# THE SIX-MONTHLY BEANSTALK GLOBAL 15 REPORT

Report No. 21
Period: Jul-Dec 23

| Performance: 31 Dec, 2023 | Qtr | 6 mnths | 1 year | 2 years | 3 years | 4 years | 5 years | 7 years | 10 years | Since * inception |
|---|---|---|---|---|---|---|---|---|---|---|
| Beanstalk Return % | 2.8% | 11.4% | 23.2% | 17.8% | 27.9% | 14.4% | 16.7% | 12.7% | 13.2% | 17.0% |
| MSCIACWorldF % | 5.0% | 4.6% | 21.4% | 3.1% | 10.2% | 9.1% | 12.4% | 11.0% | 10.9% | 13.5% |

* Inception date 1/1/2013. Returns net of costs but not fees. Returns unaudited. Returns greater than one year are annualised. The MSCIACWorldF is the MSCI All Countries World Free Index in $A.

The Underlying Beanstalk Global 15 Portfolio rose for the 6 months to December 31, 2023. It returned a gain of 11.4%. These returns are net of costs but not fees*. Below, a table sets out the best and worst performing stocks in the portfolio over the period.

| Best and Worst Performing Stocks | |
|---|---|
| Best Performing Beanstalk International Shares | Adecco (up 47.2%)<br>Sumitomo Mitsui Financial Group (up 18.1%)<br>Marks & Spencer (up 17.9%) |
| Worst Performing Beanstalk International Shares | Sumitomo Chemical Company (down 19.7%)<br>Vodafone (down 9.5%)<br>Walgreens (down 9.1%) |

## Economic comment

North American and emerging market stocks made good gains. Investors were encouraged by the prospects of a soft economic landing. The Dow Jones Index rallied 10.5%, well ahead of the All Ordinaries index which finished up 5.8%. The Chinese market fell 10.8%. The Australian dollar was firmer and the Swiss franc appreciated. Commodities were stronger especially within the bulk sector. Coking coal rose 42%. Long bond yields finished broadly unchanged. A great surge in yields reflected investors' demands for a higher term premium. A large yield-reversal followed as sanguine inflation readings and a gentle economic slowing had a countervailing impact.

The US economy has experienced a welcomed easing in economic growth. This has been evident across manufacturing and employment. Inflation continues to moderate as a result leaving the Federal Reserve Board (FED) funds rate on hold after the rate was raised 25 bps in July. Growth across the services sector remains well supported and unemployment is little changed at 3.7%, confirming a tight labour market.

Chinese new home sales in July plunged and property developer, Country Garden, missed a payment on its $US bonds. Authorities cut downpayments for first home buyers to 20% and reduced deposit rates for banks. These and other measures are showing signs of bringing about a short-term stabilisation in the over indebted property market.

Economic activity in China has shown some positive progress. Momentum has been above expectations as seen by the third quarter GDP release showing 5.2% growth. For many, the current data and plan to stimulate growth going forward is still well short of a much hoped for economic package. In late October, China announced a CNY 1 trillion bond issuance to support the economy. This demonstrates the fine line being walked between maintaining sufficient economic growth and avoiding an implosion from surging debt.

The Japanese economy contracted in the third quarter by 0.5% following weak domestic demand and household consumption. Inflation readings have printed at the 3% level and unions are currently aiming for 5% wages growth. A 2023 claim of 4.5% resulted in an actual increase of 2%. Softness in the labour market and pricing pressure faced by small firms leaves the Bank of Japan (BOJ) in an accommodative mode to support demand. This suggests no major change to the BOJ yield curve control program with the BOJ aiming for a 2% inflation target.

Consumers within the EU and UK continued to struggle with relentless inflation and the cost of living. Both economies remain without growth. As with other economies, there is no large downward change in growth rates. After the European Central Bank (ECB) raised rates to 4.0%, like the FED, it has become more dovish and has left key rates unchanged. In the UK, softer inflation data suggested that rates may not need to be hiked again following an earlier increase to 5.25%.

### Global Equities

Global equity markets rose 6.9% in local currency terms (source: FTSE All-World Review*) to December 31, 2023.

International equity markets are somewhat expensive on historical measures. Relative value can be found in Oil & Gas, Mining, Chemicals, Tobacco, Household Goods & Home Construction, Telecomminications and Banks. Aerospace & Defence, Automobiles & Parts, Travel & Leisure, Technology (Software & Hardware), Consumer Goods, General Retailers and Electronic & Electrical Equipment are expensive. Japan, Austria, Poland, Spain, Korea, Brazil, Germany, Singapore and Hungary offer value. The US, India, the Netherlands and Denmark are overvalued.

Japan, Austria, Singapore and Korea trade at relative discounts of 79%, 276%, 68% and 39% respectively, including Beanstalk currency assumptions.

Notable Regional Index performance for the last 6 months is outlined below.

| Performance (local currency) | 6 months | Portfolio Holding |
|---|---|---|
| Europe | up 4% | See France |
| Italy | up 10% | NIL |
| India | up 20% | NIL |
| Brazil | up 15% | NIL |
| Ireland | up 2% | NIL |
| China | down 7% | NIL |
| Singapore | up 5% | NIL |
| Indonesia | up 1% | NIL |
| Korea | up 7% | 12% |
| Japan | up 4% | 24% |
| France | up 2% | 31% |
| Switzerland | down 2% | 13% |
| Austria | up 11% | NIL |
| USA | up 8% | 10% |
| UK | up 5% | 10% |
| **TOTAL** | | **100%** |



The Australian dollar rose against the dollar (3%), the pound (3%), the yen (1%) and euro (1%). As the international holdings of the portfolio are un-hedged for currency movements the net effect of currency on the portfolio was negative.

### *Beanstalk International equities – Portfolio changes*

Turnover in the **Global 15 Portfolio** remained elevated at double average levels. The portfolio reduced exposure to financials and energy. It liquidated positions in retail and technology adding new positions in pharmacy and telecommunications. Positions in chemicals and healthcare increased. Geographic exposure to Europe reduced in favour of Japan and Korea.

The portfolio liquidated holdings in **IBM**, **Marks & Spencer** and **Sumitomo Mitsui Financial Group**. New positions in **Vodafone**, **Novartis** and **Sumitomo Chemical Company** were added to the portfolio.

**IBM's** software and consulting businesses are growing well and management is excited about the opportunities that AI might bring the business. This exciting area of IT is new, changing and subject to different potential business models. The company has been focusing on AI for quite some time. The latest strong result was still not sufficient to justify the long-term valuation for **IBM**.

**Marks & Spencer** has more than doubled in price since 2020 when the pandemic and acquisition of Ocado put the company firmly against the ropes. Archie Norman, the chairman of **M&S**, and of Coles supermarket fame in Australia, has put in place the actors to turn around the business. Management has achieved success by reducing promotions, regaining customers' trust, growing market share and removing costs.

The portfolio has effectively doubled the value of its **Sumitomo Mitsui Financial Group** stake since purchases were made in 2016. The opportunity came to liquidate the position when strong share price gains followed signals from the BOJ that negative interest rates might end. If this occurred, it would boost the profitability of Japanese banks.

A new position, **Vodafone**, was added to the portfolio. **Vodafone** trades at a high historical dividend yield with supporting valuation fundamentals. The sale of its underperforming Spanish business, the merger of the UK business with Three UK and work underway elsewhere indicates that management may be serious about lifting returns. For example, the Three merger creates scale, provides cost synergies and delivers consolidation to the market. This merger is likely to be positive for Vodafone returns, raising the business to a sizeable number three player.

**Novartis** became a new member to the portfolio. **Novartis** is a quality best of breed pharmaceutical company generating very strong cash flow. This is the first time that the stock has reached a level where the price is discounted sufficiently to warrant purchase. The business should provide some stability to the portfolio as markets enter a period of increased volatility. **Novartis** has commenced a share buy-back and has spun-off the **Sandoz** business in the fourth quarter of 2023.

**The Sumitomo Chemical Company** was added to the portfolio on compelling valuation grounds. The opportunity to invest in this new holding eventuated when the company released its most recent results. Slower global growth, weak consumer sentiment, soft commodity prices and the loss of pharmaceutical exclusivity all pressured revenues. Operating income generated a loss of Y71.7 billion. Nevertheless, on several financial measures, **The Sumitomo Chemical Company** remains attractively priced in the face of current cyclical headwinds.

**Sumitomo Mitsui Financial Group** was also a source of funding for additions to the portfolio's large position in **Shinhan Financial Group**.

**Shinhan Financial Group** remains well capitalised, provisioned and with steady earnings. The portfolio continues to accumulate positions in times of share price weakness.

In combination with sales of **IBM**, **Adecco Group** funded meaningful additions to the portfolio's stake in **Walgreens**.

The portfolio reduced holdings in **Adecco Group** following a fading 25% rally since most recent purchases in May. The business had come under some pressure following the large acquisition of AKKA. Results released in August showed a good turnaround in operating cash flow including progress with working capital. This is likely to have relieved investors previously concerned about higher than usual debt levels post-acquisition. Further portfolio sales were made, reducing the position to a more medium sized holding, more representative of the reduced valuation appeal.

Walgreens suffered large share price falls as profits were compared negatively to the previous period when there were high covid vaccinations. The business was further impacted by the cost-of-living crisis and upon announcement of the CEO's departure. A new CEO, Tim Wentworth, previously CEO of **Express Scripts,** was appointed. Tim has considerable healthcare experience and sees value in **Walgreens'** goal to reimagine healthcare. The portfolio acquired further positions following the release of its full year results. At this point, the stock declined following the large litigation-driven operating loss. This created a good buying opportunity. **Walgreens** should succeed in stabilising the core pharmacy business. The business is generating significant cash.

**Addecco** funding also contributed to further purchases of **The Sumitomo Chemical Company**. **Total Energies** was reduced to make additional chemical company purchases.

Tight energy markets and high prices have propelled **Total Energies** business forward. The company has made a plausible compromise in managing the composition of its portfolio between oil & gas and renewable assets. That compromise centres on reducing emissions while targeting acceptable returns. The reduction in the large **Total** holding is reflective of a higher share price.

***Outlook – Global Shares***

Whispers of a change in direction for future FED funds rate movements turned into a convincing chorus by the end of the year. Bond markets undertook a meaningful rally and FED dot points indicated three interest rate reductions were expected in 2024.

The FED sees inflation reaching target next year or in 2025. Unemployment is expected to reach 4.1% which would equate to a ‘soft landing’ for the US economy. This remarkable outcome has been accepted by investors and in response equity markets have rallied strongly. The Dow Jones Index rallied 11% commencing with the release of a slightly better than expected October inflation report in November and a corresponding decline in 10-year treasuries.

The extraordinary impact of covid on inflation is beginning to reverse. Lower food and energy prices and to some extent improved participation rates within the workforce are playing out within cpi numbers.

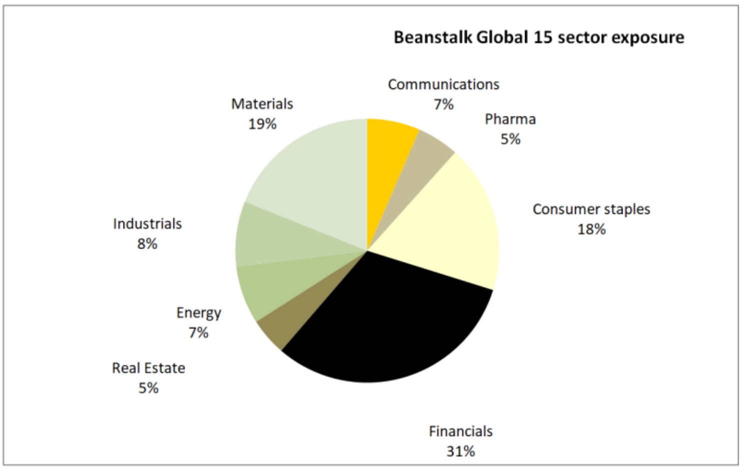
Major supply side impacts on this economic cycle have perhaps prematurely confused commentators in their thinking that a recession was imminent. Rather, inflation has played a large part in curtailing demand and any alleviation here is likely to be positive for the economy. The current economic cycle is perhaps best thought of as mid- to late- cycle rather than being in a state of termination.

High real interest rates indicate tight financial conditions. A look elsewhere suggests perhaps more supportive conditions. For example, The Chicago Fed National Financial Conditions Index points to accommodation in this regard. Further, the current strength in stock and bond markets reduces tightness.

This would all seem to suggest that the economy is in the position to reaccelerate. If demand returns, inflation is likely to recommence an upward trajectory as product and labour markets are inherently tight. Between now and then, there is a strong argument to be invested in growth assets like equities, especially those offering outstanding value and leveraged to economic upside.

## The Beanstalk Global 15 Portfolio

| BEANSTALK GLOBAL 15 PORTFOLIO | |
|---|---|
| **Six Month Return** | 11.4% |
| ***Holdings*** | ***Weight*** |
| BNP | 6% |
| AXAHY | 6% |
| 5411 | 8% |
| 4188 | 5% |
| SCGLY | 9% |
| 8905 | 5% |
| NOVN | 5% |
| VOD | 2% |
| WBA | 10% |
| SHG | 11% |
| 4005 | 5% |
| ORA | 4% |
| ADEN | 8% |
| TOT | 7% |
| TSCO | 8% |




**31 Dec 2023**