# Goldman Sachs Global Equity Income Share Portfolio Fund

September 2024

## Global Market Review

Global equities gained 6.4% in third quarter, despite heightened volatility on several occasions. Stocks faced pressure in July and August due to weaker US economic data and an interest rate hike from the Bank of Japan (BoJ). However, the long-anticipated start of the Federal Reserve's (Fed) rate cutting cycle in September, a less hawkish stance from Japanese policymakers and new stimulus measures in China helped boost investor sentiment, leading to a rally by quarter-end.

Inflation continued to slow down in Q3, and labor markets showed signs of cooling, following the trends set in previous quarters. This environment gave central banks room to begin cutting interest rates. The US delivered a 50bps rate cut, while the UK and Euro Area cut rates by 25 bps. Additionally, China announced a broad range of stimulus measures to support its economy, which further restored market confidence.

In Japan, the market experienced significant volatility in Q3, particularly in July. Conditions steadied in August and September, supported by Fed's rate cut and hopes for a more expansionist political leader. However, unexpected political developments led to a 4.9% decline in the TOPIX by the end of the quarter.

Equities rose during the quarter, as returns broadened to include value-oriented stocks and previously lagging sectors. Globally, value stocks and small caps outperformed growth and large caps, with Financials and Industrials leading the way. Other interest-rate sensitive asset classes, such as real estate, were also well supported. However, the Energy sector struggled, and Information Technology stocks came under pressure as investors reassessed the high spending on artificial intelligence (AI) applications.

The geopolitical backdrop continues to remain tense, with heightened tensions in the Middle East. The upcoming U.S. elections in November have also contributed to the increased overall uncertainty.

Central banks have been more cautious and taken longer than expected to reduce interest rates. There should be opportunities to broaden equity exposures beyond the largest US names, although US mega-caps, particularly the tech-exposed names, remain in a good place. As investors revert their focus to companies with earnings resilience along with the pricing power and competitive positioning to defend margins, high operational and financial strength is expected to become increasingly relevant. In our opinion, quality stocks, have always had a reliable history of outperforming across market cycles, albeit with short, punctuated periods of relative weakness. As active investors, we have continued to build meaningful positions in high quality resilient businesses and complement them with select cyclical exposure to companies that are likely to extend their leadership. In International Equity, we are always cognizant of the fact that the companies we own will have to face challenging economic times at some point, predictable or not. We select them because of our confidence in their ability to grow, and prosper relative to their competitors, over the economic cycle. We are fundamental investors and will remain focused on the long-term rather than trying to time the ups and downs of short-term market gyrations.

# Performance Overview

When looking at region level attribution, stock selection in North America and the Fund's underweight to Japan were the only contributors to performance over the month. The Fund's overweight to Europe and stock selection within Asia ex-Japan were the largest detractors from performance. At the sector level, the Fund's overweight to Utilities and stock selection in Information Technology were the greatest contributors to relative returns. Stock selection in Energy and Industrials were the largest detractors from relative performance.

## Contributors

**Rio Tinto,** a leader in the global mining industry based in the UK, was the greatest contributor to relative performance during the period. The company produces iron ore for steel and aluminum for cars and phones, as well as copper for wind turbines. Over the month, the company announced its plans to develop Pongomia seed farms, which can be used as feedstock for renewable diesel. The company is set to acquire 3,000 hectares of land as it continues to make progress on its decarbonization efforts. Rio Tinto also announced an interim dividend of $1.77 per share, which investors received positively. We look favorably upon Rio Tinto's focus on Tier 1 assets and leadership within automation as it continues to drive strong profitability and free cash flow generation. From a product portfolio perspective, they have an attractive mix of base metals that we believe will benefit from the global trend of electrification and have no exposure to carbon fuels following their 2018 exit from the coal business.

**AT&T**, an American multinational telecommunication holding company, was another top contributor to relative returns. Over the month, the company announced wholesale agreements with four open access fiber broadband providers which further strengthened its positioning in the industry after previously agreeing to an open access network with Blackrock. Furthermore, the company sold its stake in DirectTV to TPG for $7.6 billion, which was well received by investors. We are constructive on the company as it is well situated in the industry as the company illustrate market share improvements, has a strong customer base, and as it has reprioritized the business around its fiber broadband rollout and reinvestment in its wireless network.

## Detractors

**AstraZeneca,** a British-Swedish multinational pharmaceutical and biotechnology company, was the largest detractor from returns. At the beginning of September, AstraZeneca presented disappointing final overall survival data from its lung cancer drug, Dato-DxD. The news caused the majority of the stock's decline over the month. We remain confident in AstraZeneca and their extensive pipeline of cancer, metabolic and rare disease drugs. The stock has been driven by multiple positive pipeline readouts, including strong data on Enhertu for breast cancer (e.g. DB-04) and Lynparza for prostate cancer (PROpel) indicating that future growth should be driven by substantial pipeline investment.

**Shell,** a British multinational oil and gas company, was another detractor from returns. Shell was down in line with the broader Energy industry due to lower oil prices. Although the company beat analyst expectations in its second quarter earnings, profits were down 19% from the previous quarter due to weaker refining margins and oil and gas trading. As energy prices normalize to pre-2022 levels, before the conflict between Russia and Ukraine, oil and gas majors are contending with reduced margins and profits. However, Shell's cost reduction program, having cut $700million of costs in H1 2024, has allowed the company to post resilient earnings. Looking forward, we remain confident in Shell's robust refining margins, strong trading, and encouraging position within the renewable energy space.

## Top 5 Contributors

| Security Name | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|
| Rio Tinto | 2.02 | +20 |
| AT&T Inc | 1.54 | +14 |
| Iberdrola | 2.04 | +13 |
| Broadcom | 1.78 | +12 |
| Home Depot | 1.85 | +10 |

## Top 5 Detractors

| Security Name | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|
| AstraZeneca | 2.65 | -34 |
| Shell | 3.18 | -30 |
| BP | 2.23 | -20 |
| JP Morgan Chase & Co | 3.03 | -19 |
| Texas Instruments | 1.74 | -11 |

The returns and attribution are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.

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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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