Global Select Fund

Investment Commentary

Quarterly review - Q1 2025

Q1 Returns – US underperforms and Magnificent 7 lose their shine:

- US underperforms Rest of the World by 10.5% in Q1 – the most in 23 years *
- Mag 7 down 18%: Nasdaq: -13%, S&P 500: -7%, MSCI Europe: +7%, MSCI China: +12%
- MSCI World SmallCap: -6.6% (1.6% behind MSCI World Large Cap)

Earnings / Valuations:

- Global SmallCap on largest P/E discount v. LargeCap (19%) in 20+ years
- 2025e and 2026e Consensus EPS growth well ahead of LargeCap

*All figures in GBP. * Based on the MSCI USA v. the MSCI World ex-USA (Total Returns).*

The quarter proved volatile for equity markets, reflecting significant shifts in investor sentiment amid macroeconomic uncertainty. The consensus trade at the beginning of the year was to "*overweight the US (again)*", but chasing last year's performance began to look misguided as the quarter progressed. The Bank of America *Global Fund Manager Survey*, released on 18 March, showed the biggest reduction in US exposure ever in its 24-year history. The same survey had revealed in December 2024 the most overweight position in US equities ever. By the end of the quarter, the US had underperformed the Rest of the World by 10.5% – the most significant underperformance for 23 years.

European equity markets were a major beneficiary of this shift, seeing their best start to a year since the mid-1980s, helped by a significant decline in the Magnificent Seven. This remarkable shift was supported by Germany's historic €500 billion fiscal stimulus and increased defence spending.

If diversification became the aim of the game, it did not yet extend to smaller companies. SmallCap underperformed LargeCap across all key developed markets, with UK SmallCap seeing its worst relative quarter since the end of 2008. Safe haven assets, such as gold and government bonds, benefited from a flight to safety.

Despite this, the Portfolio held up relatively well, even in the face of a Value rally driven by sectors where our exposure is limited: defence; materials and utilities.

Performance & Portfolio

During the quarter, the NAV of the Sterling Accumulation Share Class declined by 3.5%, an outperformance of 1.2% versus the MSCI World SMidCap Index.

The **strongest contributors** during the quarter were:

- **Rollins** – the leading US pest management business continued to post strong growth and margin uplift as it gained market share.
- **Fortnox** – the Swedish provider of cloud-based financial administration software for SMEs soared after receiving a joint cash offer from First Kraft and private equity group EQT at a 38% premium to the previous closing share price.
- **American Water Works** – the largest publicly traded water utility in the US rose as investors continued to welcome its investment plan to expand its water and wastewater infrastructure offering.

The **weakest contributors** during the quarter were:

- **Manhattan Associates** – the US provider of supply chain and warehouse management software declined due to a sharp slowdown in customer implementations driven by budget constraints at major retailers, despite record bookings suggesting long-term strategic demand remains intact.

- **Bruker** – the US supplier of scientific instruments for life sciences and materials research suffered from fears around US academic research funding under the Trump administration.
- **Trex** – the US producer of composite decking and outdoor living products traded lower due to weaker consumer confidence.

Engagement & ESG

We engaged with **Games Workshop** to discuss the remuneration policy, with a focus on ensuring alignment with the company's distinctive culture while enhancing its ability to attract and retain senior talent. A key topic was the proposed Triennial Share Awards scheme, designed as an alternative to a conventional LTIP. This reflected internal reluctance towards LTIPs following prior implementation challenges. We have since reviewed the consultation outcome and are supportive of the updated policy ahead of the upcoming AGM.

We also engaged with **VZ Holdings** regarding their MSCI ESG rating, which appeared low due to data gaps rather than a lack of disclosure. The company explained that the rating process requires a detailed review and rebuttal of data points, which can delay corrections. VZ plans to provide feedback to MSCI to address the identified discrepancies. We will continue to monitor developments and encourage accurate representation of ESG data.

Outlook

We continue to believe that one of the key investment themes this year will be diversification away from US LargeCaps. These companies have come to dominate global equity markets to such a degree that overexposure – whether intentional or through passive indices – is now commonplace.

So far, the rotation has primarily benefited larger companies in regions like Europe, but in our view, we are in the early stages. Despite share price weakness in Q1, the MegaCap US tech companies still represented around 30% of the S&P 500 at the end of March. Many investors remain tethered to the performance of a few names, even as the broader outlook for US corporate earnings softens.

Adding complexity is an escalating global trade war, potentially echoing the turbulence of the 1930s. President Trump's proposed tariffs are likely to trigger economic downgrades – though revisions and forecasts will be clouded by considerable uncertainty. History suggests that investors often react strongly to macroeconomic headlines, making bold allocation decisions that are difficult to time and frequently misjudged. Our Analysts have been modelling various tariff scenarios. Most companies in the Fund with US exposure either have local manufacturing capabilities or provide intangible services like education and software, limiting direct tariff impact.

Rather than second-guessing policy swings, we are staying close to our companies and asking what they are seeing on the ground. Each business is affected differently by tariffs and they are having to adapt in real time. One CEO we met on a recent US trip summed it up candidly: *"We charged our Canadian customers X on Tuesday, X +25% on Wednesday, and X again on Thursday."* The dislocation caused by shifting trade policy often gets lost in the noise – but not to those running the businesses.

That's why we focus on fundamentals. We continue to back the Quality characteristics of the Global Select Fund: a concentrated Portfolio of what we believe are the best Small & MidCap companies globally. Investing in this Fund is not a macro call. Nor is it simply a decision about size or style. It is about ensuring your Portfolio includes a thoughtfully curated, diversified selection of world-class businesses, wherever they may be listed.

George Cooke
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