2030 Vision: Global Equity Investing With a Longer-Term Perspective

- Sell-side analysts focus most of their attention on near-term quarterly earnings. This helps create "white space" for managers taking a longer-term view – provided the thesis behind an investment is sound and the manager holds onto it long enough to play out.
- The average holding period for portfolio positions in PineBridge Global Focus Equity strategy is 4.8 years, which, based on the limited academic research on holding periods, places us in the top quintile of managers for this metric.
- A long holding period should not represent inertia; rather, it is the expected result of identifying long-term opportunities and insulating convictions from negative shocks and shifts in the macro environment.
- Long-term opportunities generally unfold over three to five years. That said, great companies often stack growth upon growth, compounding returns over multiple three- to five-year cycles.

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At the start of every year, global equities managers busy themselves trying to parse the impact of economic changes in the year ahead on near-term earnings and share prices. This time, the activity is particularly intense, with potential shifts in US policy prompting analysts to dissect the implications for everything from healthcare stocks to crypto exchanges to autonomous driving technologies. For some, this frenzy creates a paradoxical opportunity: The market's fixation on the near term often collides with a focus on longer-term horizons, creating fertile ground for alpha generation.

The table below offers a simple illustration of how and where such opportunities may arise. Microsoft is among the most scrutinized stocks on the planet. The dozens of sell-side analysts who produce the research that so many buy-side managers rely on focus most of their attention on quarterly earnings – and on the quarters that are, at most, two years out. With all those estimates trained on the same handful of quarters, the scrutiny leaves few scenarios unexplored. "Misses" are measured in tenths of a percent, with retail investors' commission-free trading and hedge funds' algorithmic and high-frequency strategies all adding to the near-term noise.

Earnings Estimates Focus on the First Two Years Out, Creating 'Bunching' Effects

Fiscal Year	FY Ending	# Estimates	Std. Dev.
FY1	Jun-25	49	0.47
FY2	Jun-26	47	0.72
FY3	Jun-27	28	0.80
FY4	Jun-28	4	1.31

Source: FactSet as of 17 January 2025.

However, note the steep dropoff in the number of estimates starting at the three-year mark. This is important because fewer estimates means less bunching. Greater distance into the future also increases the range of potential outcomes. Together, reduced competition and farther-ranging outcomes leave more room for a manager with the means to form high-conviction views on this more-remote part of the horizon – and to do so in a differentiated manner. This is the “white space” where we focus our attention and energy. Even for stocks under the microscope, our experience has shown that a longer-term view can be a potent source of alpha – provided the thesis is sound and the manager holds onto the position long enough for the thesis to play out.

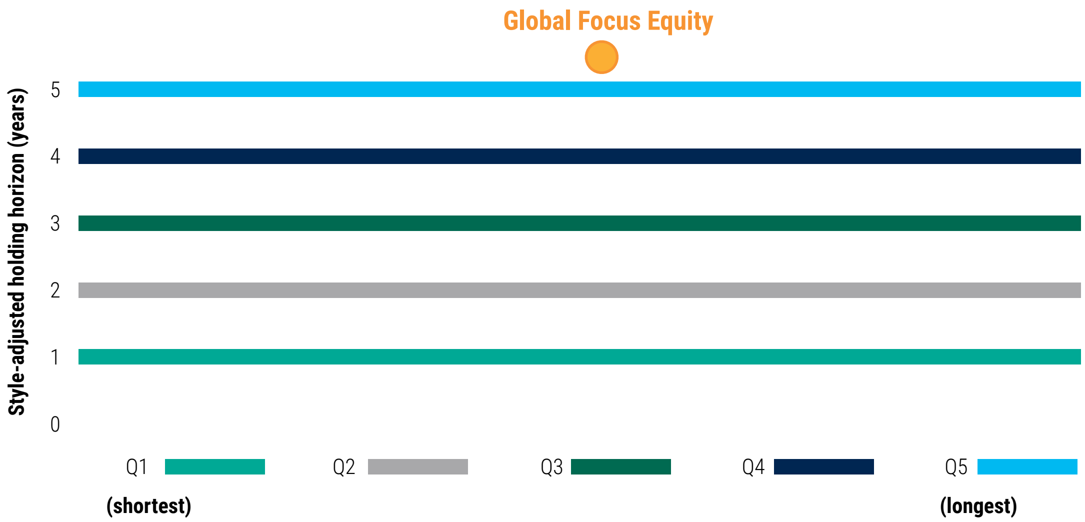
Hold on

Among the notable characteristics of our strategy, including our high active share (85%), low tracking error (4.2%), and strong track record, the most differentiated might be our 4.8-year average holding period.[1]

Holding periods are not metrics that are easily accessed through databases like Morningstar or eVestment. However, a 2018 study by Germany’s Centre for Financial Research broke out the data for all active managers in the CRSP mutual fund database. After controlling for factors like style differences – such as value managers, which naturally favor longer horizons – the research found that average holding periods ranged from 1.01 years in the shortest quintile to 4.47 years in the longest. That would put our strategy in the top quintile for this metric. Interestingly, the study also found a statistically significant correlation between holding periods and performance, with the managers in the top quintile outperforming those in the lowest by 1.32%-2% annually, even after adjusting for market factors.[2]

Holding Periods

Average holding periods for quintiles of longest- to shortest-holding managers in the CRSP mutual fund base from the 2018 German Centre for Financial Research study vs. Global Focus Equity historical average



Source: Holding Horizon: A New Measure of Active Investment Management, 2018, p. 44; PineBridge Investments

Our experience is consistent with these findings. For us, a long holding period is the natural byproduct of our long-term view, as central to our approach as other bellwether metrics. We think three factors help explain and fortify the lengths to which we hold a position even as so many of our peers seem to be responding to, if not investing based on, shorter-term signals:

It’s about time. As we’ve described before, our process is grounded in our “Lifecycle Categorization Research” framework for categorizing and assessing companies based on their growth profile and sensitivity to the business cycle. Unlike traditional classification systems based on static parameters like sectors or geographies, ours is inherently temporal. Fair value is calculated based on projected cash flows

[1] Data as of 31 December 2024. Tracking error is provided on an annualized basis using monthly returns since 31 December 2015, reflecting the tenure of the current investment team.

[2] Source: “Holding Horizon: A New Measure of Active Management,” CFR Working Paper, No. 15-06, Chunhua Lan, Fabio Moneta, and Russ Wermers, Centre for Financial Research (CFR), University of Cologne, November 2018.

for at least the next three to five years relative to peers in the same Lifecycle stage, including the potential for a company to "age in reverse" toward a more dynamic growth phase. Often, our analysis centers on some transformational change within the business that other approaches may overlook, giving us an edge in formulating a differentiated view of how significantly the company can exceed market expectations. These transformations, by definition, take time to play out (typically at least three to five years).

68 dimensions of quality. Once a thesis looks compelling enough, we subject it to our intensive assessment of business quality. When building a portfolio around companies with the potential to surprise to the upside, it's even more important to limit negative surprises. Studies have shown that higher-quality companies – especially when the definition of high quality is comprehensive enough – tend to exhibit higher risk-adjusted returns and fewer negative shocks.[3] We rate companies on 68 different dimensions of quality, including management quality, multiple environmental, social, and governance (ESG) considerations, balance-sheet strength, competitiveness, and other key factors. Each measurement is reduced to a numerical score, and only those companies with a cumulative score above our internal thresholds can proceed to the final stages of the selection process.

Don't give a shift. As much as we've designed our process to focus on bottom-up, stock-specific factors where we believe we have an edge, there inevitably come periods when the top-down macro environment has an outsized influence on stock prices. All such periods affect different types of stocks differently: Expansionary periods are when cyclical companies see some of their greatest gains; slowdowns are when mature companies show their mettle; and periods of rising interest rates are when some of the fastest-growing companies may get walloped and more defensive names receive a boost. We develop observations and views on the likelihood of all these potentialities. Yet, the truth is, we're agnostic as to which regime comes to pass. Our portfolio construction carefully balances exposures to the various Lifecycle categories, ensuring our overall exposures closely mirror the benchmark's business cycle alignment. This mitigates macro risks and reduces the temptation for short-term, reflexive decisions, further insulating our long-term views.

Forever stocks[4]

Warren Buffett famously said his favorite holding period is "forever." We're inclined to agree. While we construct our portfolio around collections of three- to five-year theses, great companies often stack growth atop growth, compounding returns over multiple three- to five-year cycles. In a concentrated portfolio of 40 stocks, two of our holdings have surpassed 10 years, while five exceed nine. Among these, two are members of the "Magnificent Seven," held throughout their respective evolutions into the world's dominant search engine and social network.

Our single longest-held position, at 10.9 years, is a US-based industrial leader with market-leading businesses in automation, aerospace, and energy efficiency. Over 60% of its sales contribute to customers' sustainability goals, with another significant portion tied to near-shoring initiatives. The company also invests for the long term, as evidenced by its strong position in quantum computing technologies. While some of its businesses recently have experienced cyclical slowdowns, we've used near-term weakness to add to our position, increasing the potential impact when growth resumes and compounding reaccelerates.

We aren't the only investors with artificial intelligence (AI) and other secular themes expressed in our portfolio. Yet, absent a long-term commitment, it can be harder for many investors to realize the transformative potential of these trends. Consider an Asia-based multinational conglomerate we've owned for over five and a half years that is still best known in many circles as one of the early leading manufacturers of colored televisions. By the time we purchased the company in April 2019, it had morphed into a bloated multi-industrial behemoth with divisions spanning everything from air conditioners to mining. Nonetheless, our investment thesis was predicated on the view that the company was serious about slimming down, reinvesting, and focusing on three key technology areas. As this thesis has played out (and been priced in), another has arisen: Two of its new focus areas – cloud-based computing and electric transmission equipment – stand to reap tremendous synergies as grids throughout the world strain to meet the ravenous clean energy demands of the generative AI boom.

[3] Source: Quality Minus Junk, Cliff S. Asness, Andrea Frazzini, and Lasse Heje Pedersen, 5 June 2017; Revisiting Quality Investing, Frederic Lepetit, Amina Cherief, Yannick Ly, Takaya Sekine, 30 June 2021.

[4] For illustrative purposes only. The information presented has been chosen by PineBridge to illustrate the investment process. It is not necessarily representative or indicative of all investments made in the existing strategy or fund. Information provided about a portfolio company is intended to be illustrative, and should not be used as an indication of current or future performance of any security, investment, or portfolio company. Prospective investors should be aware that these summaries are selective by nature, do not include all of the transactions made by the Manager's investment team on behalf of the composite and are not necessarily representative or indicative of all of the investments in the portfolio for any period. Past performance is not indicative of future results.

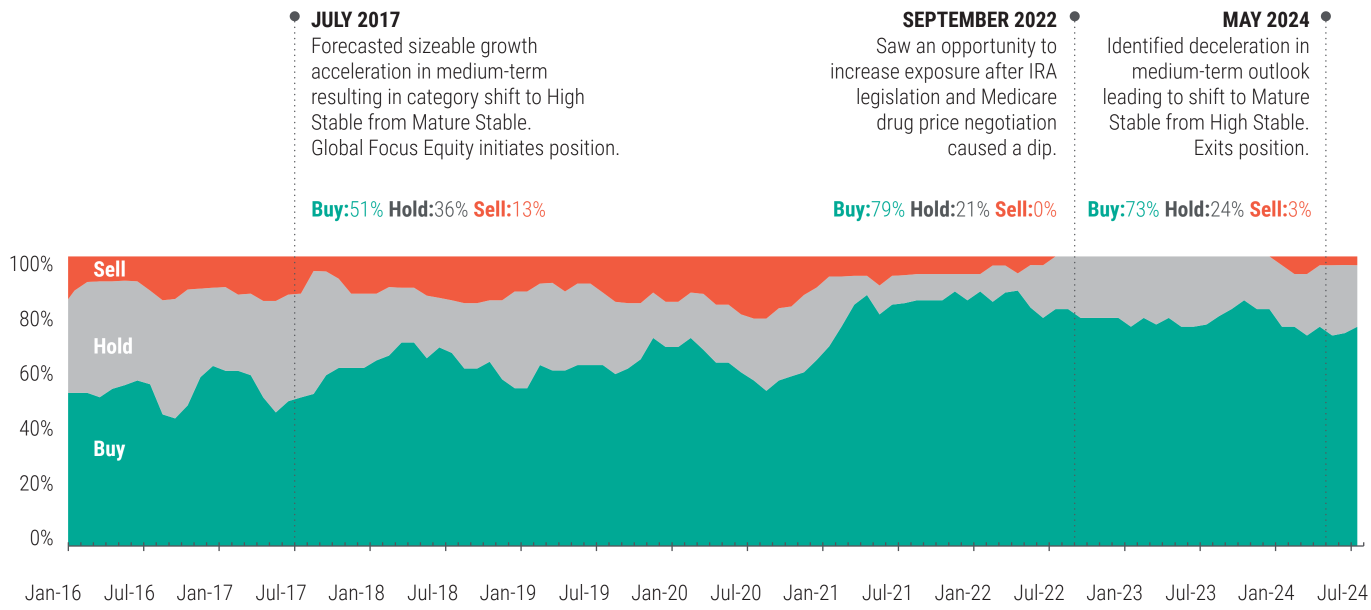
Battling attachments[5]

Every strategy must guard against its weaknesses. For long-horizon strategies, one risk is biased attachment: the tendency to overlook near-term weakness even if long-term promise has weakened.

To counter this, we ensure that our 68-point quality assessment isn't a one-and-done event but a recurring, yearly process in which every holding is revisited by the firm's entire global equity team. We also maintain a disciplined sell process that continually ties fair value back to the current thesis and to the next forward set of projected cash flows. If a thesis has played out, and there is no new thesis to merit a higher price target, we redeploy gains into new opportunities.

Take the large pharmaceutical company we bought early in the first Trump administration. Our thesis centered on a robust oncology pipeline, an emerging presence in China, and a visionary management team. Seven years later – after significant growth acceleration and multiple expansion – China's economic prospects dimmed, Western restrictions tightened, and the pipeline outlook weakened. We reevaluated the holding, couldn't justify a higher target, and exited the position, redeploying the gains into a rival pharmaceutical company, where the transformations are just beginning.

A Good Long Run: The History of Our Stake in a Large Pharma Company
Including concurrent sell-side buy, hold, and sell recommendations



Source: Bloomberg and PineBridge Investments as of 23 July 2024. For illustrative purposes only. The selected case study has been chosen by PineBridge to illustrate the investment process for the named strategy, as the longest held stock that we exited in 2024. It is not necessarily representative or indicative of all investments made in the existing portfolio. Information provided about a portfolio company is intended to be illustrative, and should not be used as an indication of current or future performance of any security, investment, or portfolio company. Prospective investors should be aware that these summaries are selective by nature, do not include all of the transactions made by the Manager's investment team on behalf of the composite and are not necessarily representative or indicative of all of the investments in the portfolio for any period. Past performance is not indicative of future results.

This pharmaceutical company has multiple routes to achieve the growth acceleration we envision, including what could be the world's first breakthrough weight-loss, diabetes, and cardiovascular medication available in pill form. With months to go before the final clinical data is reported, scrutiny of the pill's potential earnings impact is far less intense than for, say, the injectables that currently dominate the market and the near-term turbulence they face from possible changes to Medicare reimbursement policies.[6] That's what we like about longer-holding-period investing: The range of potential outcomes is wider, but the optionality is cheaper, leaving us more room to be right for less. And when we are, the rewards tend to accrue over time.

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[6] Source: Kennedy Doesn't Like Ozempic. Here's What He Could Do About It, The New York Times, 22 November 2024

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Potential investors should consider the following key risks before investing in the PineBridge Global Focus Equity Strategy:

Market Volatility Risk: All types of investments and all markets are subject to market volatility based on prevailing economic conditions. Price trends are determined mainly by financial market trends and by the economic development of the issuers, who are themselves affected by the overall situation of the global economy and by the economic and political conditions prevailing in each country. As securities may fluctuate in price, the value of your investment may go up and down.

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Country Selection Risk: A portfolio's performance is often derived from its allocations to certain countries. These allocations may present greater opportunities and potential for capital appreciation, but may subject the portfolio to higher risks of loss.

All investments are subject to regional, industry, market, political, regulatory, competitive, business, financial, and other risks. The risk factors described should not be considered an exhaustive list of risks, which potential investors should consider before investing in the strategy. All investment decisions should be made based on an independent evaluation in consultation with financial and legal advisors.

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Disclosure Statement (Cont'd)

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