

Dear Equity Client

GLOBAL BEST IDEAS EQUITY FUND (“the Fund”) – 3<sup>rd</sup> Quarter 2024

### Market Performance

World equity markets delivered another positive quarter – the third one in a row. The MSCI World Index (including Emerging Markets and dividends) grew by +6.7% (in US\$ terms, +0.7% in UK£ terms). Sterling strengthened by +6.0% vs the Dollar over the quarter. This brings the Index’s year to date return to +18.8% (in US\$ terms, +13.1% in UK£ terms).

### Macroeconomic Backdrop

The US economic outlook moderated over the third quarter on somewhat softer employment data and weakening consumer confidence. Against this, US inflation continued drifting lower.

Investors took cognisance of the 10-/2-year Yield Curve reverting (having been inverted), along with the pace at which the Conference Board Leading Economic Index decline continued to slow. Against this, Industrial Production data indicated an uncertain backdrop, while Services indicators fluctuated between positive and negative readings. As a result, the ten-year Treasury Yield dropped from 4.4% to 3.8% over the quarter.

The main feature of the quarter was the US Federal Reserve (Fed) cutting its target rate by 50 basis points on 18 September. This first step in the new easing cycle was well received by the market with share prices subsequently rising.

The US reporting season again delivered generally better than expected results, with the S&P 500 Index earnings per share growing +10% which exceeded consensus expectations by +4%. The market remained unforgiving towards those companies that either disappointed on results or on the outlook it provided.

Investor perceptions moved decisively over the quarter from US inflation fears to growing recession risks.

### Portfolio Comments

With the global backdrop of falling interest rates and the Fed starting the process of easing their monetary policy, the more cyclical and indebted areas of the market rallied. This supported Value as an investment style which materially outperformed Quality (+9.0% vs +3.8% respectively for the MSCI Value and MSCI Quality indices). Value also outperformed the MSCI World ACWI index by +2.4%. In this context, real estate was the best performing sector (MSCI Real Estate +17.1%), followed by Utilities (MSCI Utilities +16.7%). We have, though, never found any businesses in these sectors that pass our quality hurdles. Technology, where we are invested in numerous best-in-class businesses, was the second-weakest sector (MSCI Technology +1.3%). From a macro-market perspective, the market this quarter was clearly misaligned with our investment philosophy and we did underperform the market.

Over the quarter the largest detractor from performance was Edwards Lifesciences. They declared slower growth due to short staffing issues in US hospitals and announced the selling of their Critical Care division. The next six largest detractors were all technology-related businesses that suffered from the above-mentioned investment style rotation.

We also highlight the following themes that further impacted the portfolio during the third quarter, along with the actions that we have taken:

### **Health Care**

Several of our holdings outperformed over the quarter on stock specific news (whilst the sector lagged the Index). Meta Platforms (not held) was exploring a stake in **EssilorLuxottica** (held), a French manufacturer of eyewear. The companies have collaborated in wearable eyewear since 2019, with the second generation of Ray-Ban Meta smart glasses launched in late 2023 and selling well. We expect Essilor to continue to play a key role in developing wearable technology. The stock returned +9.9% over the quarter.

**UnitedHealth**, a US health insurer, showed strong cost control in its 2Q24 guidance. We believe United is the best-managed name in the sector, which shows in its long-term revenue and consistent earnings growth profile. The stock returned +14.8% over the quarter.

**Zoetis**, the global leader in drugs for pets and livestock, continued to recover from the setback the stock suffered earlier this year following concerns around the safety profile of a new blockbuster drug. Recent results have dispelled these concerns. The stock was up +12.7% over the quarter.

### **Financials**

**A J Gallagher**, a leader in mid-market casualty insurance broking, returned +8.5% this quarter. It is benefiting from a hard (strong pricing) insurance market.

We switched half of our holding in Visa into **Mastercard** (+11.9% this quarter). Both payment network businesses have similarly strong business models but slightly different drivers. Both businesses are very high quality.

### **Technology**

We added to our holding in **Accenture**. Its order book is strengthening again after a period of slow orders. The company raised guidance in the quarter. It is ideally positioned to support large enterprises in widely adopting cloud and AI technology. The stock was up +16.5% over the quarter.

### **Discretionary**

**McDonald's** saw a significant rerating this quarter as management brought in sensible pricing actions to meet its customers' current need for value pricing. The stock returned +19.5% over the quarter.

### **Sales**

We trimmed our holding in **Alphabet**, which was the largest holding in the Fund, on the increasing drumbeat of regulation. In August the US courts reached a verdict that Google illegally monopolised the search market. There are some suggestions that that Google might be forced to break up, and we thought it appropriate to bank some profits and right-size the position. It remains a large holding.

We exited our remaining **Estée Lauder** and **Nike** holdings. Both businesses continue to experience operational business issues that, for the moment, disqualify them as best-in-class businesses.

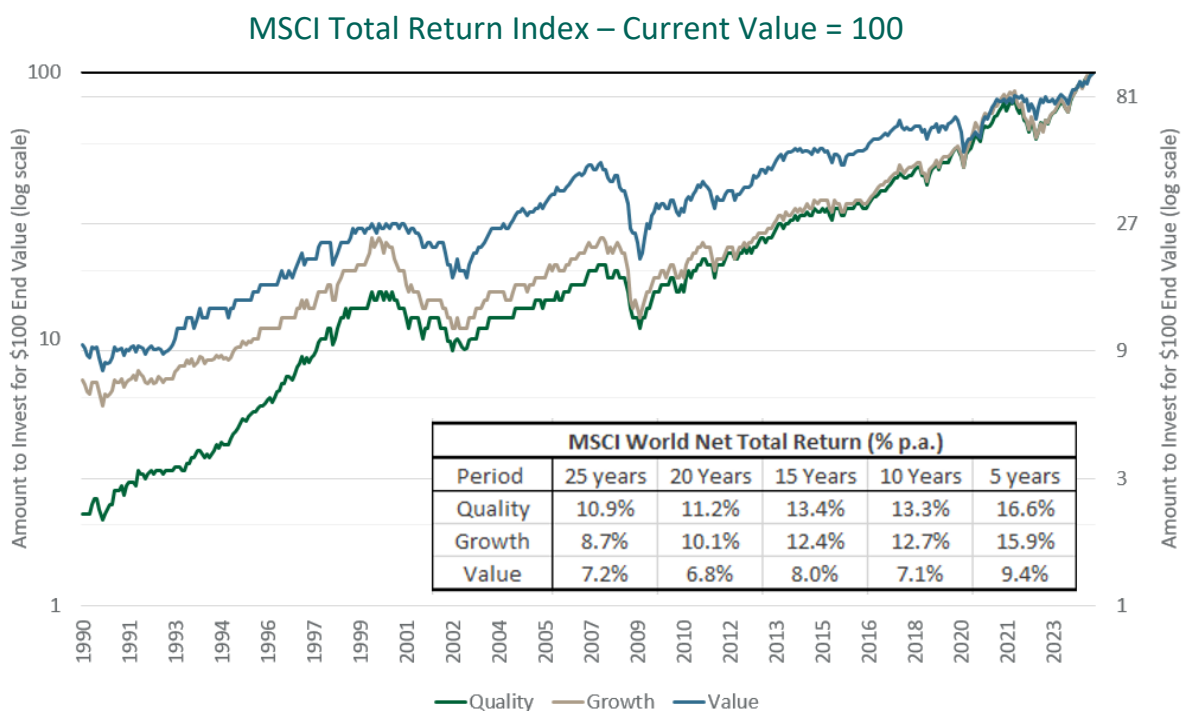
### New Holding

We have completed the introduction of a new holding, namely Copart. Copart is the global leader in online salvage vehicle auctions, helping auto insurers to store vehicles deemed uneconomic to repair and then to sell them on behalf of the insurer for the best price. It enjoys a virtually non-replicable position of having 19,000 acres of land zoned for salvage vehicle storage, a huge barrier to entry. In business for over 40 years, Copart has built a global buyer base of one million members on their auction platform, which helps drive the best price for the sellers.

Apart from the wide moat, Copart’s fee-driven economics as an auction agent are compelling. It not only charges sellers for storing and selling vehicles, but also extracts fees from buyers while avoiding inventory risks. This drives strong ROIC and cash flow. The business activity is less-cyclical in nature.

### Quality Investing

With the Fund’s quality philosophy, it is a good reminder of the long-term performance history in this context. The following chart reflects the performance of the Quality, Growth and Value indices:



With the indices rebased to a current value of \$100, one can judge more easily which approach (Quality vs Growth vs Value) delivered the best returns from any historic date from 1990 up until now. The Quality Index (the green line) reflects by far the highest number of the lowest entry points of the three approaches to deliver \$100, followed by the Growth approach to investing. This implies that Quality is the logical approach for a Buy-to-Hold approach that returns the best result. The statement is confirmed by the data of compounding returns in the table.

A further point to make in this context is that any approach does suffer setbacks at times. The chart also implies that the Quality approach recovers well following such a setback, and that it then actually offers an excellent new entry point. This has also proven to be the case with the Fund.

## China

In late September, the Chinese authorities surprised global markets by announcing a raft of coordinated policy changes intended to revive the country's flagging economy and to reverse current deflationary pressures. Cuts to mortgage rates, the relaxing of restrictions on house purchases and \$114bn of liquidity to fund stock purchases all resulted in a rapid and material stock market reaction. China's leading CSI 300 Index gained 25% in five days and the Hang Seng Index in Hong Kong gained 16%. Gains were seen across all sectors, with the biggest in the housing sector where the MSCI China Real Estate Index gained over 60% in a week of trading. Hong Kong listed names once popular with global investors did well, and the positive sentiment spread beyond China to global companies with material China exposure. In the luxury space LVMH gained +17%.

These policies have since been followed by announcements of debt issuance to boost the property market, of recapitalising banks and of providing support to cash-strapped local governments. The series of announcements are good measures to help to revive investor sentiment. Economic data, though, remains deep in negative territory and clearer support to specifically fiscal stimulus is required to turn the economy, stimulate consumer confidence and combat deflation. It does, though, appear that the Chinese leadership is prioritising broader economic stimulus and more announcements can be expected in the near future.

The Fund is indirectly exposed to China with material sales in the country, including L'Oréal, LVMH, Colgate-Palmolive, Keyence and Cadence Design Systems. Based on our estimates, the average revenue contribution of China through the Fund's holdings is around 10%. International investors await firmer confirmation of fiscal support to accelerate economic growth. We would then expect a further favourable impact on China-related stock prices.

## Outlook

Whilst the general perception is that the US economy is in a slowly maturing process, it is striking that interest rates recently moved decisively upwards, with both the ten- and two-year Treasury Yields currently above 4% from recent lows of 3.6%. This may be the result of either a strengthening US economy, rising inflation, the Middle East political tensions or perceptions that the Chinese stimulus programme will benefit the global economy. We do not believe the answer lies in any of these individually, but rather a perception that the odds for an imminent US recession are receding. We currently remain in the 'Soft Landing' camp (GDP below potential and inflation dropping further). Consensus one year forward S&P 500 earnings revisions have recently stagnated, but are still at an attractive +11% growth level.

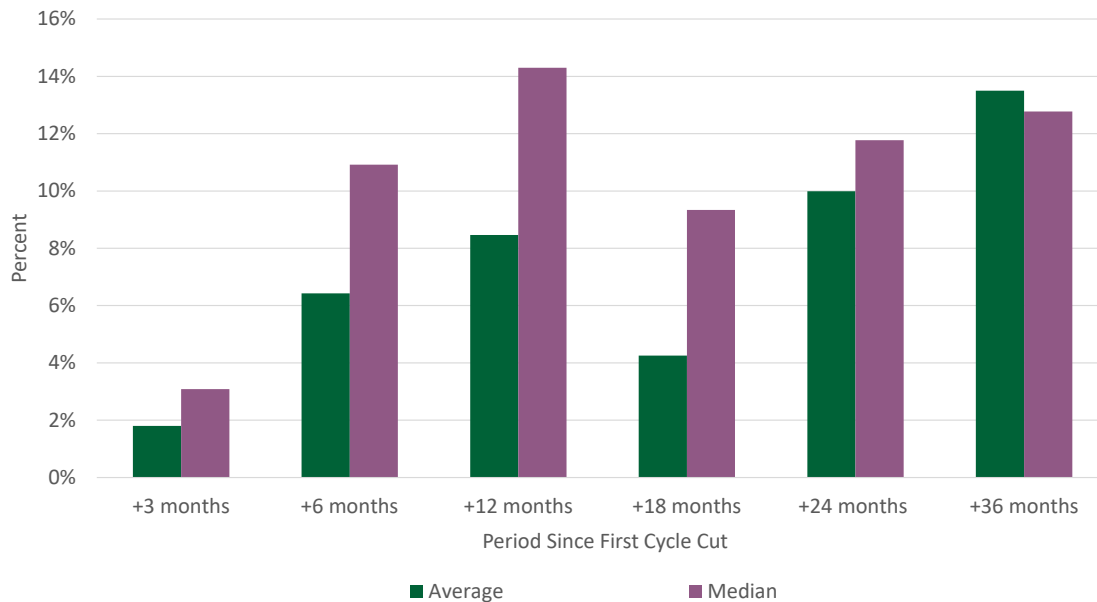
The structural change in the capital markets with the Fed now having started their new easing cycle is an important consideration. The chart on the next page depicts previous stock market responses following the first Fed cuts into the new easing cycles.

The chart demonstrates the stock market historically reacting favourably to the rate cuts over the short and medium term. Exceptions to this have been during the burst of the Dot-com Bubble and the Financial Crisis. Those were clearly exceptional periods in capital markets.

Historically the US stock market volatility generally increased shortly before and then lowered after an US election. This time the first Fed target rate cut into the new easing cycle is shortly followed by the US election. Since 1980, markets have, on average, performed well in the six months after the respective elections, with over 80% of the time delivering positive returns.

### S&P 500 Total Return Following the First Rate Cut into a New Easing Cycle

Annualised for periods > 1 year. Data since 1980



Our overall perception of the capital market outlook is one of economic moderation, but with valuable stimulatory actions in both of the world’s largest economies.

#### Summary

We continue to believe that US economic growth is moderating, but that we can anticipate a ‘soft landing’. The Chinese government attempting to revitalise their economy may provide further support to capital markets. Investors continue to focus on securing sustainable organic and earnings growth. This plays directly into our investment philosophy and we continue to refine the portfolio to ensure that we own only the best ‘best-in-class’ growth businesses with attractive return prospects.

Thank you for all your support.

With best wishes.

Gerrit Smit  
Partner – Head of Global Equity Management

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