Quarterly Commentary
September 2024

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RESPONSIBLE INVESTING

Investment Manager

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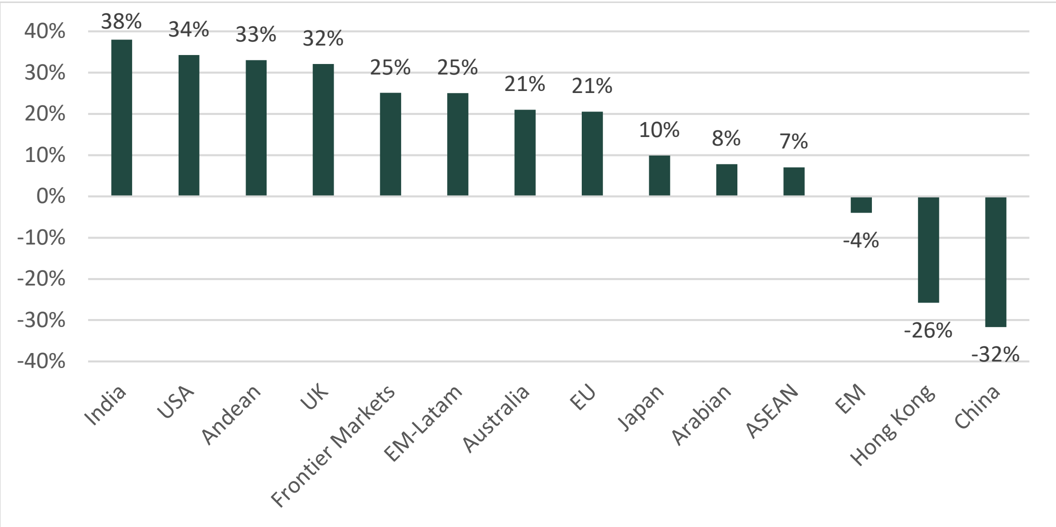
Message from the CIO

Jordan Cvetanovski
CIO and Portfolio Manager

Over the past three years, China has been calamitous for investors, with the Chinese and Hong Kong share markets significantly underperforming other global markets (Figure 1). In the week ending 27 September 2024, following vague fiscal stimulus promises from the central government, the China and Hong Kong stock markets experienced their second and third best weeks this century, respectively (Figure 2). Pella believes these market movements are justified and has acted accordingly.

Figure 1 - Total return over past three years, as measured by MSCI equity indices, in USD (1)



Source - Factset
(1) Three years ending 31 Aug-24

Figure 2 – Top five performing weeks for the China & HK stock markets since 2000

	China		Hong Kong	
Rank	**Week ending**	**Return**	**Week ending**	**Return**
1	24-Aug-07	19.4%	05-Jun-20	11.2%
2	27-Sep-24	16.8%	28-Nov-08	10.9%
3	31-Oct-08	14.5%	27-Sep-24	10.8%
4	28-Mar-08	14.4%	29-Dec-00	10.1%
5	28-Oct-11	13.5%	24-Aug-07	10.1%

Source – Factset

Pella believes that the primary factors behind the weak performance of China and Hong Kong's stock markets were two key issues: the government crackdown on businesses and the ripple effects of China's ailing real estate market. In this note, we will outline why Pella believes the worst of both drivers is behind us.

Government's Business Crackdown

The Chinese government undertook several anti-business initiatives in recent years (Figure 3). These events have been severe, involving billions of dollars in fines, arrests, the near collapse of entire sectors, and significant restrictions on capitalistic activities. Pella believes that the steady beat of the events sent shockwaves through the corporate sector and investment markets.

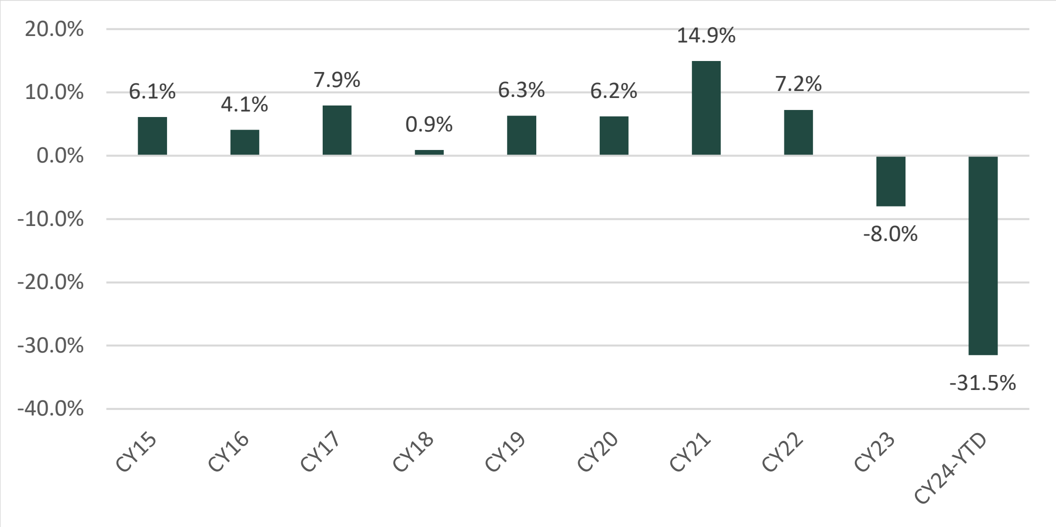
Figure 3 – Timeline of key Chinese capitalistic crackdowns

Date	Events
Sep-20	• Ren Zhiqiang, a real estate billionaire who criticized President Xi Jinping's handling of the COVID-19 pandemic, sentenced to 18 years in prison on corruption charges.
Nov-20	• Chinese regulators halted Ant Financial's $37b IPO. • After criticizing China's financial regulators, Alibaba founder Jack Ma disappeared from public view for several months. • Introduced stricter regulations on online lending, capping lending limits and impacting fintech companies like Ant Group and Tencent. • Billionaire Sun Dawu, a critic of the government, was arrested and sentenced to 18 years in prison in July 2021 for illegal fundraising and provoking trouble.
Mar-21	• China's State Administration for Market Regulation commenced a broad antitrust investigation targeting large tech companies.
Apr-21	• Alibaba fined a record $2.8 billion for monopolistic practices.
Jun-21	• Suning Group founder Zhang Jindong pledged a sizeable portion of his wealth to support China's "Common Prosperity" campaign, amid Suning's financial challenges.
Jul-21	• Days after its U.S. IPO, Didi's app is removed from Chinese app stores due to cybersecurity and data privacy concerns. • China bans for-profit tutoring in core academic subjects, wiping out significant parts of the private education sector. • Tencent ordered to end exclusive music licensing deals, fined for antitrust violations, and required it to relinquish its exclusive rights to music streaming content, significantly impacting its music streaming service, Tencent Music.
Aug-21	• Formalized efforts to regulate excessive executive pay. • Limited minors to three hours of online gaming per week. • Campaign to reduce the influence of celebrity culture by banning online rankings, cracking down on tax evasion, and promoting socialist values in entertainment. • Actress Zhao Wei's name and works removed from Chinese social media and streaming platforms without a formal explanation. • Under regulatory pressure, Tencent pledged ¥50b (~$7.7b), Meituan committed $2.3b, and Pinduoduo promised $1.5b in future profits to support China's Common Prosperity Campaign. • Supreme Court declared the 996-work schedule (9 a.m. to 9 p.m., six days a week) illegal. • Crackdown on private healthcare that focused on making healthcare affordable and accessible, while reducing profit-driven motives in private healthcare providers.
Sep-21	• Government declared all cryptocurrency mining and transactions illegal. • Alibaba pledged ¥100b ($15.5b) to support China's Common Prosperity Campaign.
Oct-21	• Food delivery giant Meituan fined $530m for monopolistic practices.
Aug-22	• Xiao Jianhua, financier and founder of the Tomorrow Group, is sentenced to 13 years in prison for financial crimes.

Source – Pella

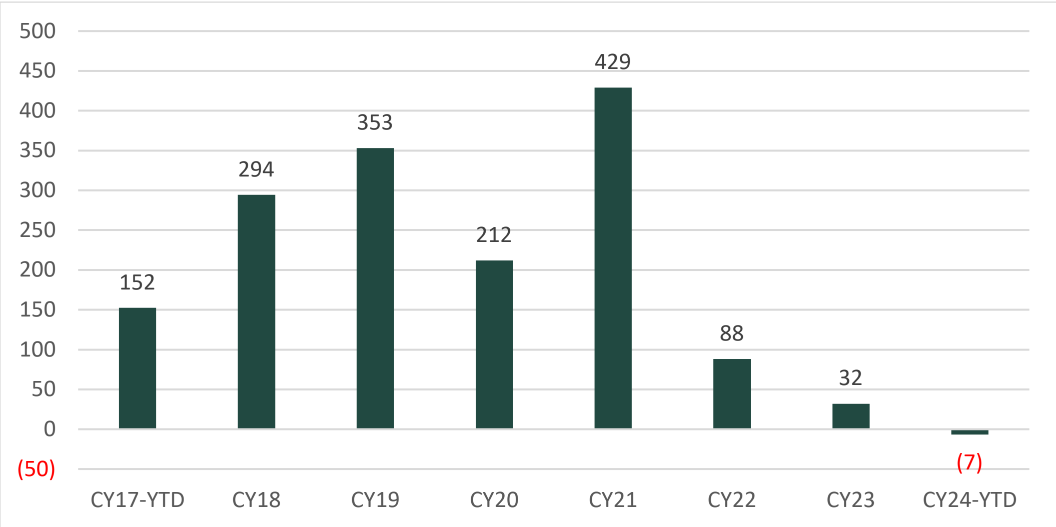
These events had severe consequences for China's attractiveness as an investment destination, resulting in a significant decline in the stock market (as previously discussed) and prompting foreign investors to withdraw capital from the country. This is evidenced by the sharp drop in foreign direct investment (FDI) (Figure 4) and the decrease in net flows into the Chinese stock market through the Stock Connect program (the primary method for foreigners to invest in Chinese stocks) (Figure 5). These trends highlight a broader retreat by investors, driven by concerns over regulatory uncertainty and economic risks in China.

Figure 4 – Change in FDI into China; Y/Y [(1)]



Source – Ministry of Commerce China
(1) CY24-YTD compares the cumulative FDI from Jan-Aug 2024 Vs. Jan-Aug 2023

Figure 5 – Stock Connect value of buy trades less value of sell trades; Rmb-billions [(1), (2)]



Source – Hong Kong Exchange
(1) CT17-YTD covers April-17 to Dec-17; data prior to Apr-17 is unavailable
(2) CY24-YTD covers Jan-24 to 16-Aug-24; the most recent data available as of the date this report was prepared

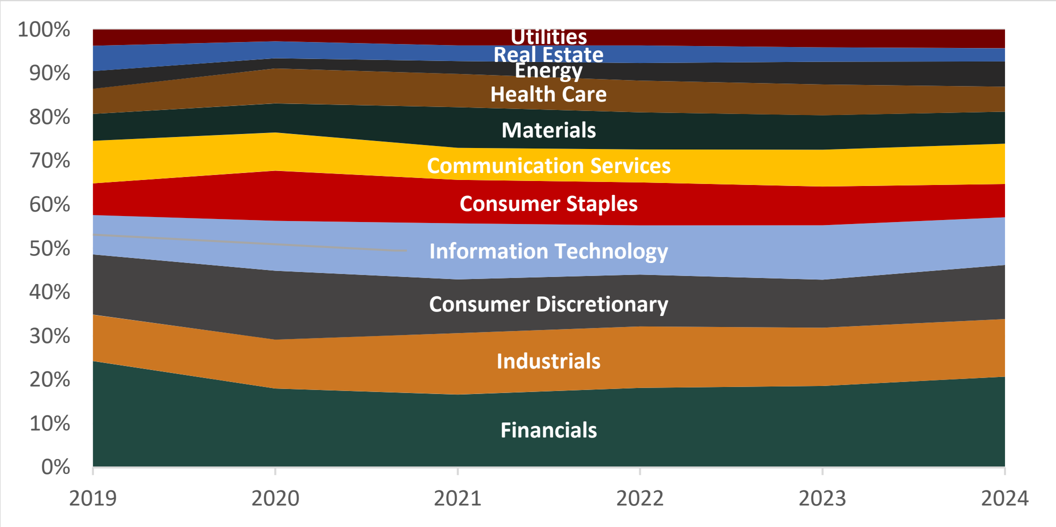
Pella believes the Chinese government is aware of the impact of its actions and has since retreated from continuing them. Since January 2023, China has allowed companies like Didi to resume operations, approved Ant Financial's capital raising, resumed the approval of new gaming licenses, and provided financial support to key fintech companies. Additionally, Vice Premier Liu expressed staunch support for the platform economy. Most notably, there has not been a major business crackdown in over a year. We believe these developments have set the stage for China to regain investor confidence.

Ripple Impacts of Real Estate Malaise

China's real estate crisis began in 2021, when several major property developers faced severe liquidity problems due to excessive debt and declining property sales. The crisis was triggered by the government's introduction of the "three red lines" policy in Aug-20, aimed at reducing financial risk by limiting how much developers could borrow based on their debt levels.

Pella believes that the direct impact of the real estate downturn is less relevant for the broader stock market than its ripple effects. The real estate sector constitutes a small portion of the China/HK stock market. Since 2019, real estate has been tied with utilities as the smallest sector in the combined China-Hong Kong stock market, and it continues to account for just 3% of the market today (Figure 6). Therefore, the collapse of the sector should not necessarily dictate a decline in the broader market.

Figure 6 – Sector weight in the combined China-HK stocks markets



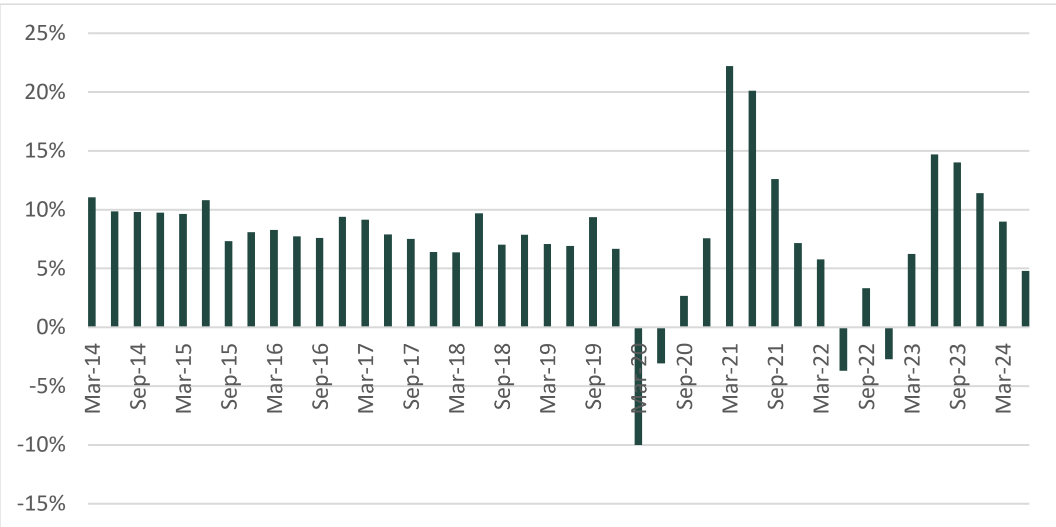
Source – Pella

(1) *Weights calculated using every company listed in China and Hong Kong that has a GICS sector assignment; 1,928 companies were included in this analysis*

A more likely explanation for the crisis' impact on the China/HK stock markets lies in its ripple effects. The crisis deeply undermined consumer confidence, which was already fragile due to the Chinese government's reluctance to implement significant fiscal relief during the COVID-19 pandemic. As a result, consumers scaled back their spending, leading to inflation-adjusted consumption expenditure per household growing by only 4.8% in Q2 2024 (Figure 7).

This level of growth is concerning, as China is targeting 5% GDP growth in 2024. With a strategic shift toward a more consumer-driven economy—as the country faces diminishing returns on capital investment—household expenditure would need to grow by more than 5% annually to support these broader economic goals. If consumer confidence and spending continue to lag, it could present significant challenges to the government's economic strategy and hinder efforts to transition away from investment-led growth.

Figure 7 – Growth (real) in consumption expenditure per household



Source – National Bureau Statistics China, Pella

Recognizing the impact the real estate crisis is having on consumer expenditure; China introduced a laundry list of initiatives to resolve the crisis (Figure 8). However, those initiatives have not resulted in an improvement in the real estate market. This prompts the question: Why has the latest batch of Politburo promises, without any figures or details attached, given the market (including Pella) such a jolt?

The key distinction between the recent announcements and prior ones lies in who is driving the actions. The earlier measures were largely under the purview of the PBoC (China's central bank), utilizing the tools of monetary policy. In contrast, the Politburo is leading the new initiatives, signalling more direct involvement of China's top leadership.

One thing Pella has consistently observed about the Chinese central government is that when it commits to achieving a domestic goal, that goal is typically realized. Whether it's fostering the growth of selected industries, reining in Big Tech, or implementing the strict lockdowns of over 1bn people during the pandemic, the Politburo ensures its objectives are met. Therefore, it is prudent to take note when the Politburo makes such forceful proclamations to resolve the real estate crisis.

Figure 8 - Timeline of initiatives to revitalize China's real estate market

Date	Events
Jan-23	• Lower mortgage rates introduced for first-time homebuyers in many cities. • Cities like Shanghai and Beijing eased restrictions for non-local residents to purchase homes, making it easier for migrants to buy properties in those cities.
Mar-23	• People's Bank of China (PBoC) cut the Reserve Requirement Ratio (RRR) by 25bps for all banks
Jun-23	• PBoC lowered the one-year and five-year Loan Prime Rates (LPR) by 10bps. • PBoC introduced a special loan facility to help developers complete unfinished housing projects.
Jul-23	• China revised its real estate support fund, expanding it to prioritize stalled real estate projects.
Aug-23	• PBoC lowered the LPR by 10bps to 3.45% and the five-year LPR by 15bps to 4.05%. • Reduced down-payment requirements for second-home purchase from 60-80% to 30-40% in major cities like Beijing and Shanghai. • Loosened mortgage rules allowing homebuyers to classify purchases as first homes if they no longer have an outstanding mortgage. • Mortgage rates reduced to, as low as, 3.8% for first-time and second home buyers.
Sep-23	• PBoC cut the RRR by 25bps. • Reduced down-payment requirements in several cities, with first-time buyers needing as little as 20% and second-time buyers 30%. • PBoC and China's banking regulator coordinated nationwide mortgage rate cuts by 10-20bps for both new and existing loans. • Minimum mortgage rates for first-time buyers and second home mortgages reduced in major cities, with local governments given the flexibility to further lower costs.
Jan-24	• Taxpayers who purchase new homes within one year of selling their old homes are eligible for personal income tax refunds on the sale of their previous property.
Mar-24	• Politburo announced an 8% increase in infrastructure investments, focusing on affordable housing, public infrastructure, and urban village transformation.
Apr-24	• PBoC provided targeted funding to support large-scale infrastructure and urban development projects.
May-24	• PBoC extended targeted liquidity to social housing and public welfare projects, to relieve pressure on low-income markets and stimulate investment in public goods. • PBoC cut the minimum down payment ratio to 15% for first-home buyers and 25% for second-home buyers, while also abolishing mortgage floor rates, giving banks more flexibility to set lower rates. • PBoC increased the funding scope for its real estate support program, raising the central bank's funding share from 60% to 100% for re-lending policies aimed at financing affordable housing projects.
Sep-24	• PBoC announced a 0.5% reduction in mortgage rates for existing home loans. • Lower down payment requirements for second-home buyers and reducing mortgage rates for both new and existing home loans. • PBoC announced plans to lower the RRR and implement further interest rate cuts. • Politburo announced several stimulatory measures, focusing on: o Regulation of new housing projects and reducing the oversupply of residential properties. o Improving the quality of existing homes and acquiring idle sites from developers. o Expanding fiscal expenditures for infrastructure, education, healthcare, and affordable housing to support grassroots needs.

Source – Pella Funds Management

What To Do

The government's apparent shift toward a more pro-business stance, coupled with its forceful efforts to address China's real estate crisis, provide compelling reasons to revisit the Chinese stock market. Our position in AIA has already seen significant benefits, and Pella is actively exploring further opportunities. During the quarter, we added a new position in a China/HK company to the portfolio, reflecting our growing confidence in the market's recovery potential.

We have not provided an in-depth report on a Chinese stock in this quarter's *Stock in Focus* section, as we covered AIA in our 1Q24 Quarterly Report and are currently building a position in the Fund's other domestic China investment. Instead, we have focused on another weighty decision made during the quarter: the decision to exit Alphabet (GOOGL.US). Alphabet has been a cornerstone of our strategy since 2015, and the rationale behind this exit is worth discussion.

Portfolio Positioning

In Q3 2024, the Pella Global Generations Fund delivered a return of 3.1%, outperforming its benchmark, which increased by 2.6%, by 0.4%.

The Financials sector contributed most positively to the benchmark's performance, while Information Technology (IT) lagged, marking a significant shift from previous quarters where it consistently led in performance. The downturn in the IT sector's performance was primarily driven by declines in 'Chip' related stocks: NVIDIA fell by 5%, ASML by 22%, Samsung Electronics by 23%, Applied Materials by 17%, and Intel by 27%. Reflecting these declines, the Philadelphia Semiconductor Index dropped by 9.1% in AUD, underperforming the benchmark's return by 11.7% over the same period.

While Apple, Tesla, and Meta significantly boosted the benchmark's return this quarter, the collective performance of the Magnificent 7 (Apple, Microsoft, NVIDIA, Amazon, Meta, Alphabet, Tesla) lagged the benchmark. This represents a notable shift from the first half of 2024, during which these stocks contributed the vast majority of the benchmark's positive returns.

There was a significant shift during the last week of the quarter as the China/Hong Kong stock markets rebounded after three years of dismal performance. This resurgence followed the Politburo's high-level promises to rejuvenate the economy. Key regional stocks like Alibaba, Meituan, and JD.com saw impressive gains, each rising approximately 50%. As highlighted in the Message from the CIO, we believe this rally is justified. The Fund has capitalized on this momentum, investing in a Chinese stock that has delivered strong gains since our initial purchase.

The quarter was also notable for several central banks beginning or continuing their interest rate easing cycles. In their September 2024 meetings, the Federal Reserve cut its policy rate by 50bps, while the Bank of Canada, European Central Bank, and Sweden's Riksbank each reduced their rates by 25bps.

In stark contrast to its global peers, the Bank of Japan raised its policy rate to 0.25% from 0–0.1% in early August. This move triggered a temporary global market sell-off, with the Topix dropping 12%, the S&P 500 down 3%, and the Kospi down nearly 9% on 5 August 2024. Concerns arose about the potential unwinding of the so-called 'Carry Trade' if Japan was to continue raising rates. However, Pella believes further policy tightening in Japan is unlikely in the near term, as the country continues to face weak domestic demand and cannot sustain higher interest rates. Given this, along with the easing cycles initiated by other major central banks, we believe the global equity market is well-supported by favourable monetary conditions heading into the final quarter of the year.

Regardless of the economic undertones, Pella's portfolio structure will always be a diversified combination of companies that satisfy our valuation-to-growth and sustainability requirements, rather than being dictated by any top-down country or sectoral bias. We believe this is the best way to consistently deliver our three goals of better returns, lower volatility, and superior sustainability to the benchmark.

We were relatively active during the quarter, exiting four positions and adding seven new ones to the portfolio. We exited Alphabet due to significant headwinds facing its search business; a detailed analysis is provided in the Stock in Focus section of this report. Additionally, we sold two healthcare stocks, Lantheus Holdings and Halozyme Therapeutics, after they reached our valuation targets. We also exited CME Group, a financial stock, to make room for Intercontinental Exchange, which we believe is better positioned to benefit from declining US interest rates.

Among the new additions, we repurchased Vertiv Holdings after its share price retraced to our target buy level, following our exit in April 2024. We also added a US healthcare company, a Chinese consumer discretionary business, a North American fertilizer company, a European discount retailer, and a North American apparel company.

The most significant change to the Fund's sector exposure was an increase in the Industrials sector by nearly 6%. This primarily reflects the re-entry of Vertiv into the portfolio, along with increased weightings in several existing positions.

The sale of Alphabet resulted in the Fund no longer having exposure to the Communication Services sector. However, we view Alphabet more as a tech company than a traditional communication services business, which is typically composed of telcos. The Fund continues to maintain meaningful exposure to the AI theme, which we believe is closely aligned with the

Technology sector. Additionally, with the exits of Lantheus and Halozyme, the Fund's healthcare exposure finished the quarter just below 20% for the first time in two years. Despite this, the Fund remains notably overweight in the healthcare sector.

Following these changes, the Fund is significantly overweight the Financials, Industrials, and Health Care sectors, while being notably underweight in Communication Services, Consumer Staples, and IT sectors. The Fund held 4% in cash at the end of the quarter.

PORTFOLIO SEGMENTS

Core:

The Fund’s exposure to the Core segment remained stable at 76%. The most significant changes within this segment were exiting Alphabet and CME, balanced by the acquisition of a new US Health Care position and the addition of a European discount retailer.

Cyclical:

Exposure to the Cyclical segment increased to 12% in Q3 2024, up from 7% in Q2 2024. This rise was due to the inclusion of Intercontinental Exchange, categorized as Cyclical due to its expanding exposure to the US mortgage market, the addition of a Chinese consumer discretionary business, and increased investment in the fertilizer sector.

Innovation:

Exposure to the Innovation segment remained steady at 7% in Q3 2024, consistent with the end of Q2 2024. During the quarter, the Fund exited positions in Lantheus and Halozyme, which were balanced by the reintroduction of Vertiv to the portfolio.

Stock in Focus

Steven Glass
Managing Director & Investment Analyst

Pella has been a shareholder in Alphabet (GOOGL) since our fund's inception and has consistently held the stock in prior funds managed by the team. Therefore, the decision to exit our position in GOOGL during 3Q24 marked a significant moment for us. Three key events influenced this decision:

1. Emerging Competition from AI-enabled Search: For example, the rapid rise and capabilities of ChatGPT represent a direct competitive threat to GOOGL's dominance in AI and search-related services.
2. Regulatory Risks: Ongoing and potential future regulatory challenges could impact GOOGL's business operations and market positioning.
3. Margin Headwinds from AI: We anticipate increasing margin pressures within GOOGL's operations as it scales its AI initiatives.

Considering these factors collectively, we have serious reservations about GOOGL's ability to sustain double-digit revenue growth over the next three years, prompting our decision to divest.

Search advertising is GOOGL's financial backbone, contributing approximately 57% of the group's revenue and likely more than 80%—possibly even close to 90%—of the group's operating earnings. Consequently, investment considerations largely hinge on one's perspective of GOOGL's Search business.

GOOGL's search engine has long been the world's most dominant, primarily due to its superior performance compared to alternatives. This supremacy is supported by several factors: advanced matching algorithms, efficient web crawling, the ability to learn from a broad, distributed user base, immense processing capacity, a massive web index, and extensive personalization capabilities. Ultimately, the reasons behind Google Search's superiority are less critical than the simple fact that it outperforms competitors. This performance advantage has eliminated the need for users to even consider alternatives.

It was difficult to imagine any technology challenging GOOGL's dominance in search. Despite Microsoft's considerable resources, Bing (Microsoft's search engine), only made modest inroads. However, the emergence of AI-enabled search, personified by ChatGPT, has reshaped the competitive landscape.

Pella views ChatGPT as the first formidable challenger Google Search has encountered. We believe it provides a fundamentally superior search experience in various scenarios. The responses from ChatGPT are concise, applicable to a broad range of use cases, and delivered through a clean interface. More concerning for GOOGL is that ChatGPT represents just the beginning. OpenAI, the organization behind ChatGPT, is actively developing an AI-driven search engine, SearchGPT. Pella believes Bing's integration with ChatGPT and the emergence of SearchGPT are serious competitors to GOOGL's search advertising dominance.

ChatGPT/SearchGPT would not need to entirely replace GOOGL's dominant position in search to have a materially negative impact on that GOOGL's valuation. Simply taking some share would be sufficient.

Pella estimates that GOOGL controls more than 80% of US search advertising market, which forms a proxy of its share in other major markets. With such dominant share GOOGL is dependent on market growth and, at least, maintaining its market share. However, traditional search advertising is no longer a growth market, for example, eMarketer estimated that in the US traditional search advertising market grew c5% in 2023 and will grow by less than that in CY24f. The combination of a slowing market, combined with market share losses would create a material headwind to GOOGL's search advertising revenue.

Figure 9 provides some instructive math for the potential search advertising growth. It is limited to the US market as that accounts for c40% of GOOGL's search advertising revenue and there is reliable data on that market size and growth. The calculations demonstrate that if the traditional search advertising continues decelerating and GOOGL loses just 2% share p.a., its US search advertising revenue will grow by less than 2% p.a.

Figure 9 – GOOGL US Search Advertising revenue; US$b (1)

	CY23	CY24	CY25	CY26
Market size	87	91	94	98
Growth	5.0%	4.4%	4.0%	3.6%
GOOGL market share	82%	80%	78%	76%
GOOGL revenue	72	73	74	75
Growth		1.9%	1.4%	1.0%

Source – Pella, eMarketer

(1) eMarketer provided the following estimates - CY23 and CY24 market size and growth, GOOGL CY23 US traditional search advertising revenue. All other estimates are provided by Pella.

The above analysis leads us to believe that it is unrealistic to expect more than mid-single digit revenue growth from GOOGL's search advertising business. Figure 10 illustrates that if GOOGL's search advertising revenue in the USA and EMEA decelerates to less than 2%—owing to saturated markets and market share losses—and if revenue in the Rest of the World (RoW) grows by 16% annually (which is likely overly optimistic), the company's overall search advertising revenue would only increase by approximately 6% annually. This would fall short of market consensus expectations. With the company's high operating leverage, any revenue shortfall should have a proportionally larger impact on operating profit.

Figure 10 – GOOGL search advertising revenue; $b

	CY23	CY24	CY25	CY26
Search revenue				
USA	72	73	74	75
EMEA (1)	51	52	53	54
RoW	52	60	70	81
Total	175	186	197	209
Consensus (2)		197	215	233
Growth				
USA & EMEA (3)		1.9%	1.4%	1.0%
RoW (4)		16%	16%	16%
Total		6.0%	6.1%	6.2%

Source – Pella

(1) Assumes EMEA accounts for 29% of GOOGL's search revenue, based on EMEA's contribution to total revenue; RoW figure is an outcome of GOOGL's reported search advertising revenue and the USA and EMEA revenue contribution

(2) Median consensus forecast as of 1 Oct-24

(3) USA growth rate derived from Figure 9, assume EMEA delivers the same growth as USA

(4) Assumption based on RoW's trailing five quarter, constant currency growth rate

GOOGL's method of selling search terms could mean that any loss of search market share would be notably worse than what is expressed above. GOOGL search sells adverts using an auction model whereby advertisers bid on the amount they are prepared to pay per click of a search term. The party that is prepared to pay the most wins the auction, but they only pay 1c above the second highest bidder.

The challenge for GOOGL is if it loses share it likely means there are few bidders in the auctions. We expect that fewer participants would result in larger gaps between the bid prices. A larger gap between the highest and second highest bid can result in step changes in GOOGL's revenue per click. This means that a loss in share could result in a material step down in GOOGL's search revenue due to the dynamics of auctions.

The irony of the emergence of competitive threats to GOOGL lies in the fact that these are materializing while the company is facing significant antitrust investigations. Figure 11 summarizes the three most relevant antitrust cases. Pella believes the search-related case poses a notable risk to GOOGL. The trial centres around GOOGL's practice of paying companies to be their default search engine, which has been deemed anti-competitive.

Two potentially dire remedies to the search-related case involve GOOGL no longer being permitted to pay for default search engine placement, or GOOGL having to unbundle its search engine from other services like Google Chrome or Android.

During the trial, it was revealed that approximately 50% of GOOGL's U.S. searches occur on Apple devices, emphasizing the critical role that the Apple ecosystem plays in GOOGL's business. This highlights why GOOGL pays Apple tens of billions of dollars per annum to retain its default search engine status on devices like iPhones and iPads. Losing this default position would be a significant blow, especially if GOOGL were also forced to divest from Chrome and/or Android, preventing Google Search from receiving preferential treatment through those key channels to the search market.

If GOOGL were prohibited from securing its default position through payments or vertical integration, it would face intensified competition. This is particularly relevant with the emergence of viable alternatives to Google Search, such as ChatGPT/SearchGPT. Furthermore, Apple is strengthening its collaboration with OpenAI (the owner of ChatGPT and SearchGPT) as part of a broader AI initiative known as "Apple Intelligence." ChatGPT will be integrated into Siri, enhancing its ability to deliver contextually aware responses, and will also be embedded in system-wide features like text generation and image creation across apps such as Notes and Mail.

This development reinforces our view that GOOGL's search market share has likely peaked and could decline due to increasing competition from AI-driven alternatives.

Figure 11 – GOOGL's major anti-trust cases

Trial date	Relates to	Business impact
Dec-23	Play Store – argument that GOOGL shut out rivals from is Android Play Store.	• Remedies expected in 4Q24 • GOOGL is likely to have to open Play Store to rivals, which will create a growth headwind to that business. • Pella estimates the Play Store accounts for a high single digit percent of Group revenue.
Aug-24	Search - GOOGL monopolizes online search by paying Apple & others to install Google as default search engine.	• Remedies likely in 2025 • GOOGL ability to be default search engine on several hardware devices (e.g. iPhone, Samsung Galaxy) and web browsers (e.g. Mozilla) at risk.
Sep-24	Advert technology - GOOGL monopolizes the advertising technology market.	• Remedies likely in 2025 • GOOGL's advertising technology vertical integration at risk, enabling more competition in the advert serving market.

Source - Pella

Amid the strategic headwinds facing the company, we believe GOOGL will also face rising cost pressures as its compute increasingly shifts toward AI. AI relies on pricier hardware like GPUs or TPUs, with high-end GPUs such as the Nvidia A100 costing over $10,000 compared to around $2,000 for a high-end CPU, while also consuming 2x to 3x more energy. The complexity of AI models also requires highly skilled data scientists and engineers, whose salaries can be 50% to 100% higher than those of traditional software engineers. Depending on the complexity of the models, the hardware involved, and the scale of operations, AI compute can range from 5x to 100x more expensive than traditional compute.

After holding GOOGL for a generation, we have made the decision to exit our position. We believe the company is now operating in an ex-growth market, with its dominant market share increasingly threatened by rising competition and compounded by regulatory challenges. At the same time, costs are set to rise as the company transitions to an AI-first model. As a result, we have revised our long-term growth expectations to the mid-single digits. To meet our valuation criteria, GOOGL would need to offer a 5% FCF yield, implying a more than 30% decline in its current share price. Letting go of a long-standing position is never easy, but if its operating environment changes, so will our conviction to hold it.

Responsible Investing

During 3Q24, Pella completed its Responsible Investment Association Australasia (RIAA) product certification and submitted its United Nations Principles for Responsible Investment (UNPRI) transparency reports. We are actively working with Pangolin Associates to calculate Pella's carbon footprint, which we will offset by purchasing carbon credits. Additionally, we will seek Climate Active certification to confirm Pella's carbon neutrality.

Pella also joined Climate Action 100+, a global investor initiative aimed at ensuring large corporate greenhouse gas emitters take necessary action on climate change. The initiative focuses on pushing companies to align their business strategies with the goals of the Paris Agreement and commit to achieving net-zero emissions by 2050 or sooner. Pella has been assigned to the team engaging with Woolworths (WOW.AU), and we have been highly impressed with both the commitment and effectiveness of our Climate Action peers and Woolworths' willingness to implement climate-positive initiatives.

As part of our Pledge 1% commitment, Pella volunteered at the One & All Hub during the quarter. The Hub is a pioneer in disability and mental health, providing a dynamic day service for people with mixed abilities. Pella assisted with the Hub's 'Olympics Day,' helping to manage activities for the participants. The day was filled with joy and energy, and we are incredibly grateful for the opportunity to contribute to such a vibrant and uplifting event.

Following the 3Q23 launch, Pella's Monthly Sustainability Reports are continuing to develop a deeper track record. These reports provide a succinct and quantifiable summary of the Fund's key sustainability measures. We believe the positive impact table is particularly useful. One of the key issues with positive impact reporting is that some companies are classified as positive impact due to a portion of their revenue being derived from positive impact activities, while other elements do not have a positive impact. Our solution is to report our calculation of the bands of positive impact revenue generated by the Fund's positions.

Pella has ensured compliance with its Responsible Investment guidelines. About 34% of the Fund is invested in companies that hold an AAA rating from MSCI, and 96% of the Fund's investments are in companies rated BBB or higher. The Fund maintains a position in one company with a BB rating. During the quarter, MSCI downgraded Vertiv Holdings (VRT.US) from a BBB to a BB ESG rating. According to Pella's Responsible Investment policy, this downgrade triggers a requirement for active engagement with the company to help improve its rating. This engagement will be a primary focus for us in the fourth quarter of 2024, and we will provide updates on our progress.

The Fund's carbon intensity remains well within its carbon emissions budget, concluding the quarter with its carbon intensity to sales 76% below the benchmark, and its carbon intensity to enterprise value (EV) 67% below the benchmark.

The third quarter is quiet for shareholder meetings and only two of the Fund's positions held meetings during the quarter. Pella participated in both meetings and Figure 12 summarises the voting strings for both. There were no material ESG related topics to vote on and Pella voted 'For' every proposal at both meetings.

Figure 12 – Pella's 3Q24 voting track record

Company	Meeting Type	Vote String
Ashtead	Annual	FFFFFFFFFFFFFFFFFFFFF
JD Sports Fashion	Annual	FFFFFFFFFFFFFFFFFFFFF

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Pella Global Generations Fund

Performance

Net of all fees	PGGF Class B	MSCI ACWI (AUD, net)	Relative
1 month	-0.6%	0.1%	-0.7%
1 quarter	3.1%	2.6%	0.4%
1 year	24.3%	22.6%	1.7%
2 years – p.a.	24.5%	21.5%	3.1%
Inception to date – p.a. (1)	9.3%	8.2%	1.2%

(1) Per annum return since inception on 1 January 2022

Past performance is not indicative of future performance. Performance returns are net of fees and assume reinvestment of distributions. Actual investor performance may differ due to the investment date, date of reinvestment of income distributions, and withholding tax applied to income distributions.

Fund Holdings

As of 31 Aug 2024

Holdings Name	Sector	Country
3i Group	Financials	United Kingdom
Adobe	Information Technology	United States
AIA Group	Financials	China
Arthur J Gallagher & Co.	Financials	United States
Ashtead Group	Industrials	United Kingdom
ASML	Information Technology	Netherlands
Coloplast A/S	Health Care	Denmark
Deutsche Börse	Financials	Germany
DexCom	Health Care	United States
Edwards Lifesciences	Health Care	United States
Epiroc	Industrials	Sweden
Halozyme Therapeutics	Health Care	United States
HDFC Bank	Financials	India
ICICI Bank	Financials	India
IMCD NV	Industrials	Netherlands
Intercontinental Exchange, Inc.	Financials	United States
IQVIA	Health Care	United States
JD Sports Fashion	Consumer Discretionary	United Kingdom
lululemon athletica	Consumer Discretionary	United States
Marsh & McLennan	Financials	United States
Microsoft	Information Technology	United States
Mosaic	Materials	United States
Novo Nordisk	Health Care	Denmark
Nutrien Ltd.	Materials	Canada
NVIDIA	Information Technology	United States
Prysmian Group	Industrials	Italy
ResMed, Inc.	Health Care	United States
Schneider Electric	Industrials	France
Sika AG	Materials	Switzerland
TSMC	Information Technology	Taiwan
UnitedHealth Group	Health Care	United States
Vertiv Holdings	Industrials	United States

Fund Analytics

As of 30 September 2024

Geographic & Asset Allocation

Asset Class	Fund	Benchmark
Developed Markets	**81%**	**89%**
United States	40%	62%
Europe	40%	15%
Japan	0%	5%
Others	2%	8%
Emerging Markets	**14%**	**11%**
Emerging Asia	14%	9%
Latin America	0%	0%
Others	0%	1%
Cash	**4%**	**0%**

Source – Pella Funds Management

Top Ten Holdings

Company	Sector	Country
3i Group	Financials	UK
AIA Group	Financials	China
ASML	Information Technology	Netherlands
Marsh & McLennan	Financials	USA
Microsoft	Information Technology	USA
Novo Nordisk	Health Care	Denmark
Schneider Electric	Industrials	France
TSMC	Information Technology	Taiwan
UnitedHealth Group	Health Care	USA
Vertiv Holdings	Industrials	USA

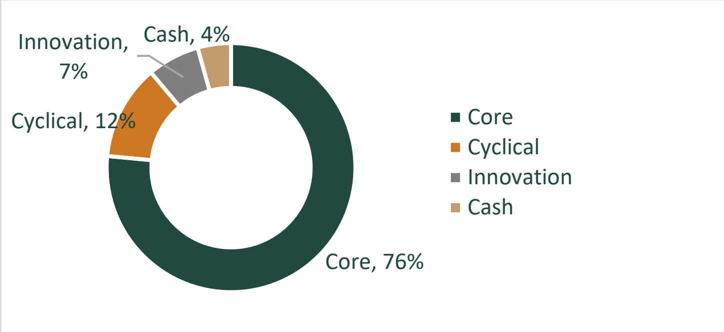
Source – Pella Funds Management

Currency Exposure

Currency	Direct	Exposure
USD	56%	56%
EUR	18%	18%
GBP	9%	9%
DKK	7%	7%
HKD	3%	3%
AUD	2%	2%
CHF	2%	2%
SEK	2%	2%

Source – Pella Funds Management

Fund Segment Allocation



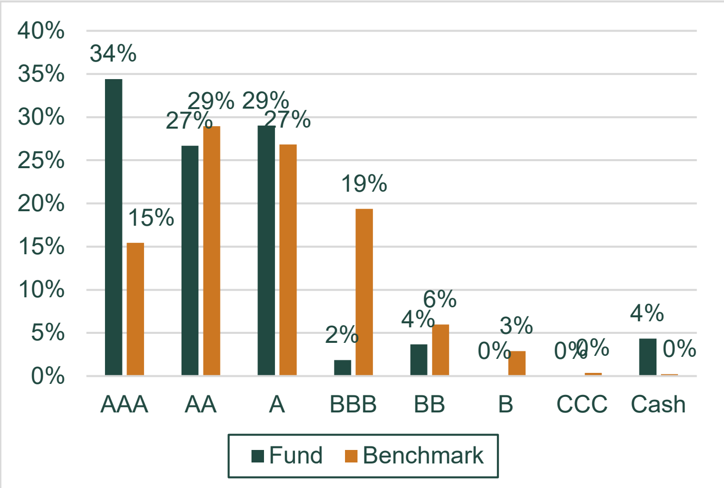
Source – Pella Funds Management

Sector (GICS) Allocation

Sector	Fund	Benchmark
Financials	23%	16%
Information Technology	21%	25%
Industrials	20%	11%
Health Care	20%	11%
Consumer Discretionary	6%	11%
Materials	5%	4%
Communication Services	0%	8%
Consumer Staples	0%	6%
Utilities	0%	3%
Real Estate	0%	2%
Energy	0%	4%
Cash	4%	0%

Source – Pella Funds Management

MSCI ESG Rating Distribution



Source – Pella, using MSCI ESG data

Key Information

Portfolio Manager	Jordan Cvetanovski
Inception date	1-January-2022
Price Class B (NAV)	$1.45
Buy/Sell spread	+0.25% /-0.25%
Minimum	$25,000
Additional Investment	$1,000/ $1,000 per month on a regular savings plan.
Pricing frequency	Daily
Distribution frequency	Annual
Base fee	0.65%
Performance fee	15% above benchmark
Benchmark	MSCI All Country World Index (“MSCI ACWI”) (A$, net) *
APIR code	PIM5678AU
ISIN	AU60PIM56781
Platform Availability	Macquarie Wrap Netwealth HUB24 North/MyNorth Praemium BT Panorama Direct Online Application

* The fund’s investable universe differs to its benchmark. The fund’s negative screen excludes several activities that are included in the benchmark such as fossil fuel mining, transportation, or electricity generation; weapons; alcohol; and casinos. The fund also excludes companies that are rated CCC by MSCI. In addition, the fund can invest in companies that are not included in the benchmark, provided those companies satisfy the fund’s liquidity requirements. Thus, the fund may be of a different return and risk profile then the benchmark.

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