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# Digital Economy strategy

## The positive momentum in equities continued in March, albeit more value-centric

- Risk appetite continued to improve and equities performed well
- Q4 earnings continues to be robust – 82%<sup>1</sup> of our investments exceed earnings forecasts
- Many equity indices hit a new all-time high

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### What's happening?

Equity markets were robust in March, with the MSCI ACWI gaining 3.1%<sup>2</sup>, capping a strong first quarter in which it increased 8.1%. However, the strongest performing sectors during the month were Energy, Materials and Utilities, to which the strategy has no exposure and hence underperformed the broader equity market during the month and quarter.

Inflation remained a central focus with the US Federal Reserve Chair Powell suggesting they were getting more confident that they could start cutting rates later this year. The anticipation of these cuts helped pushed stocks to new highs.

Fourth quarter earnings season ended, and we will begin to receive first quarter results in the coming weeks. For those companies in the MSCI ACWI Index that have reported their fourth quarter, 48%<sup>1</sup> have reported better-than-expected revenues and 55%<sup>1</sup> reported better-than-expected earnings. For the strategy's investments, these figures are 62%<sup>1</sup> and 82%<sup>1</sup> respectively.

### Portfolio positioning and performance

Within the 'Delivery' subtheme, our largest investment in the real estate space, Goodman Group, the Australian listed property group delivered a strong share price return. The company is poised to benefit from continued growth in its e-commerce exposed business as well as be a participant in the data centre business as AI drives demand for more demand for these types of facility. We also saw strong returns from our UK investment Darktrace – the Artificial Intelligence (AI) cybersecurity business – which posted a strong set of results that delivered healthy growth and expanding profitability. The company also increased their guidance for the remainder of the year. This was partially offset by weaker returns in other

<sup>1</sup> Source: Bloomberg as of 29/03/2024

<sup>2</sup> Source : Bloomberg in USD as of 29/03/2024

cybersecurity investments – Palo Alto Networks and Zscaler – underperforming during the month. Palo Alto continued to suffer from the hangover of its results that it presented in February whilst Zscaler, similar to the cloud infrastructure names, reported a good quarter but underwhelmed with its provided guidance fueling concerns in light of Palo Alto's previous comment of "buyer fatigue".

Within the 'Decision' sub-theme, notable performers during the month included Trainline, the online travel agency (OTA), which reported a strong set of revenues and better than expected margins. Continuing the theme of travel, two of our other investments in the segment, Amadeus and Booking Holdings saw their share prices gain during the month.

Within 'Discovery', Alphabet – the parent company of Google – share price rose following rumors of a potential partnership to integrate Alphabet's generative AI product, Gemini, into Apple's iPhones.

Finally, investments within the 'Data & Enablers' sub-theme detracted from performance during the month with weakness from our holdings in the cloud infrastructure software space including Elastic, MongoDB and Snowflake. All three companies reported strong quarters but at the same time provided lower than expected forward guidance. We note that management teams of all three companies have been known to be conservative when discussing future expectations so anticipate this is an important characteristic in the commentaries provided.

There were no major trades during the month. However, in light of concerns of iPhone sales in China being weak (compared to strong sales in Q1 2023) we have reduced our weighting in the company.

## Outlook

The year has gotten off to a strong start for equities with several indices including the S&P500, Nasdaq Composite, DAX, Nikkei 225 and CAC40 hitting new all-time highs during the first quarter. Recession fears continue to subside with the focus now increasingly on when the US Fed will announce a cut to the interest rate.

Earnings season was broadly constructive for our investment companies, however guidance provided for 2024 had conservative undertones and some stocks have been volatile as a result. Given aspect of uncertainty within the macro-economy, this shouldn't be a surprise and hopefully provides the opportunity to increase goals as we progress during the year.

It has been an encouraging start to earnings season for our investment companies, whilst guidance provided for 2024 has been mostly constructive albeit with conservative undertones. Given the macro-economic backdrop is still uncertain, this shouldn't be a surprise and hopefully provides the opportunity to increase goals as we progress during the year.

A recent CIO survey issued by Citi highlighted a *"notable improvement in the IT budget environment"* whilst noting that top priorities, in order were 1) Cybersecurity, 2) Data Modernisation/AI, 3) Digital Transformation and 4) Cloud Adoption. We have good exposure to all these areas within the strategy.

It is likely that the "what will the Fed do next" trade will continue to dominate market sentiment for the upcoming months. Whilst the inflation numbers certainly suggest that we might have seen the peak in the current interest rate cycle, we are of the opinion that rates could stay higher for longer and therefore need to be mindful that the market might be factoring several cuts in the coming 12 months. Political gyrations could also have significant bearing on investor sentiment in 2024 as the US returns to the polls in November whilst military events in the Middle East continue.

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