $12.2 billion in revenues vs expectations of $11.55 billion. Its strong quarter in sales can largely be attributed to its blood thinning drug, Eliquis. The company also demonstrated progress in its plan to cut costs by $1.5 billion by 2025. Looking ahead, we remain confident in Bristol-Myers Squibb's ability to absorb the costs associated with its Karuna Therapeutics, RayzeBio and Mirati Therapeutics deals and maintain its position as a dominant player at the forefront of discovering, developing and delivering innovative medicines in the areas of oncology and immunology.

**American Tower,** a US wireless communications and broadcast towers real estate investment trust, was another contributor to relative performance during the month. American Tower leases antennae sites on multi-tenant towers for a diverse range of wireless communications industries, including personal communications services, paging, and cellular. American Tower's performance during the month was driven by strong growth in datacenters, leading revenue to beat consensus expectations by $80m. Management also raised FFO guidance for 2024 above market expectations, following incremental revenues from CoreSite and growing demand for Hybrid Cloud enterprises. In addition, American Tower saw significant price jumps due to rising investor expectations of a September rate cut in leu of weakening economic indicators.

## Detractors

**Taiwan Semiconductor Manufacturing Company (TSMC),** the largest semiconductor foundry with approximately 60% market share, emerged as the greatest contributor to relative returns. Over the period, TSMC announced its net revenue for May 2024 which rose 30.1% relative to May 2023. The semiconductor industry, mainly driven by increasing demand and data traffic fueled by AI interest, presents opportunities in automotive, wireless connectivity, and consumer electronic devices. We believe TSMC is strategically positioned to potentially benefit from vehicular electrification, rising mobile penetration, and the growing adoption of cloud-based computing, retaining a competitive edge over peers due to its extensive manufacturing capabilities.

**Waste Management,** a comprehensive waste, and environmental services company operating in North America, was another significant detractor during the period. The stock declined after the company missed on its Q2 earnings. The company's EPS of $1.69 was below expectations of $1.83 and revenues were also below expectations at $5.40 billion ($5.43 expected). However, the earnings weakness may be cyclical given the slowdown in economic activity and the company did raise its full year EBITDA guidance. Moving forward, we remain confident Waste Management's above average margins, healthy free cash flow levels, pricing actions and focus on SG&A cost control.

## Purchases

During the month, we initiated a position in Broadcom. Broadcom designs, develops, and supplies semiconductor and infrastructure software solutions. The company is a leading supplier of AI Application Specific Integrated Circuits (ASICs) and dominates Enterprise & Cloud switching – a market that benefits significantly from AI investments. In 2022, Broadcom acquired VMware from Dell Technologies which deflated Broadcom's EBIT margins. Looking ahead, we see EBIT margin returning to low-60s as VMware synergies are realized. We also expect VMware to drive strong growth and margins due to customer renewals and stronger product mix. Finally, we expect significant revenue growth due to increasing AI spend. Overall, we believe Broadcom is well positioned to benefit from the AI boom and has strong revenue and earnings growth potential, thus we initiated a position in the name.

## Sales

During the month, we eliminated our position in **KLA Corporation**. KLA, a US producer and distributer of semiconductors, offers surface profilers, nanomechanical testers, chips, and semiconductor assembly solutions. The company has been a favorite among the semiconductor capital equipment space, outperforming exceptionally well this year and further proving its success in its announcement of third-quarter earnings as it reported a solid beat and raise. Outperformance has been driven by the company's competitive positioning and high exposure to foundry and logic. While we continue to like the name, we decided to exit the position as it had appreciated significantly this year and reallocate the profits to better risk/reward opportunities, such as Broadcom.

## Top 5 Contributors

| Security Name | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|
| Swiss Re | 1.70 | +20 |
| American Tower Corporation | 1.93 | +19 |
| Zurich Insurance | 1.49 | +16 |
| Texas Instruments | 1.56 | +14 |
| Fidelity National Information Services | 1.46 | +13 |

## Top 5 Detractors

| Security Name | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|
| BP | 1.92 | -13 |
| CVS Health Corporation | 1.89 | -13 |
| Accenture Plc | 2.25 | -13 |
| Bristol-Myers Squibb Co | 1.48 | -11 |
| United Parcel Service Inc | 1.50 | -10 |

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The following table provides a simplified example of the effect of management fees on portfolio returns. Assume a portfolio has a steady investment return, gross of fees, of 0.5% per month and total management fees of 0.05% per month of the market value of the portfolio on the last day of the month. Management fees are deducted from the market value of the portfolio on that day. There are no cash flows during the period. The table shows that, assuming all other factors remain constant, the difference increases due to the compounding effect over time. Of course, the magnitude of the difference between gross-of-fee and net-of-fee returns will depend on a variety of factors, and this example is purposely simplified.

| 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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