

AEGON INSIGHTS

The other 'Magnificent 7'

Much was written about the 'Magnificent 7' last year and rightly so - the cohort of US mega cap, tech related stocks accounted for around 80% of the total returns of the S&P 500. But there was another Magnificent 7 that was much closer to home for the Aegon Global Equity Income team. 2023 saw the Fund post its seventh consecutive year of above median performance versus its Lipper peer group, which is an achievement we are very proud of, especially given the range of market conditions faced over that time.*

Consistency is an incredibly powerful phenomenon – both in investing and more generally. The famous American investor Howard Marks wrote in one of his recent memos that “The key to investment success isn't hitting home runs; it's avoiding strikeouts and inning-ending double plays.” I'm not a baseball follower but I love the analogy, which matches perfectly how we manage the fund.

As an investor, it's great if you buy a stock that goes to the moon within a few months but such instances are rare and tend to involve a relatively high risk of losing a lot of money. Instead, holding stocks that moderately but consistently outperform the market over time and, importantly, do so with lower volatility, avoiding blowups, is likely to result in a much better outcome.

It's the same for the overall portfolio. Consistently delivering above median returns rather than taking on bigger bets and more risk to try to shoot the lights out in any given year is likely to mean that you find yourself in the upper echelons of the peer group over the long term. So it has proved for our fund which, on the back of the Magnificent 7 achievement, sits in the first quartile over three years, five years and since launch**.

Putting the philosophical chat to one side, it's amazing to look back at the range of conditions we've faced over the past seven years. We've seen the Presidency of Donald Trump, a trade war between the US and China, the UK officially leave the EU, the COVID pandemic, the war in Ukraine and two periods of US interest rate rises (yes, there was one in 2018 too but it looks minor in comparison to last year's sharp rises) to name but a few. That equity markets have managed to weather all of these without any lasting damage is testament to the resilience and adaptability of companies to deal with unexpected events and find new ways of operating.

Likewise, the ability of the fund to deliver consistently through this period speaks to the benefit of focusing on 'quality income' companies - those with strong balance sheets, well covered dividends and high returns on equity. Such companies are more likely to be able to withstand shocks and protect investors in tough times whilst also partaking in the good times. This a huge factor in explaining why the fund has managed to outperform peers both in down markets like 2018 and 2022 as well as racier years like 2017 and 2019.



Mark Peden
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Mark Peden, investment manager, is a member of the global equities team, is the architect of and has been the lead investment manager of the Aegon Global Equity Income strategy since its inception in 2011. European equities are his main area of research expertise. Mark has been in the industry since 1992 and started with the firm the same year. Over his tenure Mark has held a number of positions and managed a range of both International and European equity funds. He graduated from the University of York and the University of California (Santa Barbara) with a BSc honours degree in Economics with Politics. He a CFA charterholder and is also a member of both the CFA Institute and the CFA Society of the UK.

What about some stock highlights from the past seven years? Adding Microsoft to the portfolio in 2018, partly as a hedge against the other members of the Magnificent 7 that don't pay a dividend, has proved an effective move. Gaining exposure to the growing global demand for lithium for use in batteries also worked well, as lithium producer Albemarle tripled in price over our holding period (Jan 2020-April 2023). Delta Electronics, Simplo Technologies and DBS Group are all great illustrations of why we get so excited about dividend growth in Asia, especially in less well known companies. Finally, as an income investor, it's hard not to appreciate a stock like Broadcom, which has increased its quarterly dividend more than fivefold between Q1 of 2017 and Q4 of 2023, or Cincinnati Financial, which boasts the record for most consecutive annual dividend increases in the portfolio at a whopping 63 years. The power of consistency springs to mind again.

All in all, it's been a hugely enjoyable seven years and the stability of the team around me and our investment process have been huge contributors to the success of the fund. The world remains an unpredictable place and although inflation is now trending downwards and the market is looking towards rate cuts from central banks this year, risks remain from factors like slowing global growth, structural issues in the Chinese economy and geopolitical flashpoints across the world. That said, dividends and share buybacks are at record highs, meaning we remain confident in the prospects for equity income in 2024.

Regardless of the path that markets end up taking this year, we'll remain steady in our approach. We won't be swinging for the fences, we'll be doing the same as we've done for the past seven years – trying to deliver consistent, predictable returns for clients and avoid those damaging strike outs and double plays.



*Source Lipper calendar year returns for periods to 31 December 2023. Nav to nav, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges.

The share classes included in the Lipper Global Equity Global Income peer group varied over the periods shown as a result of eligibility rule changes by Lipper and the closure of the A USD Acc share class. The share classes included for the Aegon Global Equity Income Fund are as follows: 2019-2023 A EUR Inc, 2018 A USD Acc, 2017 C USD Inc.

**Source Lipper as at 31 December 2023. A EUR Inc share class. Nav to nav, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges.

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