PACIFIC ASSET MANAGEMENT

ARTICLE 8 SFDR

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PACIFIC LONGEVITY AND SOCIAL CHANGE

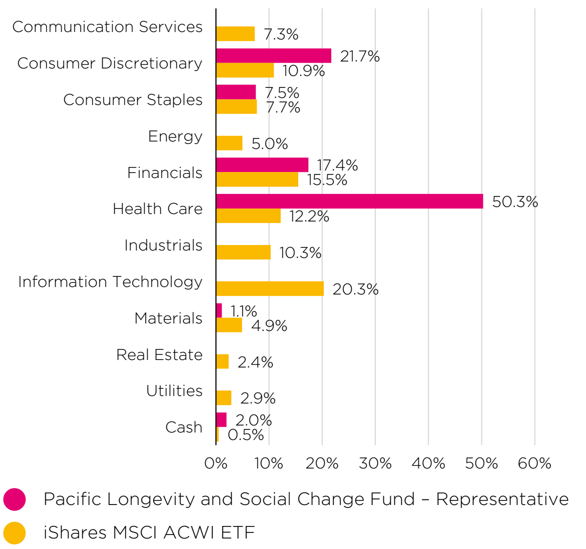
INVESTMENT INSIGHTS

Q1 2023

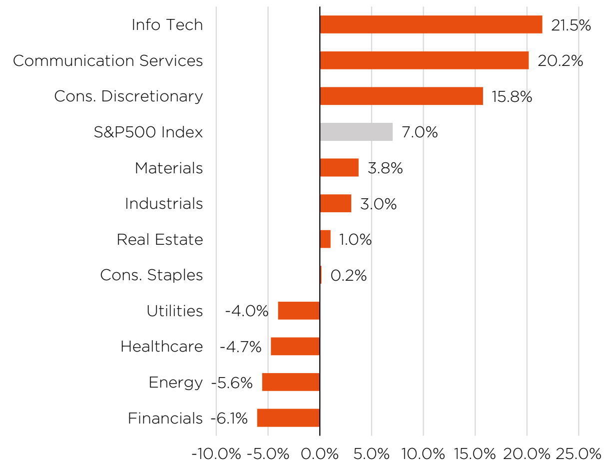
Q1 2023 will be written into the textbooks and studied for years; the 2nd and 3rd largest bank failures in US history and a Swiss government assisted takeover of Credit Suisse by UBS did not stop the Fed or ECB from continuing to raise rates in efforts to curb inflation. Against this backdrop it is perhaps a surprise to see the S&P500 up 7% in the period, fuelled by a sharp rise in growth sectors (Tech, Communication Services and Discretionary) amidst the largest quarterly decline in US treasury yields since the Pandemic. Europe also shone, with the STOXX600 up 9% (in USD) driven by Retail, Travel & Leisure and Consumer Products & Services advancing more than 20% along with Tech. Within developed markets there has been a clear preference for growth over value, large-cap over small-cap and high quality over leverage, amidst a broad-based decline in global rates. After underperforming in 2022, developed markets have also outpaced emerging markets so far in 2023.

While likely to only be a footnote, the US Healthcare sector closed the book on its worst performance quarter in at least 30 years (-12% relative to S&P500). Approximately 50% of the Longevity & Social Change fund is invested in Healthcare and despite positive stock selection, allocation effects weighed on performance.

Sector Breakdown vs Benchmark (%)



S&P500 Economic Sector Performance



Source: Bloomberg

Portfolio positioning and performance

The Pacific Longevity & Social Change strategy advanced 6.2% (in USD) during Q1, underperforming the MSCI World Index (+7.7% in USD). The biggest detractor to performance during the period has been the lack of exposure to Mega Cap Tech and Communication Services, which in contrast to prior recessionary cycles, are being seen as an alternative to traditional defensives. Stocks such as Microsoft, NVIDIA, TSMC, Meta, Alphabet and Apple significantly outperformed during the period. The Fund has zero exposure to these sectors given the limited connection between the growth drivers of these companies and the longevity industry.

Despite the turmoil in the Financials sector, our Financials holdings generated positive alpha, along with our Consumer Discretionary and Staples holdings. On a stock level, the top three absolute contributors to Fund performance in Q1 were Pets at Home, Booking Holdings and Align. Among the primary detractors were Managed Care stocks such as UnitedHealth, CVS Health and Humana. Managed Care has been at the epicentre of the drawdown in Healthcare due to a deluge of policy headlines that have cast a shadow over a sector that was among the top performers in 2022. At the very end of the quarter, the Centers for Medicare and Medicaid Services released a highly-anticipated "Final Notice" for 2024 Medicare Advantage rates that included a 3-year phase-in of its new risk adjustment model. The industry had lobbied for this phase-in, and while the long-term outcome will not change, it provides reprieve on what was considered a significant overhang. With this update now in the rear-view, we expect a solid Q1 earnings season to sustain a recovery in performance.

Looking at the Longevity & Social Change performance by theme, the Longevity Consumer was the top contributor, followed by Education & Wellbeing. Within *Education and Wellbeing* strength was seen across the Fitness & Nutrition and Aesthetics & Vision subthemes. Positive performance was driven by Lululemon and Basic Fit both of whom reported positive fiscal updates. Lululemon reported a strong final FY23 quarter with a revenue driven earnings beat, moderating inventories and a strong outlook for the next fiscal year. Despite the turmoil in Financials, our *Longevity Consumer* holdings performed well. Julius Baer is likely to be one of the main beneficiaries from consolidation in the wealth management space and we view the acquisition of Credit Suisse by UBS as a positive long-term albeit providing execution risk in the near-term. Travel & Leisure demand remains robust with Booking reporting a strong Q4, underscored by a commitment to a sizeable share buyback over the coming years. Pets at Home also reported a strong set of financial results, and we expect it to continue to benefit from secular trends in pet ownership. The *Later Living* theme was held back by the aforementioned headwinds for US Health Insurers, while *Healthcare* saw weakness in our SMID-cap Medical Devices holdings despite no discernible newsflow.

Still time for something HUMBLER.

The past decade was dominated by Big Tech however, coming out of the pandemic, Healthcare (Biotech, Diagnostics, Genomics, Pharma, Medical Devices) has proven its worth. In our view, the sector will lead the economy in the next 10-20 years, prolonging healthspans, extending lifespans and driving more efficient delivery of healthcare services. We believe Healthcare and Consumer Health will become more desirable areas for investment and in turn, an extended wealth accumulation phase from longer working careers will drive increased demand for financial planning and insurance services – notably savings, wealth transfer and annuity products.

HUMBLER. represents a small cross-section of Healthcare, Consumer Health and Financial Planning companies that offer attractive growth and some level of protection from the harsh macroeconomic outlook. Business cyclicality among this selection of companies should prove more stable compared to other sectors within the market. In the meantime, Longevity trends including demographic shifts and higher focus on wellbeing will remain potent tailwinds, supporting revenue and earnings growth.

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Outlook

As we move through 2023, troubles in the Banking sector add to the ongoing challenges of persistent inflation, tight labour markets and higher costs of financing. The possibility of central bank overtightening, geopolitical uncertainty and eroding savings still present risks to growth with many market observers predicting the US will slip into a recession during late 2023. Despite this, we believe the outlook for the Longevity and Social Change universe remains robust. Across the globe, populations continue to age, and this creates opportunities for companies that provide products and services which cater to changing consumption patterns driven by shifts in demography. Improvements in supply chains may provide support to corporate earnings, while China's reopening should gather momentum. We remain optimistic that the Longevity Consumer is well positioned to demonstrate relative resilience in this uncertain time, underpinned by stronger savings balances among the longevity population and relatively inelastic demand for healthcare in particular.

We believe companies with strong management, focused on the Social dimension of ESG and a track record of execution should prove to be good long-term investments. We remain focused on identifying high quality companies with proven operating models and strong innovation characteristics that have exposure to the durable and resilient growth offered by the Longevity and Social Change theme.

PLEASE GET IN TOUCH

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