

Please note that the commentary is for the retail class of the Fund.

Performance and fund positioning

Global equity markets had a strong third quarter, with the MSCI All Country World Index returning 7%. Key factors in the quarter included a 50 basis points (bps) rate cut by the US Federal Reserve in September, Chinese stimulus, and a broadening of equity performance beyond the largest stocks. While the Magnificent 7 group of large capitalisation technology shares accounted for the majority of S&P 500 Index returns in the first half of 2024, we saw a reversal of this trend in the third quarter. Following the unprecedented levels of market narrowness that we wrote about in prior commentaries, returns broadened out significantly in the third quarter, with 65% of stocks outperforming the Index, and the rest of the S&P 500 Index's gain of 8% trouncing the advance of the Magnificent 7, which returned only 2% in the quarter per Morgan Stanley analysis. The Fund had a good quarter, increasing by 10.1%.

Performance was broad-based with notable contributions from many stocks which were previously discussed such as Auto1, Entain, Rolls Royce and our food delivery holdings Delivery Hero and Just Eat Takeaway.

We discussed our position in Smartsheet in our March 2024 quarterly commentary. After an indiscriminate sell-off pertaining to Smartsheet's conservative FY25 guidance, we took the opportunity to add to our position when the stock fell to \$38 in March. Smartsheet's subsequent June and September results were strong while peers delivered lacklustre growth, validating our belief in its undervalued status relative to the software peer group. Historically we've observed that mid-cap software companies, with an enterprise-grade product, high revenue growth, and strong free cash flow conversion, often become attractive targets for private equity players. We benefited from this in previous holdings Coupa and New Relic, which were both taken private. While not a primary driver of our investment in Smartsheet, the possibility of being acquired was always considered potential upside optionality. On 24 September, Vista and Blackstone partnered to acquire Smartsheet at \$56.40, a 41% premium to the three-month average closing price, and we subsequently exited our position.

A detractor during the quarter was Ryanair, Europe's largest airline for short haul travel. In July, the share price came under pressure when the company released Q1 results which showed that airfares were down approximately 15%. However, this does not change our view on the long-term earnings power of the business and gave us an opportunity to add to our position. We believe industry dynamics are favourable: The industry has consolidated meaningfully over the years and continues to do so. Secondly, demand remains strong while industry supply is under pressure due to delays in the deliveries of new planes, as well as engine issues at some of Ryanair's competitors, resulting in many aircraft being grounded – both of these issues will take years to resolve. Ryanair is well positioned with extremely low operating costs and aircraft orders that locked in favourable prices, giving them lower aircraft ownership costs than peers. In addition, Ryanair has a very strong balance sheet. The company has about 8% of its market cap in net cash and owns essentially all their aircraft – vastly different to many peers that have large lease liabilities. This not only puts the company in a very strong competitive position, but it also allows Ryanair to return a meaningful amount of cash to shareholders – the combination of dividends and buybacks puts Ryanair on a yield of approximately 10% this year.

Outlook

The team continues to find many compelling bottom-up stock ideas, often in lesser-known names, some of which are mentioned above and others. We thus remain very optimistic about the outlook for our portfolio of companies and the positioning of the portfolio.

Thank you for your support and interest in the Fund.

Portfolio manager

Neil Padoa

as at 30 September 2024