Plurimi AI Global Equity Strategy

March 2022

PLURIMI

Objectives

The objective of the Plurimi AI global equity strategy is to achieve long-term capital appreciation through investments in global stocks. The strategy is always fully invested and seeks to maximise returns vs. the MSCI World benchmark by employing active bottom-up stock selection, which is driven by artificial intelligence with machine learning techniques, and discretionary top-down regional and style allocations.

Risk and return targets

- Typical beta: 1.0
- Beta range 0.9-1.1
- Return target: MSCI World +3% per annum over a market cycle

Total return (%)

Total return in USD terms. (30 Nov 2018 - 31 Mar 2022)
Gross of all fees

Source: Bloomberg/PW

Key points

Bottom-up stock selection driven by Artificial Intelligence (AI) and machine learning. Evaluating more than 5000 global stocks from 45 countries.

Objective stock selection process removes human emotion and behavioural biases.

Top-down region and style allocations.

Portfolio characteristics skewed towards value, quality, and momentum stocks.

Key risks

Capital is at risk. Equity markets are volatile and the stocks in the strategy may outperform or underperform the benchmark. The strategy is a focused portfolio and not as diversified as the benchmark. The strategy takes significant regional and sector differences from the benchmark which are intended to improve returns but can lead to capital loss.

Relative risk vs MSCI World (ex-ante)

Tracking error (%)	6.1
Beta	1.1
AI predicted alpha (%)	3.8
Active share (%)	93.0

Performance indicators (%)

	PW AI	MSCI World
Annualised return	25.8	15.3
Annualised volatility	16.4	17.5
Sharpe ratio	1.5	0.8
Best month	10.4	12.8
Worst month	-9.7	-13.2
Max drawdown	-30.5	-34.0

Monthly performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022 PW AI	-7.1	-0.3	4.2										-3.5
MSCI W	-5.3	-2.5	2.8										-5.1
2021 PW AI	0.5	1.5	2.5	5.2	2.7	2.1	3.0	4.1	-4.6	3.5	-3.1	3.4	22.4
MSCI W	-1.0	2.6	3.4	4.7	1.5	1.5	1.8	2.5	-4.1	5.7	-2.2	4.3	21.8
2020 PW AI	-0.2	-7.0	-9.7	9.9	8.9	4.3	6.7	4.5	-2.3	-0.9	10.4	7.6	34.4
MSCI W	-0.6	-8.4	-13.2	11.0	4.9	2.7	4.8	6.7	-3.4	-3.0	12.8	4.3	16.5
2019 PW AI	10.4	4.5	2.9	2.7	-5.2	7.8	0.7	-1.3	1.7	4.2	2.3	4.7	40.5
MSCI W	7.8	3.1	1.4	3.6	-5.7	6.7	0.5	-2.0	2.2	2.6	2.8	3.0	28.5
2018 PW AI												-3.6	-3.6
MSCI W												-7.6	-7.6

Total return in USD terms. (30 Nov 2018 - 31 Mar 2022)
Gross of all fees

Source: Bloomberg/PW

Sector exposure (%)

	PW AI	MSCI W	+/-
Communication Services	9.4	7.9	1.5
Consumer Discretionary	10.7	11.6	-0.9
Consumer Staples	2.6	7.0	-4.4
Energy	10.7	4.3	6.4
Financials	4.7	13.7	-9.0
Health Care	15.6	12.9	2.8
Industrials	6.9	10.0	-3.1
Information Technology	25.0	22.4	2.6
Materials	14.5	4.5	10.0
Real Estate	0.0	2.8	-2.8
Utilities	0.0	2.9	-2.9

Regional allocation (%)

	PW AI	MSCI W	+/-
North America	52.8	70.9	-18.0
UK	6.1	4.4	1.7
Switzerland	3.2	3.2	0.0
Rest of Europe	28.2	11.4	16.8
Japan	9.7	6.1	3.7
Asia & EM	0.0	4.1	-4.1

Holdings (%)

TOKYO ELECTRON LTD	4.4
CORTEVA INC	4.3
NOVO NORDISK A/S-B	4.2
MCKESSON CORP	4.2
ALPHABET INC-CL C	4.1
SHELL PLC	4.0
THERMO FISHER SCIENTIFIC INC	4.0
AP MOLLER-MAERSK A/S-B	3.9
CAPGEMINI SE	3.7
ASML HOLDING NV	3.7
NORSK HYDRO ASA	3.6
APPLE INC	3.6
ENPHASE ENERGY INC	3.4
CAMECO CORP	3.4
EOG RESOURCES INC	3.4
ARCELORMITTAL	3.3
FREEPORT-MCMORAN INC	3.2
ROCHE HOLDING AG-GENUSSSCHEIN	3.2
FORTINET INC	3.2
STELLANTIS NV	3.1
NIPPON TELEGRAPH & TELEPHONE	3.1
VISA INC-CLASS A SHARES	3.0
WILLIAMS-SONOMA INC	3.0
DEERE & CO	3.0
ESTEE LAUDER COMPANIES-CL A	2.6
LVMH MOET HENNESSY LOUIS VUI	2.5
CITIGROUP INC	2.5
ACTIVISION BLIZZARD INC	2.2
JAPAN POST HOLDINGS CO LTD	2.2
JD SPORTS FASHION PLC	2.1

Source: Bloomberg/PW

Commentary

The strategy was up by 4.2% in March, beating the MSCI World return of 2.8%.

The strategy continues to be overweight fitness, momentum and value. The US remains the largest underweight but this was reduced significantly during the month. Europe is the largest regional overweight. Regional allocation was a significant detractor for the month, with the US outperforming. Materials remains the largest overweight in the strategy, and was primary driver of the month`s outperformance. Financials remain the largest underweight.

The system predicts a 10.7% strategy return over the coming year vs a market return of 6.9%. In aggregate the strategy trades at 11.4x estimated earnings and generates a return on capital of 11.0%. This compares to the MSCI World at 17.4x and 7.6% respectively.

Hoya and **Ashtead** were removed during the month.

New Holdings:

Deere was added early in the month. Potential supply disruptions or restrictions on grain supplies due to the Russia-Ukraine conflict may keep crop prices elevated, which could be positive for U.S. farmers and equipment demand. The world's agricultural markets may continue to benefit from global population growth. The U.S. company's outlook remains robust, thanks to a leading market position in agriculture and supportive secular trends. Deere's leading position in the North American agricultural-equipment market gives it scale and pricing power, enabling it to achieve better margins than peers. The stock trades at 18x forecast earnings which is good value considering the growth and margin outlook. **Fortinet** was added at month end. Fortinet's integrated offering, lower pricing than peers and new functionality in areas such as SD-WAN, SASE and 5G continue to aid its prospects vs. other appliance-based security peers, even with accelerated migration of workloads to the cloud. The company's traction with service providers has aided market-share gains and faster uptake at large enterprise customers. Its product sales growth continues to outperform firewall peers including Palo Alto Networks, Check Point and Cisco, which have seen declining appliance revenue with their pivot to cloud offerings. The increased risk of cyber attacks from Russia and other areas should lead to significant investment in cyber security.

Enphase Energy and **Cameco** rose by 21% and 19% respectively during the month. Solar and Nuclear energy will be a keys part of the solution Western governments need to find to end reliance on Russian gas and reducing carbon emissions. We think both these companies remain well placed with this backdrop supporting their growth. **Corteva** rose by 11%. Like Deere the company should benefit from rising grain prices. Western farmers will likely utilize all arable acres the have available given the spike in agricultural commodities due to concerns around Russian and Ukrainian supply. This should be a boon for Corteva`s fertilizer business. **Mckesson** moved higher by 11%. Despite the jump, the stock continues to trade below 12X forecast earnings. McKesson entered fiscal 2022 capitalizing on its role as the key distributor in the U.S. Covid-19 vaccine response. The financial benefits are proving to be larger and more durable as the pandemic plays out, with another boost to guidance at fiscal 3Q earnings. A refocus on the core, where McKesson benefits from strength in its specialty, technology and oncology units was outlined at the December analyst day. The Change Healthcare spinoff exited a nonessential line, and the European business sale is following in pieces. The pending opioid settlement is the last obstacle to an unencumbered focus on growth opportunities.

Stellantis, Citigroup, were the largest detractors that were not sold during the month. We are continuing to own them based on their undemanding valuations and reasonable growth profile.

Strategy managers:
Patrick Armstrong, CFA
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Target return: MSCI World +3% p.a.

Holdings: 30

Portfolio characteristics

	AI PW	MSCI World
Dividend Yield	2.1	2.2
Price to Earnings Ratio (P/E)	12.0	20.1
Price to Cash Flow Ratio (P/CF)	8.6	13.6
Price to Book Ratio (P/B)	2.2	3.1
Total Debt to Common Equity	80	142
Current Ratio	1.1	1.2
BEst ROE	38.8	33.3
Operating Income Growth	201	85.9
Sales Growth	17.9	17.3
BEst P/E	11.4	17.4
Debt/EBITDA	2.5	3.2
BEst EV/EBITDA	9.5	11.8
Profit Margin	9.8	11.5
ROC	11.0	7.6

Performance attribution (%)

Attribution vs MSCI World	Since inception	1 month
Total	54.3	1.4
Sector Allocation	+9.2	+0.3
Region Allocation	+4.2	+0.2
Styles	+2.1	+0.0
Stock Specific	+39.0	+1.0

Top 5 contributors	1 month return
ENPHASE ENERGY INC	21.0
CAMECO CORP	18.6
MCKESSON CORP	11.3
CORTEVA INC	10.5
NOVO NORDISK A/S-B	9.8

Bottom 5 contributors	1 month return
STELLANTIS NV	-10.5
HOYA CORP	-11.8
CITIGROUP INC	-9.8
ESTEE LAUDER COMPANIES-CL A	-8.1
JAPAN POST HOLDINGS CO LTD	-5.8

Style characteristics (5 is neutral with Index)

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