Sustainable Growth – monthly bulletin

April 2023

After a tumultuous month in March, April brought a change of tone in global equity markets dominated by two main narratives. The first, rather unsurprisingly, is the continued focus on inflation. Following the banking crisis a few weeks prior, markets now expect one final rate rise before expected cuts in the latter half of the year. This should benefit growth equities and potentially address the ongoing disparity between share prices and the operational performance of businesses. The second theme is earnings season, which is in full swing with positive results for many businesses reporting their first full year after the impact of the pandemic. The portfolio underperformed by around 3 per cent versus the MSCI ACWI over the month.

The share price weakened in April for the electronic trading platform, **MarketAxess.** There were no operational reasons for the decline – quite the opposite with the company posting record revenues and earnings (up 14 per cent) in the quarter – so more likely a cooling off on valuation after strength earlier in the year, driven by market volatility and a resultant pickup in trading volumes. Longer term, we continue to believe in the opportunity from the move to online solutions across various bond markets with the help of its algorithmic trading and user interface. **Workday**, the HR software provider, also detracted, with its share price falling 10 per cent. Signals behind the weakness don't point to any concerning factor at the company level and more so reflect the uncertain macro environment in which it operates. Key to the investment case is the desire for companies to move to cloud-enabled HR software, away from on-premise models. Recent quarterly results have been thesis-affirming, with subscriptions still growing 20 per cent year-over-year, equating to strong recurring revenue streams and modest improvements to profitability, with operating margins up 1.3 per cent year-over-year.

Elsewhere, the Swedish compressor and power company, **Atlas Copco's** share price bounced following the release of impressive first-quarter results with record orders and revenues announced. Importantly, Atlas is seeing a significant increase in product sales around the green energy transition, for example, compressors for carbon capture products and vacuums for battery plants. Atlas has a history of superb capital allocation and operational excellence stemming from its open and idea-nurturing culture. It also invests more in research and development (R&D) than any of its peers, which creates a virtuous circle by attracting more customers, increasing loyalty, and ultimately feeding into better outcomes for companies and the planet. The Asian-focused insurer, **Prudential,** also had a stronger month. After experiencing a volatile few years driven by the effects of the pandemic and China's zero-covid policy, it is encouraging to see some recovery in its share price. Recent results noted a 29 per cent rise in sales to $1.55bn in the first quarter of 2023 and a 26 per cent rise in profits. In particular, Hong Kong has seen higher sales to domestic customers and the reopening of its border with mainland China. It is also making progress in improving healthcare access and financial inclusion across both regions through its health and wealth platform, Pulse. It has partnered with Google Cloud to help build a service where people can more easily access health risk assessments and online doctor consultations, and it is available in 11 different languages. Furthermore, the company is sitting on a solid balance sheet which should help support it through any periods of weakness, and management is successfully reducing costs.

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By way of activity in the portfolio over the month, we have continued to assess the enduring growth prospects and the enduring good characteristics of each holding. Sales of Fastenal, Metropolis and Hong Kong Exchanges and Clearing completed over the month. Fastenal is a distributor of nuts and bolts that we liked because of its frugal and decentralised approach. However, a Culture 500 report flagged negative signals around aspects of its culture. Following further analysis and engagement with the company, we found notable concerns around its diversity, equity and inclusion practices that ultimately led to us losing faith in management. The funds were recycled into one new purchase during the month – The New York Times, the mass-media provider.

Having successfully disrupted the traditional offline newspaper industry, today it offers a range of products, including sports news, reviews, recipes and puzzles through an increasingly popular and growing digital service. We believe the company can continue to thrive by disrupting the traditional offline media industry. It boasts a strong reputation, producing high-quality, thought-provoking content and often exposing societal injustices. Alongside the opportunity to make news more accessible and convenient, trends such as increased global education and affluence should further contribute to the company's success. We look forward to discussing this with you in the future.

Performance

Annual past performance to 31 March each year (net %)

	2019	2020	2021	2022	2023
Sustainable Growth Composite	1.7	-5.0	107.1	-19.0	-20.8
MSCI ACWI	3.2	-10.8	55.3	7.7	-7.0

Annualised returns to 31 March 2023 (net %)

	1 Year	3 Years	5 Years	Since Inception*
Sustainable Growth Composite	-20.8	9.9	5.1	10.3
MSCI ACWI	-7.0	15.9	7.5	9.4

Annualised returns to 30 April 2023 (net %)

	Composite Net (%)	Benchmark (%)	Relative (%)
April 2023	-1.9	1.5	-3.4
3 Months	-2.7	1.7	-4.5
One Year	-7.3	2.6	-9.9
Three Years (p.a.)	2.9	12.6	-9.7
Five Years (p.a.)	4.9	7.6	-2.7
Since Inception*	9.9	9.5	0.3

Source: StatPro, MSCI

Benchmark: MSCI ACWI Index

Based on the Sustainable Growth composite, in USD

Global Stewardship was renamed Sustainable Growth in 2023. *Inception date: 31/12/2015

Past performance is not a guide to future returns.

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