Endeavour World Equity

Capital growth with less volatility

Q1 2025

Commentary

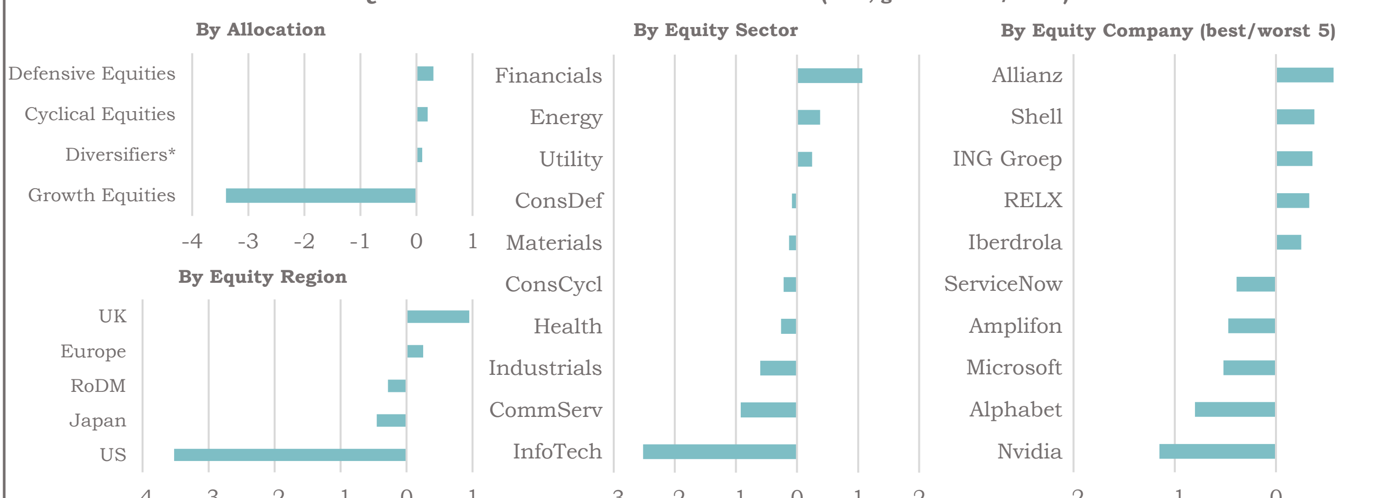
World markets across all asset classes saw another volatile quarter of swings in gains and losses, with world equity markets closing the period modestly negative. The Endeavour World Equity Fund modestly lagged its peer group. Inflation in the US continued its steady but slow move lower forcing bond markets to reduce their expectations for cuts to interest rates. The drumbeat of tariff war grew ever louder through the period as the new Republican administration was installed and with the ever more real risk of higher inflation expectations that would come with this, hopes diminished for continued steady growth and employment in the US economy. The US Dollar weakened significantly against the currencies of its main trading partners, including the UK Sterling. By the end of the quarter, confidence in the US economy had cooled and, in contrast, confidence in Europe had been boosted by significant spending plans from the newly elected German Chancellor Merz.

Defensive investments made the strongest contribution to fund returns during the quarter. UK specialist information services provider RELX made their customary steady contribution to fund returns where their development of a suite of 'AI' tools to optimise client access to their libraries of specialist business and professional data provides a compelling case for continued revenue growth and margin expansion. Linde, the industrial gases company with networks across Europe and the US, continues to benefit from the infrastructure build-out of data centres and re-shoring of US manufacturing facilities. Eli Lilly vindicated the managers' decision to focus their investment in its winning obesity treatments and upcoming pipeline at the expense of Novo Nordisk which was sold from the fund during the quarter having struggled with poor trial results and lagging supply capacity. On the flip side of this theme, the managers also exited long-term holdings in PepsiCo as they believe the corollary to progress in diabetes and weight-loss management structurally reduces growth prospects for snack foods and soft drinks, amongst other secular changes to diet and personal health habits. Cyclical leadership investments across insurance, energy, and banks all made contributions to return, continuing the theme of reversal from the previous quarter. Allianz led that contribution and, together with the Dutch bank ING, they delivered the strongest total returns from the whole fund during the period as they benefitted from the improved outlook for the European economy.

Growth investments performed poorly during the quarter with a detraction of 2.9% more than offsetting the contributions from all of Cyclical, Defensive and diversifying investments a total 1.4%. Overseas currency exposures in Sterling terms cost a further 1.5%. Investors grew skeptical of the revenue growth the big technology companies might be able to generate from the eye-watering levels of capital investment they have been making and are committed to make in the years ahead. Holdings in Nvidia, Microsoft and Alphabet accounted for most of the losses amongst the Growth investments during the period, unwinding much of what they had contributed in the previous quarter. Your managers remain of the belief the capex plans at these companies are well-placed and their customer order backlogs should vindicate these commitments in the quarters ahead. Besides the big technology companies, Visa put in a good performance during the period in US dollar terms and, as one of the largest holdings and indeed one of the longest continuously-held investments in the Fund since inception, the company was the only Growth investment to make a positive contribution to returns.

As the new earnings season opens and the new financial year starts for the Fund, markets are bracing for what actually materialises out of the bluster and rhetoric of US tariff threats and how that might impact the global economy. Of special focus will be the time any tariffs might remain in place rather than serve merely as a template for the renegotiation of trading relationships to rebalance trade accounts between the US and its main trading partners, most significantly China. The Republican President in the US will have his much-vaunted claims to dealmaking in the spotlight and the drama will be accompanied with more of the volatility that is coming to define this new administration in even starker terms than the first version of it in 2016. The slow but steady and sure progress of inflation lower in most key markets may also be at risk in the fallout from any trade war, as also may be the stability of the US dollar though at this stage it is hard to see this US administration being so intent on any real damage to the US and global economy in the medium term.

QUARTERLY RETURN CONTRIBUTION % (GBP, gross of fees/costs)



Notes: Diversifiers*: Investments in government bond and precious metals ETFs.

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Tellsons Investors, April 2025