Endeavour World Equity

Capital growth with less volatility

Q2 2024

Commentary

This quarter saw your fund migrate from the EF Tellsons Endeavour, a IA Mixed Assets 20-60 fund, to the Endeavour World Equity Fund in the IA Flexible category, following shareholder approval at the Extraordinary General Meeting held in early May. The old fund concluded with a top quartile ranking over five years from its old Investment Association category and the new fund commenced with the #1 slot for the first month in the new category, generating a total return since the 10th of May of 3.5% (net) versus the IA Flexible peergroup average 0.5%. The equity investments in Endeavour World are substantially the same investments as its predecessor and while invested to a higher allocation, they have been held on average for over seven years. Corporate bonds are no longer invested while government bonds and precious metals are invested through a limited exposure to ETFs. Overseas currency holdings are unhedged and there is no use of derivatives. Fees have been reduced for all share classes, some share classes have been closed, and the comparator benchmark has been changed. Your managers anticipate less turnover in the Fund and lower transaction costs and altogether, the changes have been designed with better investor outcomes central to our ongoing product governance reviews.

In terms of investment performance this quarter in the new Fund, the 'growth' equity holdings, where the managers believe the earnings to be more secular and long-term in their nature, combined with 'defensive' equity holdings to make a contribution of 4.1% to total return. Strong performances came from across half of the main global industry sectors including Technology, Healthcare and Materials, and relative to their global sectors, Communication Services and Utilities. We will address performance within Technology investments a little later on in this commentary, but within Healthcare strong contributions came from Novo Nordisk and Eli Lilly as both companies increased production to meet escalating demand for their obesity drugs and trials illustrated efficacy against other health risks including cardiovascular and kidney disease. Within Materials, Linde the world's leading industrial gases business and Shin-Etsu the Japanese specialty chemicals manufacturer both performed well in the latter part of the quarter after markets had previously scaled back their expectations for growth against the backdrop of central bank interest rates remaining higher for longer. In Communication Services, a strong contribution from Alphabet was driven by accelerating earnings in its Google Cloud division as it catches up on the market leaders Amazon AWS and Microsoft Azure in outsourced cloud computing services. The company's Search and YouTube advertising revenues have also continued to hold up well in an increasingly competitive landscape. This contribution to performance was somewhat offset by a detraction from the other investment in this sector, NTT in Japan, as earnings have slowed in recent quarters due to investments in both fixed line and mobile to reduce costs, and data centre infrastructure to participate in structural growth. Further detractors to performance came from PepsiCo and McDonald's as their customers become increasingly price conscious, the former ceding market share in its US soft drinks market and the latter launching a new $5 'meal deal' in an effort to meet consumers' new price point.

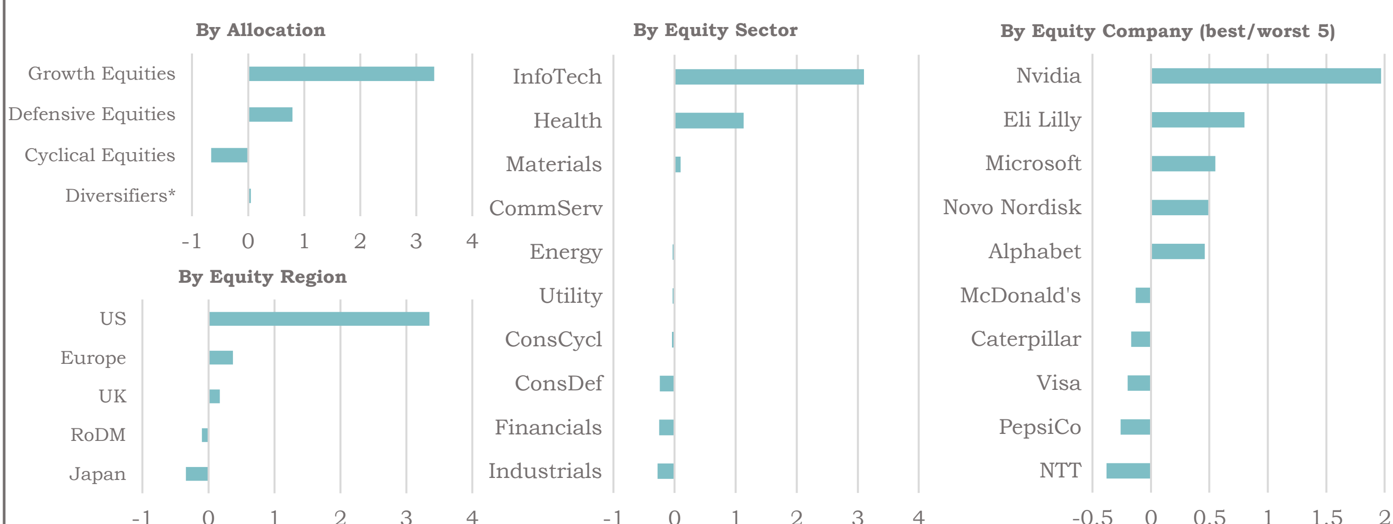
One prominent feature of world equity markets recently has been the concentration of price gains and market capitalisation within the narrowest sub-group of a few of the world's largest companies, often referred to as the Magnificent Seven. Your fund is invested in a smaller sub-group of this exclusive club, what your managers like to term the 'Fab Four': Microsoft, Amazon, Alphabet and Nvidia (with a significant underweight to Apple and no exposure to the other two, Tesla and Meta Platforms). Any kind of collective monika to describe these extraordinary companies implies a common collective investment theme and while they certainly do have similarities between them, they are substantially more different than alike, especially in terms of their underlying businesses and prospects for earnings growth. There is some crossover of products and end markets between these companies, as also with scores of other companies they are competing with across product lines, but the range of what they do is considerable, spanning leadership positions across no fewer than eight principal business segments, demanding different research, development and capital expenditure programs, affording different profit margins, driving different revenue and earnings growth prospects, and commanding different valuations. However, there are two features this small subset of companies have in common and the reasons for their investment in the Fund for over five years now: strong drivers of earnings growth well in excess of the broad equity market average - something worth paying for - and market leadership your managers believe will be maintained for the medium-to-long-term - something necessary to pay for. Since the managers of the Fund first initiated holdings in these companies, the companies' combined investments in research, development and capex have grown by almost 40% per year, driving revenue growth of almost 28% and earnings growth of almost 48%…every year.

As inflation continues its steady path lower, so too central banks' targets for policy interest rates and the prospects brighten for an upswing in the global economy. Each of the Fund's four sleeves of growth equity, cyclical equity, defensive equity and diversifying investments should play complimentary roles in the coming months as the global economy transitions through a new inflation and growth environment and the world's political leadership shapes the outlook for the years ahead, for better or for worse.

Fund Managers: Joe Bunting, Christoph Wiedebach

Tellsons Investors, July 2024

QUARTERLY RETURN CONTRIBUTION %



Quarterly Return Contribution: in GBP, gross of fees/costs. **Notes:** Diversifiers*: Investments in government bond and precious metals ETFs.