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AI & Metaverse strategy

AI efforts are already bearing fruit for some companies in terms of improved user experience and advertising performance

- Markets started to price in the likelihood of Fed rate cuts in the coming months
- 88%¹ of our companies reported better-than-expected earnings for Q2 season
- The Applications sub-theme provided the strongest contribution over the month

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What's happening?

Global equity markets were volatile in August, with a sharp selloff early in the month on renewed fears of an economic hard landing followed by a recovery as these concerns abated and markets started to price in the likelihood of Fed rate cuts in the coming months. The MSCI ACWI rose 2.5%², with all sectors delivering positive returns except for Energy.

European markets led the way over August and also recovered later in the month after being initially impacted by the global risk-off sentiment, supported by a surprise uplift in the region's economy from the Paris Olympics and an increased likelihood for the European Central Bank to lower interest rates further.

In the US, stocks experienced a significant selloff early in the month, triggered by weaker than expected economic data. However markets recovered in the second half of the month as inflation data came out better than feared and Fed officials signalled potential rate cuts as early as September.

Performance was more mixed in Asia. Japan experienced volatility driven by the Bank of Japan's unexpected rate hike in July and the subsequent unwinding of the yen carry trade. In China, stocks were pressured by concerns over the country's economic growth and the potential for further US restrictions on access to Artificial Intelligence chips.

¹ Source: Bloomberg as of 03/09/2024

² Source: Bloomberg in USD as of 31/08/2024

Companies continued to report their second quarter results which have been mostly encouraging for our investments. For those companies in the MSCI ACWI Index that have reported their first-quarter numbers, 61%¹ have reported better-than-expected earnings. For the Fund's investments, this compares favourably with 88%¹ reporting better-than-expected earnings.

Portfolio positioning and performance

The AI & Metaverse strategy unperformed broader equity market during the month.

Our investments in the Applications sub-theme provided the strongest contribution over the month. Social Network Meta Platforms reported strong results driven by healthy advertising market trends that have continued into the second quarter. The company is making progress on its Artificial Intelligence ambitions from core product enhancements, new offerings like MetaAI (Intelligent Assistant) and the Metaverse. The company's Artificial Intelligence efforts are already bearing fruit in terms of improved user experience and advertising performance. Our cybersecurity holdings were also strong over the month. Palo Alto's platform approach is resonating with customers, driving larger deals and strong next-gen security growth. CrowdStrike reassured the market by communicating during its earnings call that the global outage that happened in July had a very limited impact to its business. This strong performance was partially offset by weakness from social network company Snap who published results which were below expectations, impacted by a softening in brand advertising, particularly within consumer discretionary.

Within Enablers, designer of semiconductors for network and data infrastructure Marvell Technology published strong results and guidance, with an inflexion point in Artificial Intelligence related design wins and revised higher its shipment forecast for Application Specific Integrated Circuits (ASICs) for the AI market. This strong performance was partially offset by weakness from semi cap equipment manufacturer Lam Research who slightly fell short of expectations.

During August we continued to trim our holding in Nvidia which has continued to perform well and had become an increasingly large part of the portfolio.

Outlook

The strategy has been reshaped to encompass both Artificial Intelligence (AI) and the Metaverse, which is enabling us to capture even more interesting growth opportunities while future-proofing the portfolio. By seizing one of the most important themes of our generation, the fund can adapt to investors seeking to capture exposure to this fast-moving sector, and its growing set of credible long-term growth opportunities.

Over the past few months, we have witnessed a remarkable convergence between the Metaverse and Artificial Intelligence. As we progressed into this change, it became increasingly clear that AI was not just a parallel development, but a powerful accelerator for the Metaverse itself. Many of the pioneering companies in our portfolio have been at the cutting edge of AI innovations and we strongly believe that the synergies between these technologies are offering unprecedented opportunities.

At present, a significant portfolio of our focus remains on the critical infrastructure underpinning both AI and the Metaverse - areas like semiconductors and equipment which are the foundational building blocks powering the next generation of intelligent technologies. As the demand for more powerful and efficient computing resources continues to rise, driven by the increasing complexity of AI models, we believe that companies at the forefront of chip design and manufacturing will be well-positioned to continue to benefit from this secular trend. As the AI ecosystem matures, we could see a wide range of applications and services embedded in various industries, driving efficiency, innovation and growth and we anticipate significant investment opportunities.

While recent market gains have been driven primarily by mega-cap companies, the anticipated shift towards a new interest rate cycle should create a favourable environment for equities across all market capitalisations. Our focus on key trends and

disciplined investment approach targeting well positioned companies and themes aims to capitalise on the AI and Metaverse's ongoing evolution across a broad range of market segments in various market conditions.

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No assurance can be given that the AI & Metaverse strategy will be successful. Investors can lose some or all of their capital invested. The Metaverse is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG; Investment through the Stock Connect program.

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