Endeavour World Equity

Capital growth with less volatility

Q3 2024

Commentary

World equity markets rose during the quarter but under a different leadership than investors have become familiar with in recent years. As inflation continues to progress towards central bank targets and the first cuts to interest rates herald the beginning of an easing cycle, both at home in the UK and abroad, so too the prospects for a reacceleration in the economic cycle are starting to lift. Cyclical industries whose revenues are most closely linked to expansion in the economy and companies' earnings most sensitive to financing costs can start to improve. Your managers see this as the first real fundamental and organic start to a business cycle since before the Financial Crisis. Bank, corporate, and household balance sheets are healed and healthy, free cashflow generation is plentiful, consumer demand is perhaps more normalised after pandemic supports while industrial production may be nearing a trough and set to recover from its slumbers.

Performance in the Endeavour Fund reflected the changed market leadership during the period, where Cyclical Leadership investments performed strongest to offset poorer performance in Secular Growth and Defensive Strength investments, especially Technology, Healthcare and Communication Services. This quarter saw something of a reversal of the fortunes of the previous quarter, leading the way instead with Utilities, Industrials, Financials, Materials and Consumer Discretionary sector investments. The Fund returned -0.3% in local currency terms and -3.8% in GBP terms (net) compared to the world index 6.7% in USD and 0.7% in GBP terms: sterling appreciated strongly against the currencies of overseas investments in the Fund, 5.8% versus the US dollar alone. Volatility was 8% vs world equity volatility of 17% (MSCI All Country World Index), although this measure is a rolling three-year measure and as such represents mostly the volatility of the predecessor Endeavour Mixed Assets Fund. Iberdrola, the Spanish renewable energy utility, benefited from weather conditions driving higher hydroelectric output and subsequent earnings upgrades from analysts. Linde, the industrial gas company, continued to squeeze costs and enjoyed higher gas pricing to drive margin improvements. McDonald's delivered better results than expected with investors encouraged that the significant investments over the past two years in new restaurant layouts and new venues was driving higher visitor numbers. Together with innovation in digital and a hard-driving focus on value meal deals, management reiterated the medium-term goal remained on track for 13% annual growth in 'active users' (three-monthly) to 250m over the forecast period to 2027. Lowe's the US home improvements company confirmed a fairly downbeat guidance for a slow housing market but was nonetheless able to deliver higher gross margins which were welcomed by investors who were anticipating more to come as interest rates fall and demand for housing likely to reaccelerate. Caterpillar results were strong in the quarter driven by higher margins and a growing order book especially in its Energy and Transport division where the firm is a leader in power generation for data centres, including solar turbines, gas turbines and back-up generators. Westinghouse AirBrake delivered better than expected earnings in its largest and most profitable division of US freight equipment where revenues were up 13% and strong operating leverage drove 34% better profit on increased deliveries of locomotives in the supportive context of continued railroad investment in both the US and international markets in recent years. JP Morgan looks increasingly well-positioned for the 'soft landing' markets are steadily coming around to, with a strong capital position, resilient lending margins, higher deposit flows, ongoing strength in trading and securities underwriting and a tentative recovery in investment banking activity.

Weak performances came from Healthcare, Energy and Technology. Novo Nordisk performed poorly during the quarter as the company struggled to scale production to meet booming demand for its weight-loss blockbuster drug, Wegovy. Your managers do not see this as a fundamental problem to undermine the industry-leading potential for this treatment, either in the short or longer-term, and will likely be looking for opportunity to add further to this investment alongside its US competitor Eli Lilly. The Fund's only energy holding is Shell and this suffered as the oil price declined significantly during the period on slower demand growth, particularly out of China, and as cracks started to appear in OPEC quota commitments. Geopolitical risk in the Middle East keeps the oil price volatile but if the global economic cycle does re-accelerate into next year, your managers expect oil supply to remain stable and the oil price to firm back towards $75-80/bbl. Alphabet and Microsoft were weak during the quarter on concerns their substantial investments in AI infrastructure would continue to weigh down their earnings and skepticism around the level and the timing of the return they expect on those investments. In Europe an important company in the global semiconductor supply chain is ASML based in Holland whose machines are critical in the manufacture of the most advanced chip designs. The company is struggling with widening trade restrictions from Western governments impacting some of their end markets and some of their bigger customers grapple with weakening demand and excess inventories in the more commoditised industrial, electronic and automotive segments of the semi conductor cycle.

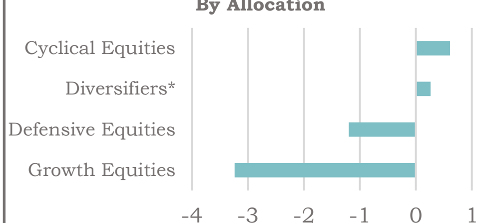
As inflation and interest rates continue lower, your managers are constructive on the outlook for both a resilient consumer and a recovery in business investment to lift economic activity in the year ahead, with leadership from the US to bolster fragility in other regions of the global economy. Your managers believe there is significant upside for portfolio earnings growth of nearer 20% in the twelve-month forecast. Investors will, however, remain wary of the political risks that abound, in the budget at home, tensions in the Middle East and the US election in November.

Fund Managers: Joe Bunting, Christoph Wiedebach

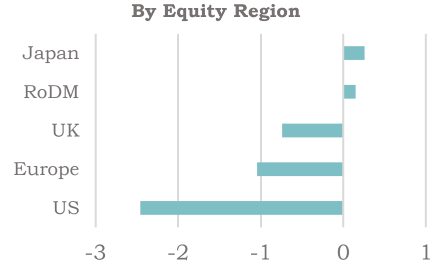
Tellsons Investors, October 2024

QUARTERLY RETURN CONTRIBUTION %

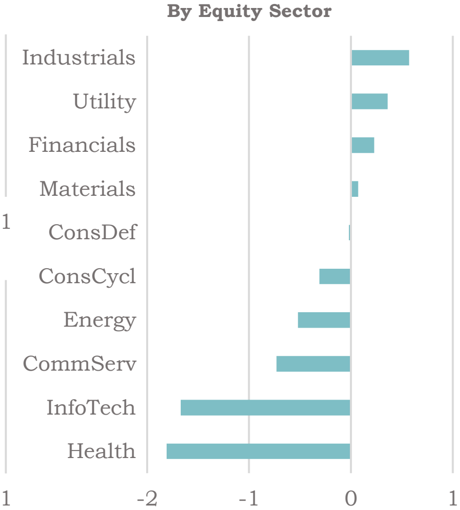
By Allocation



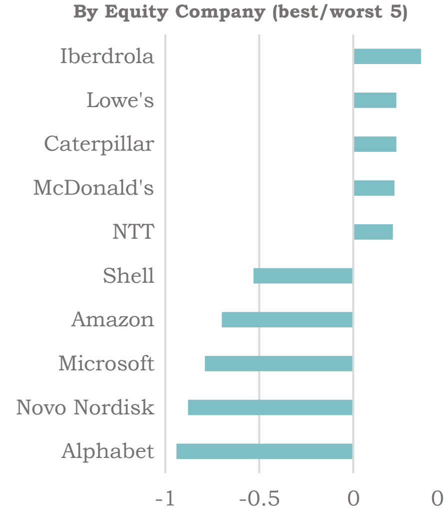
By Equity Region



By Equity Sector



By Equity Company (best/worst 5)



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