

## FUND COMMENTARY – SEPTEMBER 2024

### CT GLOBAL SELECT FUND



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#### Summary

- Global equities rose in September.
- Gross of fees, the fund underperformed its benchmark, the MSCI All Country World index (ACWI), over the month.<sup>1</sup>
- We added to positions in Ashtead and AIA.

#### Market Background

Global equity markets posted positive returns in September, with the MSCI ACWI returning 2.0% in local currencies. Similar to August, equities started the month on the back foot due to growing economic concerns. However, the start of the long-awaited rate-cutting cycle in the US helped to buoy investor sentiment. A raft of fresh stimulus measures from Chinese authorities provided an additional boost to equities late in the month.

In the US, non-farm payrolls missed expectations for the second straight month in August, and the June and July figures were revised lower. However, concerns about a recession were mitigated by ongoing resilience in the services sector. Later in the month, retail sales and consumer confidence were stronger than expected, aiding the recovery in equities. After data showed that annual consumer price index inflation reached its lowest level since February 2021 in August, markets rallied amid optimism that the Federal Reserve (Fed) would opt for a 50-basis-point (bp) rate cut rather than a smaller 25-bp move. The Fed subsequently satisfied investors' hopes of the larger cut, while its closely watched "dot plot" chart indicated that an additional 50 bps of cuts are likely before the end of the year.

In Europe, the European Central Bank (ECB) lowered its key policy rate by 25 bps, as expected, after seeing evidence of progress on the inflation front. Sentiment towards equities was bolstered by expectations of further easing in the coming months, though this was dampened by less positive news on the economic front. The composite purchasing managers' index figure slipped into contraction in September, with manufacturing particularly weak. However, stimulus measures in China buttressed a strong end to the month; many European manufacturing firms are heavily exposed to the Chinese economy.

UK equities were impacted by expectations that the Bank of England (BoE) will ease monetary policy more slowly than other central banks. Although Office for National Statistics data showed the UK economy remained stagnant in July, other data, including above-expectation August retail sales, was more encouraging. Headline inflation was unchanged in August, but core inflation rose more than expected. The BoE left rates unchanged at its September meeting, which contributed to the pound rising against both the US dollar and euro given the Fed and ECB rate cuts. This weighed on the many overseas earners among UK equities.

The Bank of Japan kept rates on hold and signalled it would be sensitive to economic trends when considering future rate hikes. Although higher core inflation in August kept the potential of further rate hikes on the table, economic data was generally weaker. Japanese equities fell at the end of the month after Shigeru Ishiba won the ruling party's leadership contest and was subsequently confirmed as prime minister. Elsewhere, emerging-market (EM) equities outperformed, helped by a weaker US dollar and the announcement of further fiscal and monetary stimulus measures from Chinese authorities.

In local currencies, EMs fared best in September, boosted by the outperformance of the sizeable Chinese market. US equities marginally outperformed the index. By contrast, the UK, Europe ex UK and Japanese markets posted negative returns.

At the sector level, consumer discretionary came out top, buoyed by the Fed's rate cut and positive news on consumer spending. Materials and utilities followed. On the other side, energy underperformed as concerns about weak demand continued to weigh on oil prices. The more defensive healthcare and consumer staples sectors also lagged the index.

## Performance

Gross of fees, the fund was behind its benchmark in September<sup>1</sup>. Unfavourable stock selection was the main driver of underperformance, with picks in consumer discretionary, industrials and materials detracting most. However, choices in financials and healthcare were beneficial. Sector allocation also weighed modestly on relative returns, largely due to the unhelpful overweight in healthcare, but this detraction was partially offset by a positive contribution from the overweight in materials.

At the stock level, the lack of exposure to Tesla was detrimental during a strong month for the stock.

The holding in Adobe was another detractor. Shares fell after the firm lowered its fourth-quarter (Q4) guidance for revenue and earnings. However, Q3 results beat estimates, with double-digit growth in the company's digital media, document cloud and creative segments. Adobe has an unchallenged foothold in the creative content industry, so it is well positioned to become a leading digital experience platform. With more than half of the company's revenue coming from a market where it has little to no competition, Adobe can disproportionately focus on gaining share in the remaining markets in which it operates, such as analytics, marketing delivery and omnichannel.

More positively, the holding in AIA added value. The pan-Asian life insurance group's shares rose in September amid news of interest-rate cuts in the US and Hong Kong, and after China announced new stimulus measures.

The position in Micron Technology was also beneficial. Micron's shares rebounded towards the end of September following the company's strong results for its fiscal Q4. Revenue almost doubled year on year, driven by demand for Micron's high-bandwidth memory chips, which are vital for AI applications. Management's guidance for the current quarter also beat expectations. Micron is an industry-leading computer memory and storage company. The firm has a strong competitive position, supported by increased diversification in terms of both its products and end markets. Micron has made substantial operational improvements and is a leader in process technology, power efficient products and performance reliability.

## Activity

We added to our position in Ashtead. The company has a leading market share in the US equipment-rental sector, an area which is becoming increasingly oligopolistic and where the bigger players will take a disproportionate share of growth related to the Inflation Reduction Act. The firm enjoys significant scale and robust demand thanks to strong end markets, which are being boosted by major US infrastructure projects. Other advantages include the firm's strong brand and cost controls, as well as the fact that the rental market takes a share from competitors that sell equipment. Ashtead also benefits from a sound management team and a good capital allocation policy. We are positive about the company's plans to expand through bolt-on acquisitions.

We also switched out of Bank Rakyat Indonesia in favour of expanding our holding in AIA, where we hold more conviction. AIA enjoys a strong competitive position in an industry with high barriers to entry owing to its established presence and far-reaching distribution network. Since its initial public offering, AIA has grown the value of new business by over 10% per year. The company also stands to benefit from favourable structural trends in Asia, including the emerging middle class, positive demographics and low public provisions for healthcare and retirement.

As well as the aforementioned Bank Rakyat Indonesia, we sold out of Adidas following the company's recent turnaround as we feel the shares are now more fully valued.

## Outlook

Markets have been narrowly led over the last 18 months as investor sentiment has been dominated by optimism around AI and, especially, the so-called Magnificent 7. Looking ahead, we believe the market rally

<sup>1</sup> Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

will broaden, as evidence of inflation coming under control and falling interest rates should see investors refocus on fundamentals.

The upcoming US presidential election has the potential to unsettle markets, with each outcome perceived to have its own respective winners and losers. We anticipate this to be relatively short-lived, while any volatility may also create opportunities.

In this environment, we believe that diversification will remain important, particularly as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broader opportunity for earnings growth. Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find such quality growth companies across a range of sectors and geographies.

## Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the fund's value.

The fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

The fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe and may impact the performance of the fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.

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