

A horizontal red bar with a decorative, multi-colored geometric shape on the left side, transitioning from dark red to light red.

# MFS® International Growth Fund

(Class R6 Shares)

Second quarter 2024 investment report

**NOT FDIC INSURED MAY LOSE VALUE NOT A DEPOSIT**

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus, or summary prospectus, containing this and other information, contact MFS or view online at [mfs.com](https://mfs.com). Please read it carefully.

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PRPEQ-FGF-30-Jun-24

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Country and region information contained in this report is based upon MFS classification methodology which may differ from the methodology used by individual benchmark providers. Performance and attribution results are for the fund or share class depicted and do not reflect the impact of your contributions and withdrawals. Your personal performance results may differ.

Portfolio characteristics are based on equivalent exposure, which measures how a portfolio's value would change due to price changes in an asset held either directly or, in the case of a derivative contract, indirectly. The market value of the holding may differ.

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PRPEQ-FGF-30-Jun-24

## Fund Risks



The fund may not achieve its objective and/or you could lose money on your investment in the fund.

**Stock:** Stock markets and investments in individual stocks are volatile and can decline significantly in response to or investor perception of, issuer, market, economic, industry, political, regulatory, geopolitical, environmental, public health, and other conditions.

**International:** Investments in foreign markets can involve greater risk and volatility than U.S. investments because of adverse market, currency, economic, industry, political, regulatory, geopolitical, or other conditions.

**Emerging Markets:** Emerging markets can have less market structure, depth, and regulatory, custodial or operational oversight and greater political, social, geopolitical and economic instability than developed markets.

**Growth:** Investments in growth companies can be more sensitive to the company's earnings and more volatile than the stock market in general.

Please see the prospectus for further information on these and other risk considerations.

# Disciplined Investment Approach



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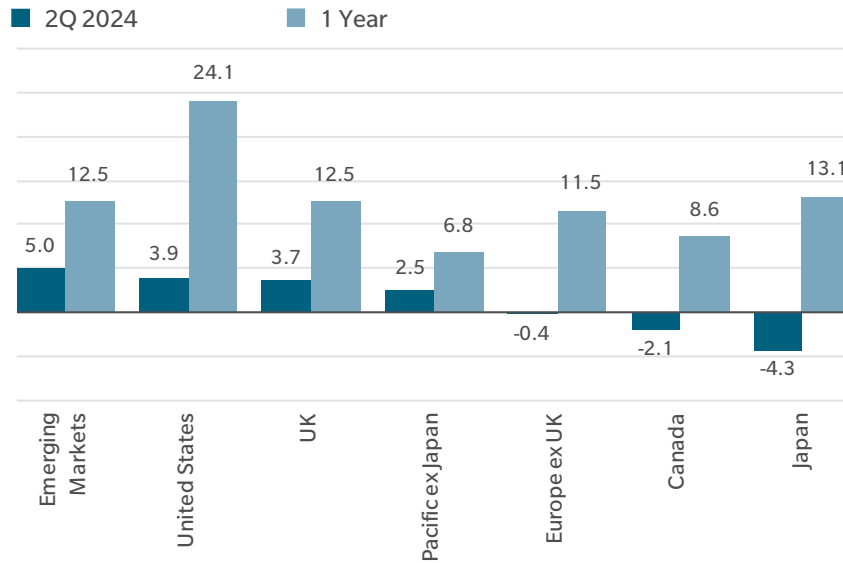
<b>Investment Objective</b>	Seeks capital appreciation
<b>Goal</b>	Outperform the MSCI AC World (ex-US) Growth Index (net div) over full market cycles
<b>Philosophy</b>	<p>We believe:</p> <ul style="list-style-type: none"><li>▪ Over-reaction to shorter term events provides longer term opportunities</li><li>▪ Quality is underappreciated by the market</li><li>▪ Our integrated bottom up global research platform can identify those opportunities</li></ul>
<b>Strategy</b>	<ul style="list-style-type: none"><li>▪ Generally has had 70 – 90 holdings seeking to offer above average earnings growth potential</li><li>▪ Seeks stocks with long-term earnings growth potential</li><li>▪ Objective is for stock selection to drive alpha</li></ul>

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# Market Overview

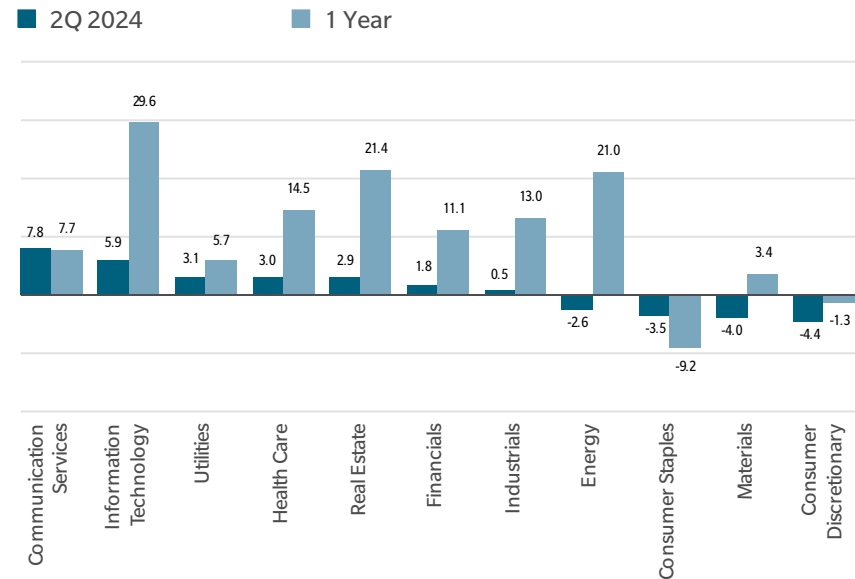


Region performance (%) (USD) as of 30-Jun-24



Source: FactSet. Region performance based on MSCI regional/country indexes.

Sector performance (%) (USD) as of 30-Jun-24



Source: FactSet. Sector performance based on MSCI sector classification. The analysis of MSCI All Country World (ex-US) Growth Index constituents are broken out by MSCI defined sectors.

## Global Equities market review as of 30-Jun-2024

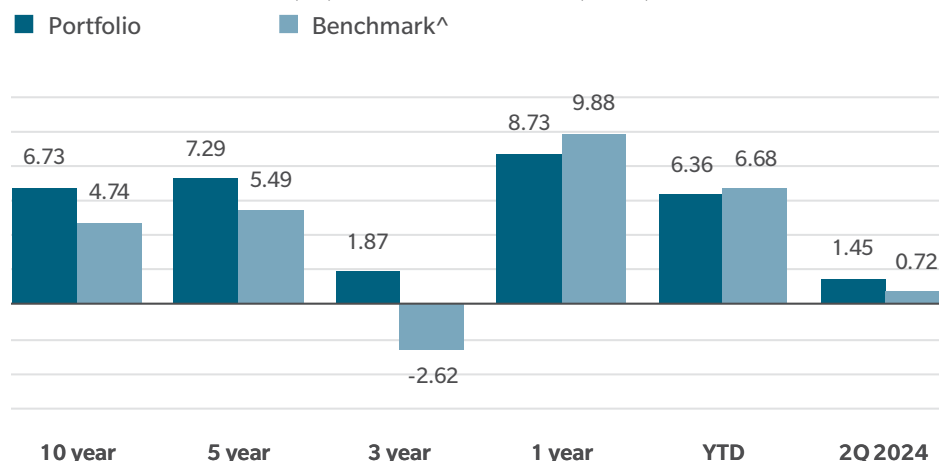
- The global equity market rally continued in Q2 of 2024, helped by improving economic data and expectation of less restrictive monetary policy.
- While recent and anticipated interest rate cuts by global central banks have supported equity markets, the pace and magnitude of rate cuts remain uncertain and dependent on the inflation outlook.

- The equity market has been narrowly focused on and led by large US growth stocks, particularly those perceived to be beneficiaries of AI. Market concentration continues to present a key risk to investors.
- Other risks to the market include excessive fiscal spending, elections, trade tensions, supply chain challenges, wars, and geopolitical conflicts.

# Executive Summary



Performance results (%) R6 shares at NAV (USD) as of 30-Jun-24



Performance data shown represent past performance and are no guarantee of future results. Investment return and principal value fluctuate so your shares, when sold, may be worth more or less than the original cost; current performance may be lower or higher than quoted. For most recent month-end performance, please visit [mfs.com](https://mfs.com).

Performance results reflect any applicable expense subsidies and waivers in effect during the periods shown. Without such subsidies and waivers the fund's performance results would be less favorable. All results assume the reinvestment of dividends and capital gains.

Shares are available without a sales charge to eligible investors.

Source for benchmark performance SPAR, FactSet Research Systems Inc.

For periods of less than one-year returns are not annualized.

^ MSCI All Country World (ex-US) Growth Index (net div)

Sector weights (%) as of 30-Jun-24

	Portfolio	Benchmark^^
<b>Top overweights</b>		
Materials	11.8	6.0
Consumer Staples	13.0	8.2
Industrials	19.0	17.7
<b>Top underweights</b>		
Consumer Discretionary	11.1	14.0
Communication Services	2.6	5.5
Information Technology	18.5	21.0

^^ MSCI All Country World (ex-US) Growth Index

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The MFS International Growth Fund outperformed the MSCI All Country World (ex-US) Growth Index (net div) in the second quarter of 2024.

**Contributors**

- Industrials - Stock selection
- Individual stocks:
  - Roche Holding Ltd
  - Toyota Motor Corp (not held)
  - Amorepacific Corp

**Detractors**

- Individual stocks:
  - Novo Nordisk (not held)
  - Grupo Financiero Banorte Sab De Cv
  - LVMH Moet Hennessy Louis Vuitton SE
  - Tencent Holdings Limited
  - AstraZeneca PLC (not held)
  - Capgemini Se
  - Pernod Ricard SA

# Performance Results



Performance results (%) R6 shares at NAV (USD) as of 30-Jun-24

Period	Portfolio	Benchmark <sup>^</sup>	Excess return vs benchmark
2Q 2024	1.45	0.72	0.72
1Q 2024	4.85	5.91	-1.06
4Q 2023	10.87	11.12	-0.26
3Q 2023	-7.80	-7.31	-0.49
2024 YTD	6.36	6.68	-0.31
2023	14.96	14.03	0.93
2022	-15.02	-23.05	8.04
2021	9.65	5.09	4.55
2020	15.82	22.20	-6.38
2019	27.31	27.34	-0.03
10 year	6.73	4.74	1.99
5 year	7.29	5.49	1.81
3 year	1.87	-2.62	4.49
1 year	8.73	9.88	-1.16

**Performance data shown represent past performance and are no guarantee of future results. Investment return and principal value fluctuate so your shares, when sold, may be worth more or less than the original cost; current performance may be lower or higher than quoted. For most recent month-end performance, please visit [mfs.com](https://mfs.com).**

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Source for benchmark performance SPAR, FactSet Research Systems Inc.

For periods of less than one-year returns are not annualized.

<sup>^</sup> MSCI All Country World (ex-US) Growth Index (net div)

## Performance Drivers - Sectors



Relative to MSCI All Country World (ex-US) Growth Index (USD) - second quarter 2024		Average relative weighting (%)	Portfolio returns (%)	Benchmark returns (%)	Sector allocation <sup>1</sup> (%) +	Stock selection <sup>2</sup> (%) +	Currency effect (%) =	Relative contribution (%)
<b>Contributors</b>	Industrials	2.6	7.7	0.5	0.0	1.4	-0.1	1.4
	Information Technology	-3.2	8.7	5.9	-0.1	0.3	0.1	0.3
	Financials	-1.9	2.9	1.8	0.0	0.1	-0.0	0.1
	Energy	-0.6	-1.4	-2.6	0.1	-0.0	0.0	0.1
	Utilities	-0.5	13.9	3.1	-0.0	0.0	0.0	0.0
<b>Detractors</b>	Communication Services	-3.3	4.4	7.8	-0.2	-0.1	-0.0	-0.3
	Consumer Staples	3.4	-3.3	-3.5	-0.2	-0.1	0.1	-0.2
	Materials	6.2	-3.0	-4.0	-0.3	0.1	-0.0	-0.2
	Health Care	-0.9	1.5	3.0	-0.0	-0.2	0.0	-0.2
	Consumer Discretionary	-3.0	-7.2	-4.4	0.2	-0.5	0.1	-0.2
	Cash	1.7	1.3	—	-0.0	—	0.0	-0.0
	Real Estate	-0.7	—	2.9	-0.0	—	-0.0	-0.0
<b>Total</b>			<b>1.7</b>	<b>1.0</b>	<b>-0.7</b>	<b>1.2</b>	<b>0.3</b>	<b>0.7</b>

1 Sector allocation is calculated based upon each security's price in local currency.

2 Stock selection is calculated based upon each security's price in local currency and included interaction effect. Interaction effect is the portion of the portfolio's relative performance attributable to combining allocation decisions with stock selection decisions. This effect measures the relative strength of the manager's convictions. The interaction effect is the weight differential times the return differential.

Attribution results are generated by the FactSet application utilizing a methodology that is widely accepted in the investment industry. Results are based upon daily holdings using a buy-and-hold methodology to generate individual security returns and do not include fees or expenses. As such, attribution results are essentially estimates and do not aggregate to the total return of the portfolio, which can be found elsewhere in this presentation. Recent geopolitical events may have impacted or disrupted the pricing of specific securities including the use of fair valuation approaches. Fair valuation practices across pricing sources index providers, pricing vendors, MFS - may not align due to security specific considerations or timing of fair valuation parameters. For instance, decisions to use stale prices vs fair value or on the level of haircut when fair valuing securities are typical sources of discrepancy between pricing sources observed during the events. This may further compound differences between attribution results and actual performance. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please email [DLAttributionGrp@MFS.com](mailto:DLAttributionGrp@MFS.com).

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# Performance Drivers - Stocks



Relative to MSCI All Country World (ex-US) Growth Index (USD) - second quarter 2024		Average Weighting (%)		Returns (%)		Relative contribution(%)
		Portfolio	Benchmark	Portfolio <sup>1</sup>	Benchmark	
<b>Contributors</b>	Hitachi Ltd	4.0	0.4	23.4	23.4	0.7
	Roche Holding Ltd	3.0	0.1	8.9	12.9	0.2
	Schneider Electric SA	4.3	1.0	7.8	7.8	0.2
	Toyota Motor Corp	—	1.0	—	-18.4	0.2
	Airbus Group	—	0.7	—	-24.1	0.2
<b>Detractors</b>	Novo Nordisk	—	3.2	—	13.3	-0.4
	Grupo Financiero Banorte Sab De Cv	1.0	—	-21.8	—	-0.2
	LVMH Moet Hennessy Louis Vuitton SE	3.2	1.7	-14.3	-14.3	-0.2
	Tencent Holdings Limited	1.1	2.2	23.9	23.9	-0.2
	AstraZeneca PLC	—	1.7	—	15.8	-0.2

<sup>1</sup> Represents performance for the time period stock was held in portfolio.

Attribution results are generated by the FactSet application utilizing a methodology that is widely accepted in the investment industry. Results are based upon daily holdings using a buy-and-hold methodology to generate individual security returns and do not include fees or expenses. As such, attribution results are essentially estimates and do not aggregate to the total return of the portfolio, which can be found elsewhere in this presentation. Recent geopolitical events may have impacted or disrupted the pricing of specific securities including the use of fair valuation approaches. Fair valuation practices across pricing sources index providers, pricing vendors, MFS - may not align due to security specific considerations or timing of fair valuation parameters. For instance, decisions to use stale prices vs fair value or on the level of haircut when fair valuing securities are typical sources of discrepancy between pricing sources observed during the events. This may further compound differences between attribution results and actual performance. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please email [DLAttributionGrp@MFS.com](mailto:DLAttributionGrp@MFS.com).

## Significant Impacts on Performance - Contributors



Relative to MSCI All Country World (ex-US) Growth Index (USD) - second quarter 2024		Relative contribution (%)
<b>Hitachi Ltd</b>	The portfolio's overweight position in electronics company Hitachi (Japan) contributed to relative performance. The stock price advanced as the company reported operating profit results above market expectations, thanks to strong order growth within its digital systems & services, green energy & mobility, and connective industries. The company also announced a share buyback, which further supported the stock.	0.7
<b>Roche Holding Ltd</b>	The timing of the portfolio's ownership in shares of pharmaceutical and diagnostic company Roche (Switzerland) lifted relative performance. The stock price climbed as the company posted financial results broadly in line with market expectations. Stronger-than-expected sales in its Pharma segment, which more than offset the weaker-than-expected sales in its Diagnostics segment, coupled with lower FX headwinds and stable guidance figures, supported the stock's performance.	0.2
<b>Schneider Electric SA</b>	The portfolio's overweight position in electrical distribution equipment manufacturer Schneider Electric (France) aided relative performance. The stock price climbed as the company reported better-than-expected organic sales led by strong growth within its Energy Management segment and a lesser-than-feared downside stemming from its Industrial Automation business. Moreover, management confirmed sustained demand strength, which further supported its outlook expectations.	0.2

## Significant Impacts on Performance - Detractors



Relative to MSCI All Country World (ex-US) Growth Index (USD) - second quarter 2024		Relative contribution (%)
<b>Novo Nordisk</b>	Not owning shares of pharmaceutical company Novo Nordisk (Denmark) detracted from relative performance. The stock price advanced after management reported first-quarter sales and operating profit above consensus estimates driven, in part, by diabetes medicine Ozempic, and raised its fiscal year sales and operating profit guidance.	-0.4
<b>Grupo Financiero Banorte Sab De Cv</b>	The portfolio's position in banking services provider Grupo Financiero Banorte (Mexico) weakened relative returns as the company reported setting aside higher-than-expected provisions for losses and realized a greater-than-forecasted tax rate, which offset strong net interest margin revenues and insurance underwriting income.	-0.2
<b>LVMH Moet Hennessy Louis Vuitton SE</b>	An overweight position in luxury goods company LVMH Moet Hennessy Louis Vuitton (France) detracted from relative returns. The share price declined as the company reported first-quarter sales results that missed consensus estimates, driven by a slowdown in its fashion and leather segment.	-0.2

## Significant Transactions



From 01-Apr-24 to 30-Jun-24		Sector	Transaction type	Trade (%)	Ending weight (%)
<b>Purchases</b>	HEINEKEN NV	Consumer Staples	Add	0.8	3.0
	NESTLE SA	Consumer Staples	Add	0.5	3.8
	NOMURA RESEARCH INSTITUTE LTD	Information Technology	Add	0.3	1.0
	OBIC CO LTD	Information Technology	New position	0.3	0.3
	DEUTSCHE BOERSE AG	Financials	Add	0.2	1.5
<b>Sales</b>	HITACHI LTD	Industrials	Trim	-1.3	4.0
	ROLLS-ROYCE HOLDINGS PLC	Industrials	Trim	-1.3	1.3
	NITTO DENKO CORP	Materials	Trim	-0.5	0.5
	SAP SE	Information Technology	Trim	-0.4	5.0
	LINDE PLC	Materials	Trim	-0.4	2.6

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# Sector Weights



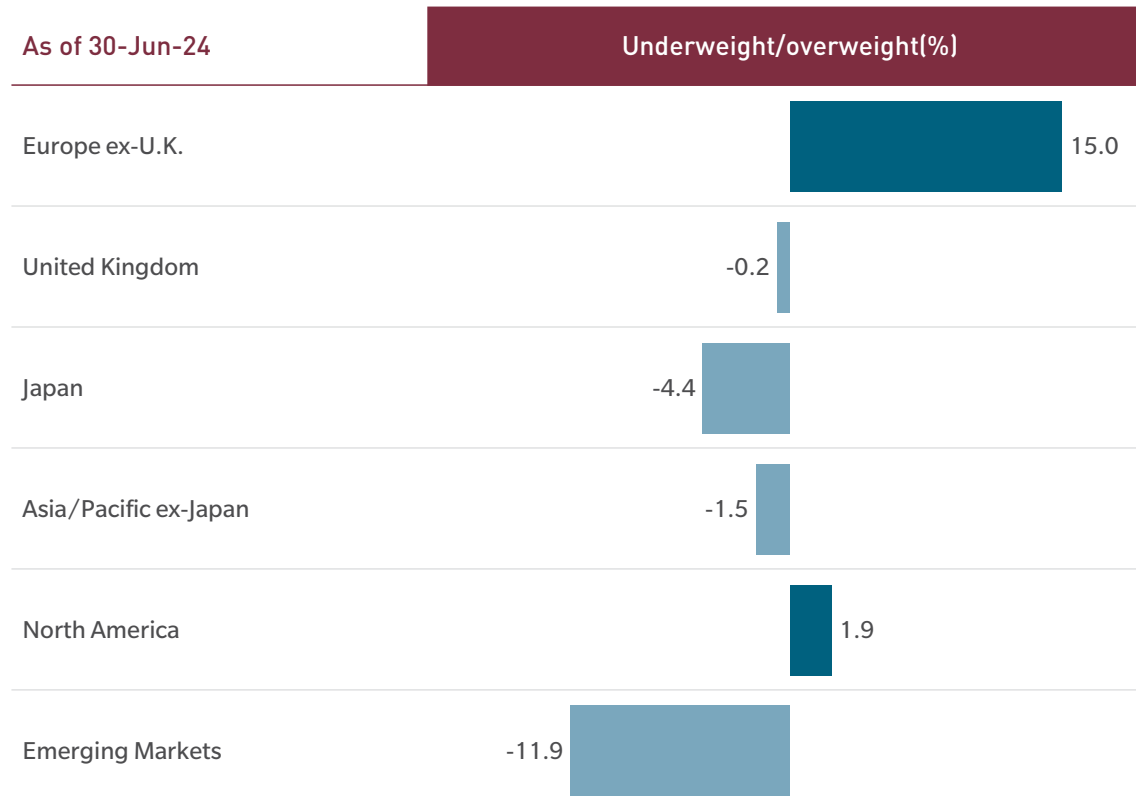
As of 30-Jun-24	Portfolio (%)	Benchmark <sup>^</sup> (%)	Underweight/overweight(%)	Top holdings
Materials	11.8	6.0	5.8	Linde PLC, Air Liquide SA, Agnico Eagle Mines Ltd
Consumer Staples	13.0	8.2	4.8	Nestle SA, Heineken NV, Diageo PLC
Industrials	19.0	17.7	1.3	Schneider Electric SE, Hitachi Ltd, Assa Abloy AB
Utilities	0.4	1.0	-0.6	China Resources Gas Group Ltd
Real Estate	-	0.8	-0.8	
Energy	1.3	2.2	-0.9	Reliance Industries Ltd
Financials	9.5	10.6	-1.1	AIA Group Ltd, Deutsche Boerse AG, DBS Group Holdings Ltd
Health Care	11.3	13.0	-1.7	Roche Holding AG, EssilorLuxottica SA, Novartis AG
Information Technology	18.5	21.0	-2.5	SAP SE, Taiwan Semiconductor Manufacturing Co Ltd ADR, Taiwan Semiconductor Manufacturing Co Ltd
Communication Services	2.6	5.5	-2.9	Tencent Holdings Ltd
Consumer Discretionary	11.1	14.0	-2.9	LVMH Moet Hennessy Louis Vuitton SE, Amadeus IT Group SA, Flutter Entertainment PLC

<sup>^</sup> MSCI All Country World (ex-US) Growth Index

1.6% Cash & cash equivalents

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# Region Weights



1.6% Cash & cash equivalents

The portfolio does not own securities represented in the benchmark in the following percentages: Developed - Middle East/Africa region 0.5%.

## Region and Country Weights



As of 30-Jun-24	Portfolio (%)	Benchmark <sup>^</sup> (%)	Underweight/overweight(%)
<b>Europe ex-U.K.</b>	<b>49.0</b>	<b>34.0</b>	<b>15.0</b>
France	16.2	7.8	8.4
Germany	11.0	4.5	6.5
Switzerland	10.3	6.0	4.3
Ireland	1.7	0.4	1.3
Spain	2.1	1.0	1.1
Netherlands	5.5	4.8	0.7
Sweden	1.8	2.6	-0.8
Italy	0.3	1.1	-0.8
Other countries <sup>1</sup>	0.0	5.8	-5.8
<b>United Kingdom</b>	<b>7.3</b>	<b>7.5</b>	<b>-0.2</b>
<b>Japan</b>	<b>10.0</b>	<b>14.4</b>	<b>-4.4</b>
<b>Asia/Pacific ex-Japan</b>	<b>5.5</b>	<b>7.0</b>	<b>-1.5</b>
Hong Kong	2.4	1.2	1.2
Singapore	1.7	0.8	0.9
Australia	1.4	4.7	-3.3
Other countries <sup>1</sup>	0.0	0.2	-0.2

	Portfolio (%)	Benchmark <sup>^</sup> (%)	Underweight/overweight(%)
<b>North America</b>	<b>9.1</b>	<b>7.2</b>	<b>1.9</b>
United States	2.6	0.0	2.6
Canada	6.5	7.2	-0.7
<b>Emerging Markets</b>	<b>17.6</b>	<b>29.5</b>	<b>-11.9</b>
Peru	0.9	0.1	0.8
Taiwan	6.5	6.3	0.2
Mexico	0.8	0.6	0.2
Thailand	0.5	0.4	0.1
South Korea	2.1	3.2	-1.1
Brazil	0.2	1.3	-1.1
India	3.5	5.5	-2.0
China	3.0	7.6	-4.6
Other countries <sup>1</sup>	0.0	4.6	-4.6

<sup>^</sup> MSCI All Country World (ex-US) Growth Index

1.6% Cash & cash equivalents

<sup>1</sup> The portfolio does not own any securities in countries represented in the benchmark in the following percentages: Denmark 4.6%; Saudi Arabia 1.1% and 22 countries with weights less than 1.0% which totals to 5.4%.

# Characteristics



As of 30-Jun-24	Portfolio	Benchmark <sup>^</sup>
<b>Fundamentals - weighted average</b>		
IBES long-term EPS growth <sup>1</sup>	12.4%	15.9%
Price/earnings (12 months forward)	19.0x	20.4x
<b>Market capitalization</b>		
Market capitalization (USD) <sup>2</sup>	149.8 bn	159.4 bn
<b>Diversification</b>		
Number of Issues	87	1,227
<b>Turnover</b>		
Trailing 1 year turnover <sup>3</sup>	13%	—
<b>Risk/reward (10 year)</b>		
Information ratio	0.55	—
Upside capture	99.55%	—
Downside capture	89.17%	—

<sup>^</sup> MSCI All Country World (ex-US) Growth Index

**Past performance is no guarantee of future results.**

**No forecasts can be guaranteed.**

<sup>1</sup> Source: FactSet

<sup>2</sup> Weighted average.

<sup>3</sup> US Turnover Methodology: (Lesser of Purchase or Sales)/Average Month End Market Value



## Top 10 Issuers



Top 10 issuers as of 30-Jun-24	Portfolio (%)	Benchmark^ (%)
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	5.4	5.5
SAP SE	5.0	1.6
SCHNEIDER ELECTRIC SE	4.3	1.0
HITACHI LTD	4.0	0.8
NESTLE SA	3.8	1.3
ROCHE HOLDING AG	3.2	0.1
HEINEKEN NV	3.0	0.2
LVMH MOET HENNESSY LOUIS VUITTON SE	3.0	1.6
LINDE PLC	2.6	-
AMADEUS IT GROUP SA	2.1	0.2
<b>Total</b>	<b>36.5</b>	<b>12.3</b>

^ MSCI All Country World (ex-US) Growth Index

# Portfolio Outlook and Positioning



## Market Review

Performance results within international equity markets were mixed for the second quarter, with emerging markets outperforming developed. Outside the US, there was no clear risk-on or risk-off trend or particular factors that drove the market in a meaningful way. Largely as a result of sticky inflation, the market expected far fewer cuts by Western central banks than they did at the beginning of the year. Against this backdrop, international growth equities were nearly flat, as the MSCI All Country World ex US Growth Index ("the growth index") appreciated 0.7% (net div. in USD) in the second quarter.

Returns by region were mixed for the second quarter. Despite lackluster returns in Latin America, emerging markets was the strongest region and up about 5%, led by Taiwan, India and China. Investors were hopeful that Chinese authorities' support for the housing sector and President Xi's reform rhetoric would prove beneficial. Conversely, Japan was the weakest region in the second quarter. Though Japanese equities generated a slight positive return in local currency, the continued depreciation of the Japanese yen resulted in negative US dollar-denominated returns.

Sector performance was also mixed for the quarter. The best performing sectors were communication services, mainly driven by Tencent, followed by information technology, whose main contributors were semiconductors and semiconductor equipment companies. Although to a much lesser extent compared to the US, stocks related to the artificial intelligence (AI) theme continued to perform strongly. The worst performing sectors were consumer discretionary, where apparel and luxury goods stocks underperformed, and materials, where chemicals companies also underperformed.

Pivoting to the economy, though interest rates have been and will continue to be a major market topic, they were not a significant factor in market performance. Despite changes in investor expectations for Fed rate cuts, US Treasury yields ended the quarter only slightly higher than where they began. The European Central Bank cut interest rates by 25 basis points in early June. However, the scope for further cuts may be limited by sticky inflation. The UK labor market remains rather tight and may impede a rate cut as inflation has not yet receded to the Bank of England's target level.

# Portfolio Outlook and Positioning



Related to rates in the US, different employment measures show a contrasting picture, which may be indicative of late cycle events and could be starting to show cracks in what has been deemed a resilient labor market. Various inputs suggest that the labor market may be at an inflection point where further softness in demand for workers will hit jobs, not just job openings. Many of the Western economies are watching labor wage growth levels and other labor data points to assess whether inflation levels are indeed moving towards target levels on a sustainable basis, which might then result in interest rate cuts.

Politics was a key focus in the quarter. European parliamentary elections saw gains for right-wing nationalist parties. This was notably the case in France, and President Macron responded by calling for snap parliamentary elections that resulted in primarily localized market weakness, and France underperformed the growth index for the quarter. We have an overweight to many French-based multi-national companies, who have diversified geographic revenue exposure, and limited France domestic exposure, which mitigated the impact of the selloff. Since the quarter end, and at the time of writing, a left-wing alliance has won the most seats in the French parliament, thwarting the far right in the second-round vote. The outcome will likely result in political gridlock which investors viewed as positive. Elsewhere, the prospect of UK elections was less contentious. Political risk made headlines across certain emerging markets with unexpected election outcomes in South Africa, Mexico and India that contributed to investor unease.

## **Performance relative to MSCI ACWI ex-Growth Index**

The MFS International Growth Equity strategy outperformed the growth index during the second quarter. The highest valuation stocks in the growth index continued to outperform, which presented a slight headwind to performance, but to a lesser extent than in prior quarters.

At the sector level, the primary contributor to relative performance was strong stock selection in industrials, followed by stock selection in information technology. At the sector level, an underweight and stock selection in communication services and an overweight to consumer staples were the largest detractors to relative performance. An overweight to materials and stock selection in health care and consumer discretionary also detracted from relative performance.

# Portfolio Outlook and Positioning



## Portfolio Positioning

As bottom-up, long-term investors, we do not reposition the portfolio around macroeconomic forecasts. Instead, our bottom-up approach focuses on investing in high-quality, above-average growth companies drives the portfolio positioning. These companies typically are market leaders with durable business models that have experienced management teams and competitive advantages that we believe will allow them to maintain higher returns and earnings growth than their peers. We seek to apply our buy criteria in a disciplined manner, irrespective of economic conditions. Given our long-term investment horizon and low turnover, the portfolio's positioning does not change significantly from quarter to quarter.

As of June 30, 2024, the portfolio was most overweight the materials and consumer staples sectors. Within materials, our overweight is primarily driven by our investments in the specialty chemicals industry, with industrial gas producers Linde and Air Liquide our largest positions. These high-quality cyclical companies generate returns above their cost of capital and significant free cash flow over a full cycle, driven in part by long-term contracts that have built-in price escalators, which makes their business models more defensive than the average cyclical company. We believe these companies will also be beneficiaries of reshoring as many global companies continue to revisit their supply chains. We have long favored consumer staples companies that have strong brands, durable, above-average growth and geographically diverse revenue sources. Many of our consumer staples companies derive a significant portion of their revenues from underpenetrated and emerging markets countries, which typically leads to higher revenue growth and more stable earnings growth than the overall market. The largest active exposure within the sector was an overweight to the alcoholic spirits industry, which has generally been able to pass on price increases. Currently, Heineken is the largest active weight within consumer staples. Over the last 10 years Heineken has significantly improved its geographic footprint towards faster growing emerging markets such that volume growth has the potential to be among the strongest of the global brewers.

As of June 30, 2024, the portfolio was most underweight the consumer discretionary and communication services sectors. Our underweight to consumer discretionary stems from our avoidance of auto manufacturers and our underweight to broadline and specialty retailers. We believe auto manufacturers are accelerating their investments in electric vehicles to meet stringent CO<sub>2</sub> emissions

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requirements, which negatively impacts returns in the short to medium term. Even without these investments, the auto manufacturers have typically had weaker free cash flow generation and limited pricing power. Meanwhile, many broadline and specialty retailers are facing pressure from e-commerce competition. Our underweight to communication services is primarily the result of being underweight China and an underweight to Tencent. Over half of the sector weight comes from Chinese companies and Tencent is the fourth largest name in the growth index. Further, we do not own any diversified telecommunications companies, which typically do not have above-average earnings growth.

During the second quarter, we continued to build or initiate positions in high-quality businesses that we believed had attractive risk/return profiles while trimming or eliminating companies that we believed had become more fully valued or were facing structural headwinds.

Key trades in the second quarter included:

- initiating a position in Japanese enterprise resource planning (“ERP”) software company Obic. It has leading market share with mid-sized Japanese corporates and has been penetrating larger clients in recent years. ERP software tends to be very sticky and the company has a unique direct sales model and a more comprehensive solution, which has led to consistent share gain versus less focused competitors. The valuation has declined significantly from its COVID peaks and is now very attractive for what we believe is one of the highest quality businesses in Japan.
- adding to Heineken, a name we initially purchased in the third quarter of 2023 and is now the largest active weight in the consumer staples sector. We believe that the M&A of the last 10 to 15 years is largely done, and they have emerged with a much better footprint for growth in the faster growing emerging markets.
- adding to Nestle at a more attractive valuation after recent underperformance. The stock trades around a 20-year low relative to the MSCI ACWI ex-US Growth index on concerns about weaker volumes and softness in the US low- to middle-income consumer. We believe these concerns are reflected in the valuation and continue to believe they have a defensive earnings stream.

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- adding to Deutsche Boerse at a more attractive valuation following its acquisition of SimCorp. The company is looking to integrate SimCorp's investment management software with their data, strengthening its focus on data and analytics-powered investment management solutions.
- adding to Nomura Research Institute, which we believe has a favorable long-term growth outlook given the historical level of underinvestment by corporate Japan in IT.
- trimming Hitachi at a higher valuation after a very strong multi-year run in the stock. Over the past several years management have done a great job of allocating capital to higher growth and higher return areas of the business and exiting more capital-intensive areas. This improvement is now increasingly recognized by the market, and the stock now trades at a slight premium to our benchmark having previously been at a very substantial discount.
- trimming Rolls-Royce following strong share price performance over the past year and a half. Management recently reported full-year financial results above expectations, driven by strong performance across all segments. The company also raised its full-year guidance, which further supported the stock.
- trimming SAP after the stock posted strong gains as management has demonstrated meaningful progress on transitioning customers to the cloud.

## **SUMMARY**

There are significant uncertainties in the markets currently, even if they may not have presented themselves as strongly this past quarter. One area we will watch closely in the second half of the year is politics. Elections are another component impacting the economic environment, and not just in the US. 2024 is a big year for elections around the world, with roughly half of the world's voting population heading to the polls at some point this year. Other potential uncertainties are earnings risk from dampened corporate pricing power,

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deficit pressures and geopolitical tensions. In short, there is no shortage of macroeconomic and political uncertainty as the back half of 2024 begins.

Despite this near-term uncertainty, we remain focused on doing what we believe we do best: invest with a long-term investment horizon and use short-term market volatility as an opportunity to add and trim (and initiate and eliminate) positions. We have a clear strategy of investing in high-quality companies that we believe have sustainable growth, returns and cash flow generation through the cycle while remaining mindful of downside risks by staying valuation disciplined. We believe this disciplined approach has added value for our clients historically and will continue to serve our clients well going forward.

The commentary included in this report was based on a representative fully discretionary portfolio for this product style; as such the commentary may include securities not held in your portfolio due to account, fund, or other limits.

# Portfolio Holdings



As of 30-Jun-24	Country	Equivalent exposure (%)
<b>Cash &amp; Cash Equivalents</b>		<b>1.6</b>
Cash & Cash Equivalents		1.6
<b>Communication Services</b>		<b>2.6</b>
Tencent Holdings Ltd	China	1.1
NAVER Corp	South Korea	0.6
LY Corp	Japan	0.4
Kingsoft Corp Ltd	China	0.2
Advanced Info Service PCL	Thailand	0.2
<b>Consumer Discretionary</b>		<b>11.1</b>
LVMH Moet Hennessy Louis Vuitton SE	France	3.0
Amadeus IT Group SA	Spain	2.1
Flutter Entertainment PLC	Ireland	1.3
Aristocrat Leisure Ltd	Australia	0.7
Kering SA	France	0.6
Zalando SE	Germany	0.6
Alibaba Group Holding Ltd	China	0.5
Prosus NV	Netherlands	0.5
Sands China Ltd	Hong Kong	0.5
Sodexo SA	France	0.3
Yum China Holdings Inc	China	0.3
Burberry Group PLC	United Kingdom	0.3
Lottery Corp Ltd	Australia	0.2
Yum China Holdings Inc	China	0.1
ZOZO Inc	Japan	0.1
<b>Consumer Staples</b>		<b>13.0</b>
Nestle SA	Switzerland	3.8
Heineken NV	Netherlands	3.0
Diageo PLC	United Kingdom	1.5
Reckitt Benckiser Group PLC	United Kingdom	1.4
Pernod Ricard SA	France	1.2
Amorepacific Corp	South Korea	0.8
Haleon PLC	United Kingdom	0.6
Sugi Holdings Co Ltd	Japan	0.3

As of 30-Jun-24	Country	Equivalent exposure (%)
<b>Consumer Staples</b>		<b>13.0</b>
ITC Ltd	India	0.3
Kose Corp	Japan	0.1
<b>Energy</b>		<b>1.3</b>
Reliance Industries Ltd	India	1.0
Tenaris SA	Italy	0.3
<b>Financials</b>		<b>9.5</b>
AIA Group Ltd	Hong Kong	1.9
Deutsche Boerse AG	Germany	1.5
DBS Group Holdings Ltd	Singapore	1.4
HDFC Bank Ltd	India	1.2
Credicorp Ltd	Peru	0.9
Grupo Financiero Banorte SAB de CV	Mexico	0.8
London Stock Exchange Group PLC	United Kingdom	0.7
Kotak Mahindra Bank Ltd	India	0.4
Ping An Insurance Group Co of China Ltd	China	0.4
Kasikornbank PCL	Thailand	0.3
<b>Health Care</b>		<b>11.3</b>
Roche Holding AG	Switzerland	3.2
EssilorLuxottica SA	France	2.1
Novartis AG	Switzerland	1.7
Merck KGaA	Germany	0.9
QIAGEN NV	Germany	0.8
Sonova Holding AG	Switzerland	0.8
Terumo Corp	Japan	0.8
Chugai Pharmaceutical Co Ltd	Japan	0.6
Hypera SA	Brazil	0.2
<b>Industrials</b>		<b>19.0</b>
Schneider Electric SE	France	4.3
Hitachi Ltd	Japan	4.0
Assa Abloy AB	Sweden	1.8
Ritchie Bros Auctioneers Inc	Canada	1.7
Experian PLC	United Kingdom	1.4



## Portfolio Holdings



As of 30-Jun-24	Country	Equivalent exposure (%)
<b>Industrials</b>		<b>19.0</b>
Rolls-Royce Holdings PLC	United Kingdom	1.3
Element Fleet Management Corp	Canada	1.0
GEA Group AG	Germany	0.9
Canadian Pacific Kansas City Ltd	Canada	0.9
Mitsubishi Heavy Industries Ltd	Japan	0.7
Kingspan Group PLC	Ireland	0.4
Singapore Technologies Engineering Ltd	Singapore	0.3
Pluxee NV	France	0.1
<b>Information Technology</b>		<b>18.5</b>
SAP SE	Germany	5.0
Taiwan Semiconductor Manufacturing Co Ltd ADR	Taiwan	3.3
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	2.0
Capgemini SE	France	1.8
ASML Holding NV	Netherlands	1.4
Delta Electronics Inc	Taiwan	1.1
Nomura Research Institute Ltd	Japan	1.0
Dassault Systemes SE	France	0.9
SK Hynix Inc	South Korea	0.6
Oracle Corp Japan	Japan	0.5
WiseTech Global Ltd	Australia	0.4
Obic Co Ltd	Japan	0.3
<b>Materials</b>		<b>11.8</b>
Linde PLC	United States	2.6
Air Liquide SA	France	2.0
Agnico Eagle Mines Ltd	Canada	1.5
Franco-Nevada Corp	Canada	1.4
Symrise AG	Germany	1.3
Sika AG	Switzerland	0.8
RESONAC HOLDINGS CORP	Japan	0.6
Akzo Nobel NV	Netherlands	0.5
UPL Ltd	India	0.5
Nitto Denko Corp	Japan	0.5

As of 30-Jun-24	Country	Equivalent exposure (%)
<b>Utilities</b>		<b>0.4</b>
China Resources Gas Group Ltd	China	0.4

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