

## Monthly Market Commentary

The third quarter was a busy one for global equities. Most regional indices ended near all-time highs with a considerable increase in volatility. The macro environment continued to worsen in most regions, but markets were buoyed by a rate cut in the US and fiscal stimulus plans in China. Market leadership shifted away from big tech while market breadth widened. Small cap outperformed.

Against a complex backdrop there was a notable spike in market volatility. US unemployment hit a cycle high in July and remained elevated at the end of the quarter. Inflation softened, paving the way for the first Fed rate cut this cycle. We also saw two assassination attempts on former President Trump and escalating tensions in the Middle East. The “yen carry-trade” selloff in Japan and the “deflationary spiral fear” selloff in China were followed by sharp rebounds. Despite the turmoil, equity markets showed resilience and mostly rose.

The US equity market was again amongst the best performing globally but with a notable shift in leadership. Mega-cap tech underperformed (the tech-heavy NASDAQ was up just 2.6%) while small-caps outperformed (the S&P 600 small-cap index popped 9.6%). The broad-based and large-cap S&P500 ended somewhere in between, up 5.5%. European indices made relatively small gains despite signs of worsening economic prospects. The pan-European Stoxx 600 was up 2.2%, led by the German DAX, up 6% while the French CAC was up 2.1%.

In China, the Shanghai composite surged 12.4% in the quarter, reversing an earlier slump, helped by freshly announced fiscal and monetary stimulus. Japan was the only major equity market in the red, with the Nikkei down -4.2%. The index was weighed down by a very strong yen that rallied 12% versus the US dollar.

The change in market leadership was also evident across sectors. Utilities was the best performing sector this quarter by some margin, up 16.9%, offering relative safety amidst rising uncertainty, and helped by falling interest rates. Big tech underperformed relative to the rest of the market with Tech (NVDA, AAPL, MSFT) and Communication Services (Google, Meta) up only a modest 1.4% and 2.6%, respectively. Energy was the only sector to decline, down -3.2% on the back of lower oil prices.

The long anticipated first Fed rate cut finally happened in September. The US 10-year yield fell by 62 basis points to 3.78% at the end of the quarter. Volatility rose significantly from a low of 12.4 points at the end of June to 16.7 in September. The US dollar weakened against all major

currencies while the yen was particularly strong, up 12% versus the US dollar as the Bank of Japan started tightening policy. The price of oil dropped a significant -16.4% because of a change in Saudi Arabia’s production strategy that meant the country will boost its production.

The top contributors to portfolio performance this quarter were pharmaceutical majors Gilead and Sanofi. Apart from better-than-expected quarterly earnings, both companies saw positive news from successful drug development trials. Another top contributor to performance was Bunzl, a global distributor headquartered in the UK. A strong earnings report and an upgrade to forward guidance boosted the shares.

The largest detractor to performance in the quarter was Pluxee, a French employee benefits provider. Concerns over more stringent regulations have seen its shares meaningfully de-rate in recent months. The stock is trading on very attractive headline multiples (~11x FY25e EPS) while the business continues to grow at a reasonable clip (Q3 24 operating revenue +11%) and remains highly cash generative. Another detractor was Subaru, a Japanese automaker. A stronger yen and weakening demand for cars globally have contributed to the decline.

This quarter the Fund initiated a new position in Randstad, a global staffing business. The shares offer an attractive risk/reward skew given its depressed valuation despite potential cyclical risks. The business has a very flexible cost base and a strong track record of managing costs. A solid balance sheet also means the business can keep funding shareholder returns (buybacks and special dividends) should P&L weakness persist. The Fund exited two positions in the quarter: NN, a Dutch insurance business, and Henry Schein, a US dental supplies distributor, both on valuation grounds.