Concentrated Global Growth

Portfolio Information

Top Ten Holdings[1]	Portfolio %
Microsoft	8.11
SAP	8.08
Amazon	8.00
Mastercard	6.70
Amphenol	6.20
ADP	5.31
Lonza	3.73
Zoetis	3.24
Charles Schwab	3.23
ASML	3.03

Sector Weights[1]	Portfolio	MSCI World Index
Information Technology	46.19	26.15
Consumer Discretionary	18.09	10.11
Financials	12.32	17.06
Industrials	12.05	11.40
Healthcare	9.89	9.53
Communication Services	1.45	8.46
Consumer Staples	-	5.98
Energy	-	3.47
Materials	-	3.22
Utilities	-	2.62
Real Estate	-	2.00

Top Five Equity Contributors (Held)	Top Five Equity Detractors (Held)
Amazon	Mastercard
Amphenol	ADP
Tokyo Electron	SAP
Eaton	Zoetis
TSMC	Gartner

Global equities staged a sharp rebound in the second quarter, reversing much of the volatility that marred the start of the year. The MSCI World Index and MSCI All World Country Index both climbed 6% during the quarter (in Australian-dollar terms). For the year to date, the MSCI World returned 3.4%. Growth shares gained 11.9% during the quarter, as measured by the MSCI World Growth Index, beating the MSCI World Value Index's return of 0.2% as investors rotated back into long-duration, tech-heavy names. A revived AI narrative, resilient first-quarter earnings and growing confidence that the Federal Reserve could start easing policy before year-end underpinned the rally, even as headline valuations climbed to their richest levels in two decades.

US stocks had a strong quarter; the S&P 500 returned 10.9% (in US-dollar terms) and set fresh record highs. Technology and communication-services names gained significantly as heavy spending on AI hardware and a rebound in online advertising drove earnings higher. By contrast, defensive groups struggled, with healthcare and real estate stocks declining amid policy uncertainty and higher long-term interest rates.

European shares barely moved during 2Q:25, with the MSCI Europe Index up 2.5% in euro terms, though it rose 11.4% in US-dollar terms. Solid gains in industrials, communication services and financials balanced losses in consumer discretionary and healthcare. Banks remained the bright spot for the year on better lending margins—even though fresh tariff talk from the US and softer German factory data cooled investor flows late in the quarter.

Japanese shares rallied 7.6% (in yen terms) as measured by the MSCI Japan Index during the quarter, with quality and growth factors in the lead. Communication services and technology led outperformance. Currency volatility persisted after the Bank of Japan's first rate hike in over a decade; nonetheless, domestic earnings momentum and governance reforms kept foreign inflows intact.

Asia-Pacific markets outside Japan delivered the best regional return, climbing 12.8% (in US-dollar terms) as measured by the MSCI AC Asia Pacific ex Japan. Semiconductor makers and internet platforms lifted technology while better consumer demand pushed industrials up. Investor mood improved on excitement around DeepSeek's AI advances, signs of fresh economic stimulus from China and fading worries over new US tariffs.

Globally, quality stocks, as measured by the MSCI World Quality Index, gained 9.2% (in US-dollar terms)—close to the overall market. Equal-weight indices lagged their size-weighted peers, highlighting the continued dominance of the largest technology names. Market volatility fell to multiyear lows at the end of the period, even as share valuations remained high, reflecting continued investor confidence in earnings and the broader economic outlook.

The Concentrated Global Growth Portfolio rose in absolute terms but underperformed the MSCI World in June and for the year to date (before fees and in Australian-dollar terms). A renewed wave of optimism around generative-AI spending, coupled with resilient 1Q:25 earnings, lifted long-duration growth shares during 2Q:25 and put our deliberate positioning to work. Our sizeable overweight in technology contributed to relative returns, while lack of energy exposure added a further small boost, as that sector lagged. Our underweight to communication services detracted. Returns from financials and industrials were on the quiet side and, together, knocked overall performance down slightly. Stock selection in healthcare added as our holdings advanced even as the Benchmark group declined—demonstrating the benefit of disciplined security research. Overall, the combination of strong sector tilts and selective winners allowed us to keep pace with the AI–driven rally and finish the quarter in front of the index.

The leading detractors from relative performance all came from long-time compounders whose shares took a breather—Gartner and Roper Technologies. Technology research firm Gartner detracted, as margin guidance pointed to another year of incremental cost pressure. US industrial software group Roper Technologies detracted as profit-taking followed solid first-quarter results and guidance that was good—but not quite good enough for an AI–charged market.

Contributors to relative performance during the quarter were dominated by names tied to the global AI build-out—Microsoft and Amphenol. Software and cloud leader Microsoft added as Azure revenue growth reaccelerated and management raised full-year capex plans to meet enterprise AI demand.US connector specialist Amphenol alone contributed as record orders from automotive and industrial customers highlighted its role as a critical plumbing supplier to data center expansion.

We refreshed growth exposure and locked in gains where valuations had become stretched. A new position in Motorola Solutions brings resilient public safety communications and a fast-growing software suite; its pending acquisition of Silvus Technologies should support low-teens earnings growth for years. We also opened a smaller stake in BAE Systems to capture structural growth in defense budgets and added modestly to Fair Isaac Corporation on share-price weakness. Funding came from a full exit of Ashtead and Constellation Brands. Constellation Brands' beer portfolio has finally succumbed to soft US alcohol trends—driven in part by reduced purchases among its core Hispanic customers—leaving limited near-term upside. We also reduced Mastercard, Eaton, Charles Schwab and Tencent, banking profits while maintaining exposure to their longer-term themes.

As we look beyond the volatility of equity markets post–Liberation Day swoon and their subsequent recovery through June, the critical question for global equity investors should be, is the recovery sustainable?

From a US equity market perspective, the drivers of the recovery, in our view, are President Donald Trump's moderation regarding tariffs, coupled with better earnings revision data. The high Liberation Day tariffs were quickly reduced to a 10% global level with the higher tariffs delayed for 90 days. With July 9 quickly approaching, we could see a further extension for most countries, as trade deals have been slow to come to fruition. We believe the ultimate tariff impact will be far less punitive than originally proposed. In addition, companies are quietly raising prices to the end consumer. From a tariff impact perspective, the result should be a moderate earnings-per-share impact at worst.

The other factor is better earnings revision data. While revisions are still negative, the breadth, measuring the percentage of negative revisions to positive ones, has gone from –25% in April to approximately –5% today, according to Bank of America data. A recovery such as this has historically suggested an earnings improvement is imminent. The exact cause of the better revisions data is unclear but the weak US dollar doesn't hurt. While obviously not helpful to our clients outside the US, the weaker US dollar will be a meaningful tailwind to reported earnings in the second half of this year. Putting the pieces together, the reduced uncertainty around tariffs and better revisions data suggests the gains are more sustainable than not.

If the topics within the US were tariffs, taxes and any potential policy movements as a basis for stagflation shocks, then the topics outside the US were the remilitarization of Europe and, again (but from a price return perspective), the weaker dollar. Both these were overall helpful for the backdrop for global equity investors, especially those exposed to quality growth companies. In Asia, China continued to react well as the political machinations on proposed trade tariffs were well-handled by the Chinese administration. For the year to date, Chinese stocks are additive to global performance, and this is the first year in four that the market is again being led by growth. In Japan, by contrast, government mandates to improve the price-to-book ratio of value-driven companies, plus central bank hikes rather than cuts being mooted, have made growth equities a tougher neighborhood. The 2Q:25 quarter was a stronger one, but we have less exposure there for now. The most interesting observation for us, given our call has been for equity markets to broaden over time, was the difference between equal weighting the MSCI Global Index versus the S&P 500. The latter posted some deviation in the period as the market was led by AI and AI–related companies; however, the MSCI Global was closer together, as other companies in international markets put up commensurate returns, especially adjusted for dollar weakness. This nuance was not seen in 2023 or 2024, and we believe it can continue, in largest part due to the relative policy stability and visibility of central bank paths outside of the US.

The first half of the year was extremely volatile but ended in a good place for global investors. While the increased volatility is likely to be with us for some time, we are particularly pleased with the absolute and relative earnings performance of our Portfolio companies compared to the MSCI World. We are further pleased to see returns ahead of the Benchmark and the incremental composition coming from outside of the US.

Please don’t hesitate to reach out should you have questions about our view or your Portfolio.

Portfolio Characteristics	Portfolio	MSCI World Index
Number of Holdings	32	1,323
P/E Ratio (Stock Price/Earnings; last 12 months)[3]	36.06x	23.24x~
Forward P/E Ratio (2025)[3]	30.54x	20.97x
ROE (Return on Equity; next 12 months)[3]	31.48%	18.26%
Median Market Cap ($ Billions)	174.4	36.7
EPS (Earnings per Share) Growth Rate (2025/2024)[3]	16.24%	10.43%
EPS Growth (5 year history)[3]	16.74%	17.91%
Sales Growth (5 year history)[3]	11.53%	13.34%

	Pure Gross of Fee[2]	MSCI World Index
Month	0.22%	2.44%
1 Year	12.37%	18.48%
3 Years	13.16%	20.22%
5 Years	9.24%	15.69%
7 Years	10.85%	13.54%
10 Years	11.45%	12.44%

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Market Risk: The market values of the portfolio’s holdings rise and fall from day to day, so investments may lose value.

1 Based on a representative account as of 06/30/2025. Portfolio holdings, characteristics and weightings (which are equity only weightings and excluding cash) will vary over time. These are not recommendations to buy or sell any security.

2 Based on a representative account as of 06/30/2025.Pure gross-of-fees do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Each client’s returns will vary, based on the client’s actual portfolio holdings and the actual fees charged to the account. **Past performance does not guarantee future results.**

3 Current analysis and estimates do not guarantee future results. Based on calendar year earnings. Sources: MSCI and AB.

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