

New Capital Global Equity Conviction Fund



Monthly Commentary | As of 31 October 2024

Executive summary

Key events in market

In October, equity markets were weak, with the MSCI AC World index ending down -2.2%, leaving it up +16% year to date.

Key performance & positioning updates

The portfolio underperformed the MSCI AC World in October and has underperformed year to date. Relative performance in October was primarily driven by stock selection particularly in industrials, consumer staples, and information technology. Sector allocation contributed positively, and regional allocation had a minimal impact on performance.

House view

The MSCI AC World index corrected in October, registering a total return of -2.2% in the month. However, the performance since the beginning of the year remains a solid 16.4%. The performance of the MSCI ACWI was burdened by the correction in China and Asian markets as the surge seen in September was not supported by credible announcements of fiscal expansion. The month saw also increased volatility: the Vix index of implied volatility in SP500 options rose to above 22 from about 16 at the beginning of the month, levels that unsurprisingly represented a headwind to global equities.

The weakness of stock prices mirrored a sell off in fixed income markets, with the US Treasury 10-year yield adding almost 0.50% to rise to the highest since early July. Notably, the yield increase reflected a higher risk premium on top of upwardly revised expectations about future monetary policy. Furthermore, inflation expectations increased in the period, although the price of commodities, including oil, industrial metals and agricultural goods, fell. Finally, the US dollar index appreciated by more than 3%, this happened despite the price of gold of surging more than 4% for the month.

As much as these developments seem contradictory, they closely align with the increased belief amongst investors that the Republican party candidate Donald Trump has a better chance of winning the US Presidential elections than vice President Kamala Harris, the Democratic party candidate. Increased investors' focus on the US elections overshadowed the European Central Bank decision to cut rates again in October and the UK budget by the new Labour government under Keir Starmer.

Fund performance and positioning

The portfolio underperformed the MSCI AC World in October and has underperformed year to date. Relative performance in October was primarily driven by stock selection particularly in industrials, consumer staples, and information technology. Sector allocation contributed positively, and regional allocation had a minimal impact on performance.

Key stocks that significantly contributed/detracted to relative performance:

- Advantest (27%). Advantest is the leading semiconductor testing equipment maker. It reported strong quarterly earnings, with revenue growing 64% year-on-year. The stock also benefited from the continued enthusiasm in artificial intelligence (AI).
- Taiwan Semiconductor Manufacturing Co. (6%). TSMC reported good quarterly results during the month. Quarterly revenue rose 39% year-on-year, thanks to strong AI demand in leading-edge nodes.
- JPMorgan Chase (6%). JPMorgan reported positive quarterly financial results, as net interest income, investment banking fees and expenses all exceeded market expectations. In addition, the steepening of the US yield curve is a potential positive for banks.
- ASML (-19%). ASML lowered its 2025 financial guidance, as certain foundry customers delayed their leading-edge node production ramp, thus pushing out demand timing for ASML's lithography machines. In addition, ASML is taking a more cautious view on China, due to risks of further export controls.
- BE Semiconductor Industries (-16%). BEI reported mixed financial results this month. While group revenue grew +27% year-on-year, order intake declined -18% quarter-on-quarter due to fluctuations in Hybrid Bonding order patterns and a more gradual recovery in non-AI semiconductor demand.
- Kweichow Moutai (-14%). The broader Chinese equity market consolidated in October, after a strong rally in September when Moutai rose 21%.

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	New Capital Global Equity Conviction Fund	MSCI AC World Net USD	Difference
1 Month	-3.70%	-2.24%	-1.46%
3 Months	+0.10%	+2.57%	-2.47%
6 Months	+8.65%	+10.87%	-2.22%
YTD	+13.66%	+16.00%	-2.34%
1 Year	+30.35%	+32.79%	-2.44%
3 Years	-0.40%	+17.45%	-17.85%
5 Years	+79.12%	+69.12%	+10.00%
Since Inception Annualised	+9.96%	+8.93%	+1.03%
Since Inception (08/05/2015)	+146.01%	+125.07%	+20.94%

Past performance is not a guide to the future. The value of your investments and the income from them may fall as well as rise as a result of market as well as currency fluctuations and you may not get back the full amount invested. The Fund is actively managed and as such does not seek to replicate its benchmark index, but instead may differ from the performance benchmark in order to achieve its objective. Fund performance is net of fees and representative of the USD I Acc Share Class, OCF 0.83%, and shows a maximum of five previous calendar years and current year to date (computed on a NAV to NAV basis). Where share class inception begins prior to the five previous years the chart has been re based to 100. Where the Fund has fewer than five full years of performance, returns are shown from the inception date. Source: EFG Asset Management, Bloomberg. As at 31 October 2024.

Outlook

The primary objective of the portfolio remains to surpass the benchmark over successive three-year periods, principally by investing in high-quality global businesses at appealing prices. We identify these businesses by their inherent qualities: 1) resilience to competition with the ability to generate enduring returns on capital; 2) considerable long-term growth potential supported by diverse trends; and 3) management teams who are exemplary stewards of corporate capital, capable of sustaining growth and returns over time. As part of our daily operations, we diligently evaluate the sustainability of our owned companies' long-term investment cases, and continuously adjust our holdings based on their current price against our estimation of their long-term intrinsic value. We persistently search for superior businesses to ensure our portfolio contains what we deem as the world's best.

Our investment strategy is firmly anchored in a bottom-up methodology, emphasizing the identification of superior growth compounders. These are companies that are strategically poised to deliver high and enduring long-term returns on capital, and effectively manage inflation through their substantial pricing power. Their distinct characteristics include resilience to economic cycles, robust balance sheets, wide profit margins, and persistent high growth rates, which often enable them to

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excel during periods of economic slowdown. Our investment philosophy is centred on Quality and Growth attributes, hence, individual stock-specific factors, derived from our significant active share and implicit factor exposure, are the primary drivers of active risk within our portfolio. Consequently, we place less emphasis on top-down sectoral or regional positioning.

At present the portfolio is positioned marginally overweight the more cyclical parts of the market. In addition, although the broader market valuations vary from fair to rich, we continue to find value outside of the US, driving our overall underweight to the US market.

Inflation continues to recede, albeit it still exceeds the targets set by central banks, owing to persistent inflationary pressures that have been slow to subside. Labour markets have reached a more balanced state, curbing the upward push on wages and, in turn, on core inflation. This balance has provided central banks with the latitude to cease their previous rate hikes. Central banks are now shifting their emphasis from inflation control to employment and have started reducing rates to prevent unnecessary increases in unemployment.

Recent data on growth and inflation presents a complex scenario, contributing to marked fluctuations in market expectations regarding central bank policy adjustments. This uncertainty has led to increased volatility across sectors and regions, distinguishing between those more sensitive to economic growth and those more responsive to inflation and monetary policy changes. As we move through 2024, we anticipate this pattern of volatility will continue, reflecting ongoing uncertainties in the economic outlook.



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MARKETING COMMUNICATION

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All sources: EFG Asset Management (UK) Limited ("EFGAM"), Factset, Bloomberg, Morningstar as at end of the month. Any other sources as applicable.

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