# AYLETT GLOBAL EQUITY FUND
## Q1 2024 COMMENTARY

**FUND MANAGER COMMENTARY**

### HOW WE THINK

Ultimately our goal is to preserve our clients' purchasing power in real terms. In our existing funds, we have been able to do this through rational actions and a longer-term time horizon than the average market participant, typically five to ten years. This requires patience to allow an investment case to unfold with the inevitable surprises along the way. It also requires holding firm on our investment philosophy and not being tempted into chasing short-term gains in the market.

To us, risk is not being underweight a benchmark but rather the permanent loss of capital on an investment. Our focus remains on owning good companies and making sure we do not overpay for them.

### MARKET REVIEW

The MSCI ACWI returned 8.3% for the quarter ended March 2024, a continuation of the strong 2023 performance. Since the inception of the fund, the MSCI ACWI has returned 7.3% annualised.

Sector-wise, Information Technology and Communication Services continued their 2023 leadership run. After a weaker 2023, Energy showed better performance on rising oil prices. The narrowness of the market persisted, with the MSCI ACWI Equal-weighted Index returning 2% for the quarter versus the MSCI ACWI at 8.3%.

### FUND PERFORMANCE

| (Annualised Net returns %) | 1 year | 2 years | Since Inception |
|---|---|---|---|
| **Fund**[1] | 5.6 | 3.0 | 3.0 |
| **Benchmark**[2] | 23.8 | 7.3 | 7.3 |

*Source: Bloomberg, 31 March 2024. Past performance is not indicative of future performance.*

The fund returned 1.1% for the quarter, less than the benchmark. Since inception, the fund has returned 3% annualised.

While the fund has achieved positive returns since inception, it has lagged the benchmark, particularly in the last six months. The quarter ended March 2024 sees the second anniversary of the fund and a more detailed explanation should be offered. A key headwind to the fund has been not owning any of the Magnificent 7 or AI-beneficiary stocks which had a big impact in a narrow market. Since inception, the MSCI ACWI equal-weighted Index has returned -0.7% annualised, versus the fund's 3% mentioned above. Additionally, the fund has held a large cash position since inception, which was a benefit in 2022 as markets fell but has been a detractor thereafter. As we continue to find reasonably valued ideas into which we deploy capital this cash position will decrease.

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[1] Aylett Global Equity Fund – A1 Class
[2] MSCI ACWI TR* Indexed. Total return assumes dividends and distributions are reinvested.

On the stock selection front, we have unfortunately mistimed some of our stock calls, impacting performance. For the laggards we hold in the portfolio, we continue to believe they offer significant upside to the current prices. We have had some good stock picks which contributed to the fund but crucially none of these have replicated the performance of some of the bigger index names. The nature of our investing style, namely the fact that we do not want to overpay for companies, means that we will naturally own more consistent, lower valuation, cash-generative companies. We are not pleased with the performance so far but remain firm that patience will pay off in the fullness of time.

The quarter saw a mix of successes and challenges. Rubis, after a period of flat performance, delivered strong results and announced an attractive asset sale, boosting its year-to-date performance. Berkshire remained resilient and SBM Offshore demonstrated positive results and improved capital allocation with increased share buybacks. Bath & Body Works, after a weak 2023, showed signs of improvement, leading to a positive share price reaction. Finally, ConocoPhillips, our core energy holding, performed well on rising oil prices.

On the negative side was Victoria's Secret, who despite reasonable 2023 results, issued weak 2024 guidance thus dampening its share price. Even though they also reported decent results, Sabre continued to be a detractor after an underwhelming outlook for the year ahead. St James's Place announced an extraordinary charge for customer complaints, impacting their 2024 earnings and cash flow. This company has had to deal with significant changes and issues in the last year, however, they continue to attract inflows and clients in a tough UK wealth market and are valued as if all these challenges will continue, which we do not agree with. Delfi, a previous winner, faced setbacks due to fears of higher cocoa prices impacting profitability. We believe this situation is temporary, and Delfi is well-positioned for future growth. BHP’s share price came off in line with iron ore pricing in the quarter as Chinese housing and growth continue to be a concern for the market.

## CHANGES TO THE FUND

There were no new stocks purchased in the first quarter of 2024, but Mondi was sold as their proposed mega-acquisition of DS Smith was a concerning change from prior capital allocation behaviour.

There were no down weightings in Q1 2024. However, we focused on buying more of the stocks we knew well as we were given opportunities to do so.

## OUTLOOK

This quarter's dominant global theme is the growing realisation that US interest rate cuts will likely be delayed and less substantial than previously expected, impacting economies worldwide. We've been highlighting the potential persistence of inflation, a scenario that now seems to be unfolding. Despite this, global markets remain surprisingly strong, fuelled by robust growth and limited signs of major economic distress. The US market has shifted from a soft landing to a no-landing scenario as it seemingly powers ahead. We suspect the future will not play out this easily though, and higher costs and rates will affect businesses and consumers over time.

Our portfolio is carefully positioned for different scenarios. We hold cash-generative companies that offer substantial shareholder returns in weaker environments, and that can grow in stronger ones. It has been pleasing to see some larger holdings of the fund, which lagged for a while, starting to perform well in 2024. The cash balance of the fund allows us to take advantage of any upcoming volatility. We remain excited about the prospects for the companies we own and are actively working to add more to the fund.

As always, we thank you for the trust you place in us.

Walter Aylett

*31 March 2024*

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