

# Better World Global Equity Fund

## Portfolio manager commentary

As always, we start this review with a reminder of what we are looking to achieve for our clients. We aim to build a diversified portfolio of high-quality companies, which can grow cash flows consistently, at valuations that are attractive. This should allow us to deliver long-term risk-adjusted returns for our investors. Evidence shows that, over the long term, stock market returns derive from fundamentals and earnings growth. For that reason, we are looking for companies that, in our opinion:

- demonstrate an enduring competitive advantage,
- benefit from clear long-term growth trends,
- benefit from superior financial strength, with a strong balance sheet,
- are trading at attractive valuations.

The ability of these companies to grow their earnings and compound their cash flows over five to 10 years should, we believe, allow them to drive better investment returns over the long term.

## Market overview

Stock markets reached record highs in June, with a notable decline in volatility. Trade and geopolitical tensions eased, and investors' expectations of an interest rate cut by America's central bank, the Federal Reserve (Fed), strengthened.

The S&P 500 index of leading shares rose nearly 11% in the second quarter, taking its year-to-date performance to over 6%. By the end of the second quarter, the index had recovered 25% from its tariff-induced low on 8 April. The one-year forward price-earnings multiple (P/E) of the index fell to c.18x during the quarter, but it has since then moved back to c.22x.

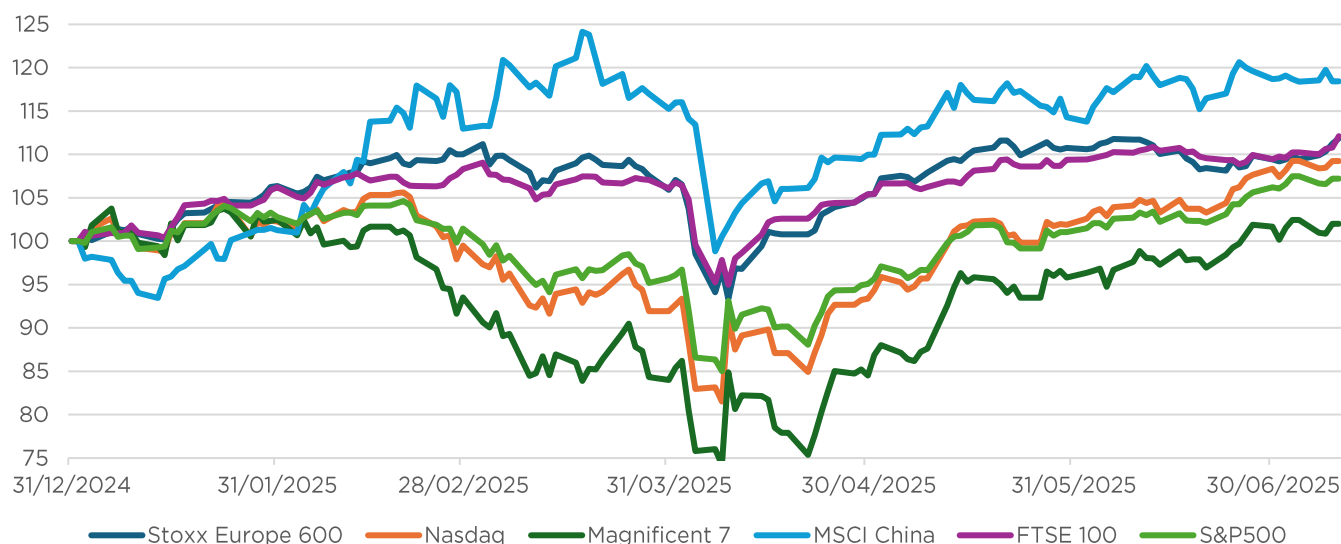
The information technology-heavy Nasdaq share index did better than the rest of the market in the second quarter, returning 17.7%. Cyclical shares outperformed more defensive shares in June, as a more bullish, 'risk-on' narrative took hold.

Much of the narrative in financial markets remains centred on President Trump's proposed sweeping tariffs. These were in a 90-day pause until 9 July and have now been paused again until August. There is lack of clarity on whether the US will escalate or back away from these proposed tariffs.

That lack of clarity is affecting companies, particularly in global manufacturing and consumer sectors. Companies have started to revise their guidance to investors on their future revenues and earnings. They have also started to delay capital expenditure decisions, in anticipation of potential trade frictions that could re-emerge in the second half of this year.

Sectors with international supply chains, such as carmakers, semiconductors and retail, remain most exposed to any breakdown in tariff negotiations.

## Index performance since 31 December 2024 (31 Dec 2024 = 100)



Source: CCLA, Bloomberg, MSCI. The so-called 'Magnificent 7' are Google parent Alphabet, Apple, Amazon.com, Meta Platforms, Microsoft, Nvidia and Tesla. **Past performance is not a reliable indicator of future returns.**

Stock markets, however, appear to be operating under the assumption that a trade war has been averted.

European equities underperformed the US over the second quarter. The Euro Stoxx 600 share index rose just 1.4%, in local currency terms, as a strong euro and limited exposure to large-cap technology stocks weighed on returns. The UK's FTSE 100 share index advanced 2.1%.

In the bond market, US Treasury (government bond) yields have eased slightly, as inflation moderated. Spreads between corporate and government bond yields narrowed, as investor appetite for risk improved towards the end of June.

The oil price was particularly volatile in June, because of the Middle East conflict. The oil price rose to \$77 per barrel in early June, before falling to \$67 as tensions eased. The gold price remained within a tight range in June.

## Fund performance

The CCLA Better World Global Equity Fund (class C) returned 0.99%, net of fees, over the second quarter, but it lagged its comparator benchmark, the MSCI World Index, which returned 5.00%.

In the first quarter, the fund performed in line with its comparator benchmark, in a difficult market environment. But in the second quarter, macroeconomic sentiment improved, a rotation into cyclical shares broadened, and the US stock market rebounded. Those trends have been challenging for our relative performance.

Performance kept pace with the comparator benchmark during the April rebound, but it lagged as cyclical shares, of which the fund owns fewer, outperformed in May and June.

Overall, the value of the fund's share portfolio was broadly flat, in pounds sterling. But the broader MSCI World Index ('the index') rose by over 4%, with particular strength in areas that had seen weaker performance in the first quarter. Stocks such as NVIDIA and Tesla rose sharply, alongside more economically sensitive industries such as banks and consumer cyclicals. Consumer staples, health care and more defensive areas were weaker performers in the fund and in the broader market.

### Financials

The financials segment accounted for approximately 40% of the underperformance against the index during the second quarter. The value of our financials holdings fell by 3.9%, compared to the gain of 3.8% for the financials segment of the index. Improved macroeconomic sentiment made for a sharp intra-sector rotation away from diversified financials like insurance companies towards banks. Banking shares rose by 9%. Indian bank HDFC performed in line with the sector, continuing its strong run year to date. However, our

underweight position, relative to the index, was a headwind to our relative performance.

Our holdings in insurance brokerage (AJ Gallagher and Marsh McLennan) were among the portfolio's weaker performers. These shares held up well amid the market turmoil in the first quarter but, in the second quarter, faced concerns over softer property insurance prices.

The share prices of Visa and Mastercard also fell during the quarter. Concerns over disruption to their business models became front of mind, as the US Congress passed the 'Genius Act', a regulatory framework for payment stablecoins. (Stablecoins are a type of cryptocurrency whose value is pegged to a reference asset like the US dollar.) We believe these concerns are overblown, certainly in the near term. Many clear barriers to the widespread adoption of stablecoins exist, including consumer trust, consumer habits and consumer protection.

### Information technology (IT)

IT stocks in the portfolio rose by over 9.8%, lagging the 16.1% increase in the wider sector. Market returns were led by semiconductors with many stocks such as NVIDIA recovering losses from earlier in the year and breaking new highs.

Portfolio holdings such as Broadcom (+56%) and TSMC (+25%) performed well. However, analogue semiconductor businesses such as Texas Instruments and NXP Semiconductor were weaker, in relative terms, rising 9%. Both stocks are in the midst of a cyclical downturn, but with signs of improvement. Our absence from NVIDIA was a material headwind to performance this quarter, accounting for a third of the portfolio's underperformance versus the market.

Within software, performance was led by Microsoft whose share price rose 25% after good quarterly results. Microsoft showed strong growth in its cloud business, an increasing contribution from AI related revenues and continued margin expansion despite investments into AI infrastructure. Both Intuit and ServiceNow also performed well, with their share prices rising by 21% and 22%, respectively, after good results during the quarter.

### Consumer

The consumer shares in the fund's portfolio suffered a 3.4% loss during the quarter, lagging the index, which rose 4.3%. Performance in this segment was concentrated in a small number of shares. Amazon and Tesla accounted for a significant proportion of the returns. But the fund only benefited from the former, given that it is our second-largest holding.

With consumers' disposable incomes under pressure, the consumer sector remains a challenging place to invest, requiring a selective approach. We have not experienced company-specific issues in the consumer sector, but the performance of defensive positions such as contract food service company Compass and car parts retailer O'Reilly weakened. Fundamentals remain robust, however, and we are confident in their long-term

return potential. By contrast, areas such as car makers rallied, as tariff fears faded.

## Health care

Health care remained a challenging sector for investors in the second quarter. The fund's 9.9% decline here was in line with the wider sector, but our overweight to the sector, relative to the index, remained a drag on returns.

The latest headlines to knock sentiment in the health care sector came from the Trump administration. President Trump's pressure to lower drug pricing has caused widespread concern about future research and development (R&D) budgets. His policy is vague and has no clear timeline or path to implementation, with likely legal challenges.

However, the uncertainty that it has created will continue to weigh on the sector. As a result, we have continued to reduce our exposure to the health care sector, exiting companies that are most at risk. Our latest exits have been from clinical research firm ICON and American biotech, chemicals and pharmaceutical company Avantor. We have, however, retained exposure to health care businesses with clearer earnings improvements on the horizon.

## Activity – Buys

**PTC** – PTC is a leading industrial software provider in product lifecycle management (PLM) and computer aided design (CAD), with marquee brands Windchill and Creo. PTC software is used by c.35,000 clients, a 'sticky' user base with churn rates of 5% overall and 3% in the firm's core offering. PLM benefits from secular growth, as manufacturing is going through a digital transformation: traditionally siloed elements are being connected to enable an integrated view throughout the manufacturing lifecycle.

## Activity – Sells

**Avantor** – We exited this position following concerns across the board. Competitive intensity is rising in the company's lab solutions segment, and core bioprocessing growth is lagging that of its peers. Avantor is working to address execution issues in lab solutions, but we were concerned that Thermo Fisher, the segment leader, is using lab solutions as a loss leader to drive growth in higher-margin areas. Adding to the uncertainty, Avantor's CEO is stepping down with no clear successor or timeline.

**ICON** – Initial expectations since 2024 that budget tightening by two of ICON's largest clients were one offs have proved wrong. Since then, other large pharma clients have constrained their spend in the face of upcoming exclusivity or patent cliffs and uncertainty over future drug pricing. Biotech has also remained weak, with April's market turmoil a headwind to fundraising and research spending. In addition,

pharma companies are adjusting their outsourcing arrangements to better use internal capacity.

## Outlook and positioning

President Trump's August deadline for tariff negotiations is the next big event on investors' calendars. But, as always, we aim to 'look through' current events, to the underlying fundamentals of the assets in which we invest:

- Forecasts indicate a slight slowdown in the earnings growth of companies in the S&P 500 share index this year. From 9.3%, yoy, in the first quarter of 2025, growth is expected to slow to 9.1%, yoy, by the fourth quarter. This growth rate is higher than the 10-year average and should, in our opinion, support the current c. 22x forward price-earnings (P/E) ratio of the index.
- In the first quarter of 2025, 78% of companies in the S&P 500 beat analysts' forecasts of their earnings per share. We expect that trend to continue.
- The percentage of earnings upgrades by research analysts, net of downgrades, as a percentage of total earnings estimates, continues to fall. Troughs in that ratio have historically been a buy signal for shares.

In addition, the geopolitical environment appears to have left peak uncertainty behind.

- A trade deal between the US and China has been rumoured. US Commerce Secretary Howard Lutnick has suggested that trade agreements with c.10 other countries are close to being signed.
- NATO appears solidified after its June meeting. Members have committed to spend 5% of GDP on defence and defence infrastructure. President Trump appeared re-committed to the alliance.
- OPEC+ (the Saudi-led Organization of the Petroleum Exporting Countries, plus countries like Russia) is hiking oil supplies, despite weak global demand. The US Energy Information Administration (EIA) expects oil prices to fall below \$60 per barrel by 2026.

Market fundamentals are solid and risk from tariffs has receded somewhat.

## Glossary

Please refer to the glossary on our website ([www.ccla.co.uk/glossary](http://www.ccla.co.uk/glossary)) for explanations of terms used in this communication. If you would like the information in an alternative format or have any queries, please call us on **0800 022 3505** or email us at [clientservices@ccla.co.uk](mailto:clientservices@ccla.co.uk)

Source of fund performance: HSBC, as of 30 June 2025.  
Comparator benchmark: MSCI World Index.

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CCLA  
One Angel Lane  
London EC4R 3AB



Freephone **0800 022 3505**  
**clientservices@ccla.co.uk**  
**www.ccla.co.uk**

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