

MANAGER MINUTES

EARNINGS TRENDS CONTINUE TO SUPPORT GROWTH STOCKS

It's fair to say that 2024 was another year of positive returns for stocks, particularly for growth stocks. You can see that with the better than 20% return for the S&P 500 and a better than 30% return for the Russell 1000 Growth Index. And it's worth remembering this all came against the backdrop of the U.S. economy that saw continued resiliency, the key pillars of employment, consumption and corporate profits growth.

At the same time, we continue to see moderating trends and inflation. And that was obviously accompanied by several cuts in the federal funds rate as we move through the balance of the year. The trends in corporate profits growth were always a key focus.

The focus is on innovation, high returns on invested capital, large addressable markets, and leading competitive positions. Our focus is on above-average profits growth today. That growth comes from technology, communication services, the consumer broadly defined, and health care. You may ask the question, is that fairly typical? And indeed, over our very long history, these have tended to be the areas where we have found the greatest set of opportunities that meet those criteria.

One of the things that many people have probably seen and has been talked about quite a bit, particularly in the last three months, is the launch of agentic AI, which is basically using agents that are embedded in software to help them deflect customer service calls or indeed write software. And it's probably those opportunities that, as we look forward, may be are the most exciting and perhaps lesser value from a public market recognition standpoint the opportunity to monetise AI going forward. These AIs sort of just move from just the technology focus into other industries, including health care, financial services, various other industries. We're still in the very early stages of that from a monetisation standpoint. So we're interested in it, we're enthusiastic about it.

This trend in corporate profits growth has been the one constant really throughout the environment that we've lived through over the last couple of years, albeit with periods of higher inflation now, somewhat lower inflationary trends, but strong underlying corporate profits growth has been a recurring theme for a number of years now. We're expecting another year of continued strong growth.

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