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Investing for a  
world of change



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## Navigating a diverse range of opportunities

Global equity markets have been characterized by narrow AI leadership in recent years. Do you think it will be more of the same in 2025 and is the profile of international markets different from the US in that respect?

It's difficult to know whether this AI leadership will continue in the US. These are very powerful forces, and the opportunities presented by technological innovation are vast. Whether these companies can continue to compound equity value and whether their valuations encompass the full opportunity set is difficult to say, but it is certainly a profound theme that needs to be considered deeply and compensated for in equity strategies. The narrowness is very much a feature of the US market and is less of a factor internationally. However, AI is an important element of the investment cases of the technology companies that we invest in and it's also important to consider how it's impacting other sectors.

For instance, AI could significantly improve R&D efforts for biopharmaceutical companies or the way that consumer facing businesses interact from a servicing and sales perspective, so the implications are very broad and exciting. We've looked to participate in a variety of parts in that AI value chain, including foundries that are producing chips to the companies that build the tools that produce the chips. More broadly, companies that are deploying AI software using these large language models to generate cost efficiencies or pull themselves closer to the consumer in unique ways also present compelling opportunities.

## How do you think the new Trump administration will influence international equity markets in 2025?

The new president will certainly have a big influence on both international and US markets. It's very complicated with a vastly diverse set of considerations and scenarios. Trump is much more experienced this time around and clearly has the desire to shock the system, as his cabinet nominees demonstrate. Therefore, investors need to contend with levels of uncertainty ranging from the people, their roles, what their actual agendas will be, the scope of their mandates, and – importantly – we don't know the countermeasures that will be raised by those in the firing line, domestically or internationally. We know that China is much better prepared this time, so it is positioned to retaliate to any tariff or export controls that Trump may look to put in place.

If we look at his first term, Trump's bark was a little worse than his bite. While it is not wise to necessarily assume that people will do things other than what they have stated they will do, Trump's rhetoric was more exaggerated than his actual policy actions during his first term. I think that he'll be economically oriented with a domestic tilt, of course, and that ultimately his policy and his actions will be closer to practical than what the headlines suggest. We should note that we don't make investments whose success is contingent upon narrow political environments, but rather we try to own businesses that can operate and succeed independent of these considerations.

## Do you think that fundamentals will matter more than the macro environment in 2025?

The prevailing macroeconomic backdrop could lead to significant short-term volatility, but over the long term fundamentals win out. The cash earnings progressions of businesses will overwhelm whatever the macro considerations are, and so making a projection about what the effect of macro will be in 2025 is too short a time frame in my view. We typically think about investments in five, seven, or 10-year time frames.

One thing that seems true across the board is that most central banks have begun an easing cycle, and with inflation being steady in most cases, declining in some, it doesn't look like we're going to have a repeat of 2022 with a significant change in monetary policy. Therefore, it does look like it's a reasonable setup in 2025 for fundamentals to regain their footing and be a strong driver for equity returns. For us, we remain focused on those long-term drivers of earnings and look to own businesses that can weather a variety of different macro environments.

## Where do you see the biggest opportunities and risks for international equity investors in 2025 and beyond?

International markets are highly diverse by definition. One country is excluded - the US - and, albeit a large and massively important one, we're left with a very diverse set of opportunities from 190 countries, many of whom have small economies that require cross-border commerce in order to create significant value. We see better outcomes when there are more peaceful environments, when geopolitical and economic cooperation is trending positively rather than negatively. We've had some challenges with Russia and Ukraine, the Middle East and elsewhere over the past few years. There is a potential opportunity for that to stabilize, and the prospect for improvement versus current expectations would certainly be supportive of our individual investment cases.

It's important to note that although international equity headline returns were not as strong as US equity returns last year, more than half of outperforming shares globally were international equities, and this holds across various time frames. So, while benchmark returns might appear pedestrian, they belie a very diverse set of returns, and an attractive opportunity set for stock pickers. Therefore, if you're close to the fundamentals - the ultimate long term drivers of returns - then it's an exciting place to be. Some of these companies have unique competitive advantages that are durable, monetizable, and backed by strong balance sheets that are generating enough cash flow to reinvest back into significant opportunities for growth across a wide variety of economic and macroeconomic environments. Therefore, we remain excited about the opportunity to deploy capital internationally and think that doing so with a quality-first lens as a means to accessing those compounding equity return stories driven by fundamentals is a great place to be.

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