EF Tellsons Endeavour Q1 2024 Commentary

growth with income & downside protection

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MARKET BACKDROP: Equity markets entered the New Year in much the same style as they concluded 2023, registering one of the strongest starts to a year in a century. Economic data in the US continued to point towards a ‘soft landing’ of moderating inflation and economic recovery without accelerating unemployment. Initially the market strength was concentrated in just one or two themes and sectors such as artificial intelligence and the so-called ‘magnificent seven’ (the large internet platforms) as interest rate markets continued to anticipate sequential rate cuts from central banks. As the quarter wore on, it became increasingly clear economic growth was more robust in the US even as it slowed almost to a halt in the rest of the world, and investor enthusiasm spread more broadly across other sectors of the economy such as industrials, banks and communication services. However, recent declines in inflation also started to slow in the context of full employment, higher wages, resilient consumers and a pick-up in business investment too. Prospects for growth and inflation started to diverge between the US and other regional economies with volatility in bond and currency markets as a consequence. By the end of the quarter, expectations for cuts in interest rates from central banks were being delayed well into the summer and discounted with bond yields higher than at the beginning of the year.

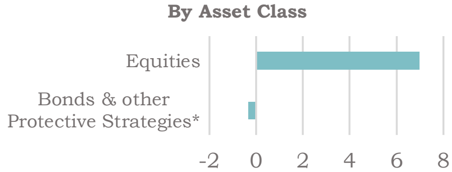
FUND PERFORMANCE: The Fund delivered a gain of 6.4% (net of fees and costs) for the quarter compared to the Fund’s benchmark which gained 0.6% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). Fund volatility was 7.9% compared to MSCI World GBP Hedged volatility of 16.8% (60 monthly returns annualised). The peer group IA Mixed Investments 20-60 Sector returned 1.9% for the period. As the prospects for re-accelerating growth in the economy took hold, especially in the US, gains were strongest in industrial and financial investments through the period, with holdings in JP Morgan, Caterpillar, Linde, RELX, WABTEC and Visa amongst the leading contributors to performance. Gains in technology and healthcare sectors weren’t far behind with notable contributions from Nvidia, Amazon, Novo Nordisk, Microsoft and Eli Lilly. Investments in the US significantly outperformed those in other regions though Japan and Europe performed well; investments in the UK disappointed through the period with the most significant detractors being Reckitt and Anglo American. Corporate bond holdings performed well through the period even as bond markets saw a significant move higher in yields (lower prices), more than offsetting losses in government bonds. Combined with the other protective elements of the fund, a small loss of 0.3% was generated for the period.

OUTLOOK: Economic strength in the US has forced the markets to reassess expectations for cuts in interest rates in the year ahead. The confidence in equity markets has consequently shifted from lower interest costs to revenue growth and rising profitability. Some commentators feel equity valuations have become stretched and tensions are rising in the various geo-political flashpoints around the world too. In the Endeavour Fund our invested companies are expected to deliver over 14% earnings growth on average over the forecast period, complemented by buybacks and dividends and priced at a 26 times forward price to earnings multiple: never has the portfolio overall displayed such high growth at a commensurately high price. However, just three companies account for one third of that growth expectation and account for 10% of the portfolio. Half of the remainder of the equity investments have a meaningfully lower valuation - and lower growth prospects too - but represent strong potential in the year ahead if the economic cycle does indeed re-accelerate as the managers believe likely. Inflation and interest rate expectations will likely remain volatile but tend downwards towards year end and the US presidential election. This should support a steady recovery elsewhere in the global economy, especially in the UK and Europe aided by the possibility of cuts in interest rates early in the summer, and Japan where the economy, wages and prices appear to have finally broken out of their decades of deflation.

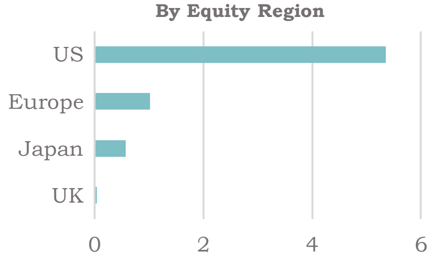
Tellsons Investors, April 2024

QUARTERLY RETURN CONTRIBUTION %

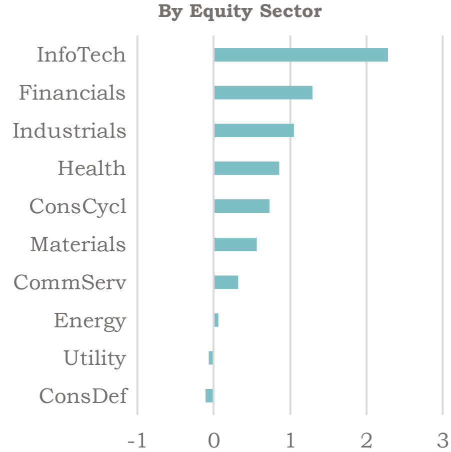
By Asset Class



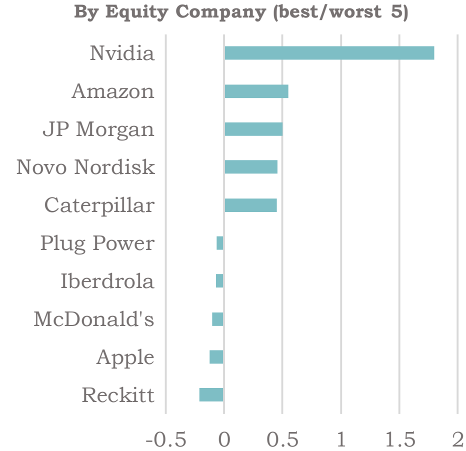
By Equity Region



By Equity Sector



By Equity Company (best/worst 5)



Quarterly Return Contribution: Local currency, gross of fees/costs. Materials sector excludes Precious Metals investments as they are included in Protective Strategies. **Notes:** Protective Strategies*: please see description on Fund Factsheet.