Discovery

Goldman Sachs Global Millennials Share Portfolio Fund

November 2024

Global Market Review

Global equities registered 4.6% gain during the month, driven primarily by the outcome of the U.S. elections. Trump's victory and the Republican Party's majority in both chambers of Congress boosted market sentiment, with expectations of lower taxes, expansionary fiscal policies, and a more nationalist trade agenda being well- received.

In the U.S., positive macroeconomic data further fueled the rally. Higher-than-expected October retail sales, a strong November Flash Composite Purchasing Managers Index (PMI) reading, and a 25-basis point rate cut by the Federal Reserve (Fed) in its November meeting all contributed to the market's performance. In contrast, economic data from Eurozone pointed to continued weakness. The Flash HCOB Composite PMI fell to a 10-month low, reflecting contraction in both services and manufacturing sectors. Although Eurozone inflation is estimated to have risen to 2.3% in November from 2.0% in October, this is unlikely to disrupt the European Central Bank (ECB)'s monetary policy given the broader economic weakness.

US equities significantly outperformed other regions, supported by the election outcome and a moderately positive Q3 earnings seasons. Emerging markets underperformed developed markets, with Chinese equities particularly weak over concerns about a potential trade conflict and inadequate government measures to address real estate and consumer confidence issues.

Growth stocks slightly outperformed value stocks in November, with cyclical and small cap stocks showing better performance. Information Technology and Financials were the top gainers, driven by strong growth in major tech companies and expectations of light-touch regulation for banks under the new U.S. administration. Conversely, Materials and Healthcare were the weakest sectors during the month.

While November delivered strong market performance, risks persisted, including geopolitical tensions, potential inflationary pressures driven by the U.S. tariff threats, and ongoing uncertainties around global monetary policies.

Performance Overview

- The Goldman Sachs Global Future Generations Equity Portfolio has delivered 3.8% in absolute returns during the month, underperforming MSCI ACWI Growth index by 53 bps and MSCI World index by 78 bps. This brings since inception returns to 12.8% underperforming MSCI ACWI Growth by 144 bps and outperforming MSCI World by 22 bps.

- At the sector level, our holdings in **Communication Services** and under allocation to **Health care** supported portfolio performance while our holdings in **Consumer Discretionary** and allocation to **Utilities** detracted the most from portfolio returns.

- At the stock level, **Shopify** (*a Canadian multinational e-commerce company*) and **Spotify** (*a Swedish music streaming company*) contributed to portfolio performance while **CTS Eventim** (*a German ticketing and live entertainment provider*) and **DSM Firmenich** (*Dutch multinational corporation active in the fields of health, nutrition and materials*) were the biggest detractors from performance.

- During the month, we sold out of **Davide Campari**, the Italian beverage company, after a change in the investment thesis for the company. Campari has been a long-term holding in Future Generations, having demonstrated strong outperformance many years over. However, the last 18 months have been particularly challenging given the tough environment in the spirits

and beverage industry, following a period of outsized growth during COVID. Moreover, on the back of recent events, we had a change in conviction given the announcement around CEO transition and large acquisition of Courvoisier. While we do believe the market weakness and destocking are more cyclical in nature, we have lost conviction in Campari given the leadership vacuum and tough integration during a difficult market backdrop. As such, we have decided to sell out of the name.

- We also sold out of **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.

Performance Commentary

Top Contributors	Ending Weight (%)	Relative Contribution (bps)	Top Detractors	Ending Weight (%)	Relative Contribution (bps)
Shopify	1.6	+70	CTS Eventim	1.4	-34
Spotify	2.6	+43	DSM-Firmenich	1.8	-24
Walt Disney	2.4	+35	TSMC	4.2	-22
Live Nation Entertainment	2.8	+32	Moncler Spa	1.2	-22
Marvell Technology	2.7	+24	LVMH	2.2	-19

***Top contributors* from relative returns:**

- **Shopify** *(Contributor)* **–** The Canadian multinational e-commerce company was the key contributor during the period. The stock outperformed in November after posting strong quarterly results. Shopify's Q3 results exceeded expectations, with revenue rising 26% year-over-year to nearly $2.2 billion and Gross Merchandise Value (GMV) increasing 24% year-over-year to $70 billion. Additionally, higher-than-anticipated guidance for Q4 provided a further boost to the stock. We continue to like Shopify as they are the leading software provider for commerce, powering more than 10% of US commerce with a large merchant base of loyal subscribers allowing them the opportunity to offer additional services and extract more value.

- **Spotify** *(Contributor)* – The Swedish music streaming company was another key contributor during the period, supported by better-than-expected quarterly results. Spotify's Q3 revenue grew 18.5% year-over-year, driven by improving music content costs, traction in new verticals such as audiobooks and podcasts, and reduced personnel and marketing expenses. We remain optimistic about Spotify's prospects as it benefits from a fast-growing, under-monetized music streaming industry. We believe it's strong market position, network effects, and robust product offerings positions it well for continued growth.

***Top detractors* from relative returns:**

- **CTS Eventim** *(Detractor)* **–** The German ticketing and live entertainment provider was the key detractor from performance during the period. Shares declined in November after the company released its quarterly results. While revenue increased during the quarter, a decline in adjusted earnings margins caused by higher costs and acquisition-related integration in the live entertainment segment led to a pullback in the stock. Despite these challenges, the company remains on a steady growth trajectory, even as economic conditions remain challenging, and cost pressures persist. We continue to hold the stock given its strong fundamentals.

- **DSM Firmenich** *(Detractor)* **–** The Dutch health and personal care chemicals company was another key detractor from performance during the period. Shares continued their pullback in November, extending October's decline, in line with peers in the Flavor & Fragrance space. This was primarily due to two factors: a macro-driven risk-off environment impacting

consumer chemicals and profit-taking following strong Year-to-Date (YTD) performance. The challenging macro backdrop has impacted high-beta sectors like consumer chemicals, weighing on DSM's performance. Additionally, profit-taking by long-only investors, following stock's strong rally YTD, also contributed to the decline. Despite these headwinds, strong Q3 results and updated FY24 guidance reaffirm company's strong fundamentals. We remain confident in the medium-term growth prospects, supported by recent portfolio changes aimed at enhancing earnings and growth.

Outlook

2022 and 2023 have been the years of rapid interest rate hikes, inflationary pressures and recessionary fears. Despite the hard environmental, many developed economies have continued to grow and only seen signs of strain in the last few months. However, investors have grown hopeful around the interest rates having peaked in the past few months and moving into 2024, expect to start seeing rate cuts as the year moves forward. Research from Paysafe reveals a consumer landscape characterized by a mix of optimism, caution and a willingness to adapt spending habits[1]. We expect the following themes to unfold as we move into the new year.

- **Optimism around Interest Rates leading to bouncing back of Consumer Discretionary Performance:** Historically, the interest rates and consume discretionary names have performed largely in sync. The consumption stocks have gone up when there have been cuts or pauses in the hikes. Expecting the rates to remain flat entering the year with some eventual cuts, Consumer Discretionary names are most likely to fare well.
- **Different Spending patterns:** Millennials and Gen Z continue to spend differently relative to the previous generations. With services still at pre-covid levels, there remains a lot of potential with younger consumers prioritizing experiences and travel over goods. Spending on online games, travelling to explore the world, live shows, etc are all likely to remain resilient.
- While the consumption outlook is optimistic, it is worth noting that past experiences have made the younger consumers more **value oriented, seeking to spend on needs and wants rather than giving into impulses**. The better awareness and habits with wallets have been factored in the way we have calibrated our portfolio, including names that cater to the value aspect of the spending.
- **Technology to continue to remain in the spotlight:** Tech stocks had a stellar time in 2023 with a bump in the enthusiasm around Artificial Intelligence. AI became a household discussion and with how deeply tech has been ingrained in our daily lives, the industry is likely to be on the rise with continued R&D in the sphere resulting in innovations across the globe. With close to 20% of the portfolio invested in AI related names, we are well placed to benefit from the rally.
- **Potential of Emerging Markets:** With Emerging Markets expected to outpace the developed counterparts in the coming year, the undeniable potential is an area that we are hoping to explore further as we move ahead in the year.

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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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