# New Capital Dynamic UK Equity Fund

Quarterly Commentary | As of 30 September 2024

## Market overview

The third quarter of 2024 experienced a sustained rally in global equity markets, despite occasional volatility and economic uncertainties. The MSCI World Index and the MSCI All Countries Index showed consistent gains, with year-to-date returns of 19.1% by the end of September.

The quarter opened with a change in investor sentiment in July. Soft US consumer price index inflation numbers led to the anticipation of a Fed funds rate cut, prompting a move from mega-cap tech stocks to US small-cap stocks. Reflecting a weakening in the US economy, bond markets rallied, with yields on US Treasury bonds falling to the lowest in more than a year.

August witnessed a continuation of the equity rally, but volatility increased due to fears of a looming US recession and changes in Japanese monetary policy. These concerns added to geopolitical tensions and the prospect of monetary easing and contributed to extend the gold price rally.

September brought new all-time highs for global stock markets. The Federal Reserve started easing interest rates, shifting its focus from inflation control to supporting the labour market and economic growth. Chinese authorities announced measures to stimulate their economy, and declining oil prices provided further market support. Throughout the quarter, all major developed market currencies and the yuan renminbi recovered against the US dollar.

The outlook at the end of the quarter is supported by the expectation of a prolonged period of monetary policy easing and moderate bond yields.

## Fund performance and positioning

Whilst the Fund was able to deliver positive absolute returns, it underperformed the benchmark (MSCI United Kingdom All Cap) over the quarter (by -1.98%) with relative returns particularly weak in July before moderating through the rest of the quarter.

This year we have been focused on gearing the portfolio towards the change in interest rate regime by increasing longer duration growth, mid-cap and rate sensitive names that we expect to benefit as bond yields fall. At the same time, we also moderated but retained our defensive tilt to the portfolio with the expectation that rate cuts would come alongside slowing economic growth, and market earnings estimates continuing to see downgrades. Building confidence from the market around a soft-landing outcome through the early phases of the quarter drove an outperformance of cyclical risk assets at the expense of quality compounders to which the portfolio maintains a bias, and this proved a headwind. This impact to relative performance began to moderate as the quarter progressed with all central banks embarking upon interest rate cuts, yield curves un-inverting, and economic data beginning to display some softness. We continue to believe that portfolio is appropriately positioned to take advantage of these trends if they continue for the remainder of the year

Stocks that made the largest positive contribution to performance during the quarter were:

- Tesco (+17%): The company benefitted from both the strong outperformance of consumer staples over the quarter, as well as a string of positive Kantar data releases which showed that Tesco has continued to make market share gains, with the strength of discounters moderating somewhat as UK consumers emerge from the cost of living crisis.

- Rightmove (+16%): Shares surged from 556p to 708p (+27%) on the announcement that REA had made a bid for the company early in September. What followed for the remainder of the month was a series of rejections by the Rightmove (RMV) board, stating the bid materially undervalued the company, followed by counter bids by REA (reaching 780p in cash and equity), with the share price drifting lower until eventually the deal was abandoned on 30 September, causing the shares to drop 8% on the day and end the month at 617p. For the Fund, we have been building our position in RMV between prices of 450-575p throughout the year on weakness around competition headlines, and on first news of the bid sold 60% of our position at 702p to neutralise risk. Following the deal being abandoned we have since repurchased a large portion of shares we sold at an average price of 629p.

- National Grid (+17%): While there was limited company news flow over the quarter, the company continued to benefit from a favourable environment of falling bond yields and saw a series of earnings upgrades from sell side analysts as the quarter progressed.

Stocks that made the largest negative contribution to performance during the quarter:

- Rentokil (-20%) – The company released an unscheduled trading update, downgrading its guidance for FY24 profits, and lowering North American growth expectations to +1% (lower end of 2-4% prior guidance). Despite higher investment into sales and marketing, the company stated that trading conditions during peak season had remained relatively weak, and FX movements were having a larger adverse effect than anticipated. In the following days, the head of research from activist Trian Partners was appointed a seat on the board, which helped to stabilise the shares.

- BP (-16%): A couple of broker downgrades and oil prices falling -17% over the quarter on news around supply increases and softening macro (despite rising geopolitical tensions) drove shares of oil majors lower over the quarter. October has so far seen a rebound in both the oil prices and share prices on geopolitical headlines.

- BAE (-6%) : Profit taking in defensives and rumours around a potential Ukraine ceasefire saw shares retreat slightly over the quarter. Since then however conflicts have continued to escalate in the Middle East and Russia/Ukraine, which has seen a reversal of some of this sentiment.

Significant Changes: In September we added IG Group, a leading global fintech company that provides a platform and education for trading, which we expect to benefit from trading volume growth as equity market volatility increases. At the same time, we exited our position in Victrex where we see an increasing risk of earnings downgrades with the volume recovery of the business being pushed out further given weakening end market activity indicators.

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| | New Capital Dynamic UK Equity Fund | MSCI United Kingdom All Cap Index | Difference |
|---|---|---|---|
| 1 Month | -1.68% | -1.57% | -0.11% |
| 3 Months | +0.27% | +2.25% | -1.98% |
| 6 Months | +3.11% | +5.78% | -2.67% |
| YTD | +5.33% | +9.70% | -4.37% |
| 1 Year | +9.81% | +13.21% | -3.40% |
| 3 Years | +24.25% | +24.67% | -0.42% |
| 5 Years | +35.13% | +30.71% | +4.42% |
| Since Inception Annualised | +5.99% | +6.14% | -0.15% |
| Since Inception (03/11/2016) | +58.44% | +60.20% | -1.76% |

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## Outlook

We continue to favour a quality and cash-generative company focus, noting that while inflation does appear to be cooling, leading macro indicators and economic data releases are pointing to slowing growth, and earnings revisions remain in a negative trend. With the Labour victory in the UK general election, we believe that the removal of political uncertainty and refocusing on the potential for a domestic recovery post the UK's interest rate pivot will create a number of opportunities for UK equities going forwards. We expect an outperformance of both rate sensitive and longer duration growth companies, while we also see an opportunity for a reversal in fortunes for FTSE 250 companies which trade at depressed valuations to their large cap peers after a long period of underperformance through high rates and inflation, with a similar story for more domestically geared companies.

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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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