Sustainable Growth – monthly bulletin

February 2023

While most remain focused on impending macro headwinds arising from high inflation globally, equity markets continue to bounce around as we head into the ever-important 'earnings season'. Important, that is, for those myopically focused on the short term. During the month the benchmark fell, ending -2.8 per cent down in US dollar terms. The portfolio fell slightly more than this but remains ahead of the benchmark year to date.

For us, the real relevance of earnings season will be whether the market is returning to fundamentals, rewarding those companies producing strong operational performance and in turn earnings growth, rather than continuing to react to every macroeconomic number released.

As we digest results looking for such evidence, what is clear is that inflation remains too high globally. Across Europe, ongoing rate increases may be needed to curb inflation. In the US, the debate over soft versus hard landing continues as the Fed grapples with a tight labour market and resilient consumer demand. Perhaps what's most indicative of the current investment backdrop is commentary from Salesforce (not owned) this week on driving 'profitable growth'. The focus on profit margins has eclipsed optimistic growth commentary as Facebook (not owned) and Alphabet (owned) also look to cut costs out of their profit and loss. Cost cutting could remain a theme for many companies this year.

Having had an enthusiastic burst of trading in the past six months, February was a quiet month with no new purchases or sales being executed across the portfolio. We have completed the vast majority of repositioning we wished to do and should soon see portfolio turnover return to the long-term average of mid-teens levels.

In slightly underperforming its benchmark, the portfolio names that struggled included both Shopify and Staar Surgical. While Shopify's share price underperformed, the Canadian ecommerce business, reported strong revenue growth through the Christmas holiday period. As is often the case with a business in its (relatively) early stage of existence, it is important for Shopify to continue investing in building out the platform and infrastructure that ought to make it the long-term winner we expect it to be. In this regard, planned investments in the first quarter of 2023 are likely to weigh on margins, to the dislike of those focused on the short-term. Many of those investors have sold out of their positions and put pressure on the share price. Our focus on being longer-term investors means that we are encouraged by these actions, and we see the benefit to the network effect Shopify is building.

The news on Staar Surgical, the implantable lens manufacturer, was sparse, with the market simply reacting to its latest set of earnings, so we didn't learn anything new. China remains a headwind, offset by good growth on Staar's recently launched EVO lens. Encouragingly, management highlighted a stabilisation of growth coming from China and estimated growth for the whole business in 2023 to exceed 26 per cent.

On a more positive note for the portfolio, NVIDIA, the world leader in AI computing technology, has benefited greatly from the recent hype surrounding how artificial intelligence will impact the next generation of growth companies, with the excitement around ChatGPT being just one example of this. With NVIDIA powering large swathes of the cloud infrastructure on which all AI will operate, it is well positioned to benefit as the overall system grows, irrespective of who the individual company winners are within the system. Its upcoming flagship conference will likely highlight new products and services on offer, which are already being factored in by the market, resulting in strong share price performance.

And finally, Trade Desk, the programmatic advertising company, added positively to performance in February. Trade Desk has significant influence over where advertising dollars are spent, and it benefits from increased cost-conscious customers looking for measurable benefits to their advertising budgets. With tighter control on costs across many areas of the business, Trade Desk is benefiting while others potentially suffer from a macroeconomic slowdown. The company has industry-leading subscription growth rates and profit margins, which make it the leading software (and software-as-a-service) digital advertising business.

Performance

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

	2019	2020	2021	2022	2023
Sustainable Growth Composite	-9.3	29.1	75.6	0.4	-42.3
MSCI ACWI	-8.9	27.3	16.8	19.0	-18.0

Annualised returns to 31 December 2022 (net %)

	1 Year	3 Years	5 Years	Since Inception*
Sustainable Growth Composite	-42.3	0.6	3.5	8.8
MSCI ACWI	-18.0	4.5	5.8	8.7

Annualised returns to 28 February 2023 (net %)

	Composite Net (%)	Benchmark (%)	Relative (%)
February 2023	-3.9	-2.8	-1.1
3 Months	3.7	0.1	3.6
One Year	-22.7	-7.8	-14.9
Three Years (p.a.)	4.5	9.3	-4.8
Five Years (p.a.)	4.1	6.3	-2.3
Since Inception*	9.9	9.1	0.8

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 return

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