

GLOBAL INNOVATION FUND

Investment Commentary

Q3 2024



Market review

Style headwinds continued in the third quarter. Quality underperformed by 2%, while SMidCap Growth also trailed Value by a similar amount. For those of us dedicated to Smaller Companies, it's been a challenging period. However, we see opportunity in this underappreciated sector—less attention heightens the chance of discovering a “hidden gem” and we are keenly searching for them, knowing they hold the potential to become tomorrow's LargeCaps.

The summer months were punctuated by periods of market volatility, particularly in August. This was the result of weaker than expected US economic data, an interest rate hike from the Bank of Japan; and seasonally low liquidity. Market jitters eased in September as the Federal Reserve finally reduced interest rates, while policy makers in Japan also sought to reassure investors. This activity helped propel the Value segment of the equity market, which outperformed Growth over the quarter.

Portfolio

During the quarter, the NAV of the Sterling Accumulation B Share Class declined by 2.6%, an underperformance of 6% versus the MSCI World SMidCap Index.

The strongest contributions during the quarter came from **Esker**, the French provider of cloud software solutions to make companies' cash conversion cycle more efficient, which rose as it announced a recommended offer from Bridgepoint & General Atlantic. **TechnologyOne**, the

Australian provider of cloud-based ERP solutions to local government and higher education markets, rose following a well-received capital markets day. **Axon**, the provider of tasers, bodycams and digital evidence management systems, gained due to well-received new product launches.

The weakest contributions came from **Entegris**, a materials solutions provider to the semiconductor industry, which declined due to a delayed recovery in its end markets. **BE Semiconductor**, a leading packaging tool provider in the semiconductor sector, also weakened as it faced similar challenges with postponed market recovery. **Nova**, a metrology equipment provider to the semiconductor industry, fell amid concerns over declining investment trends within the industry.

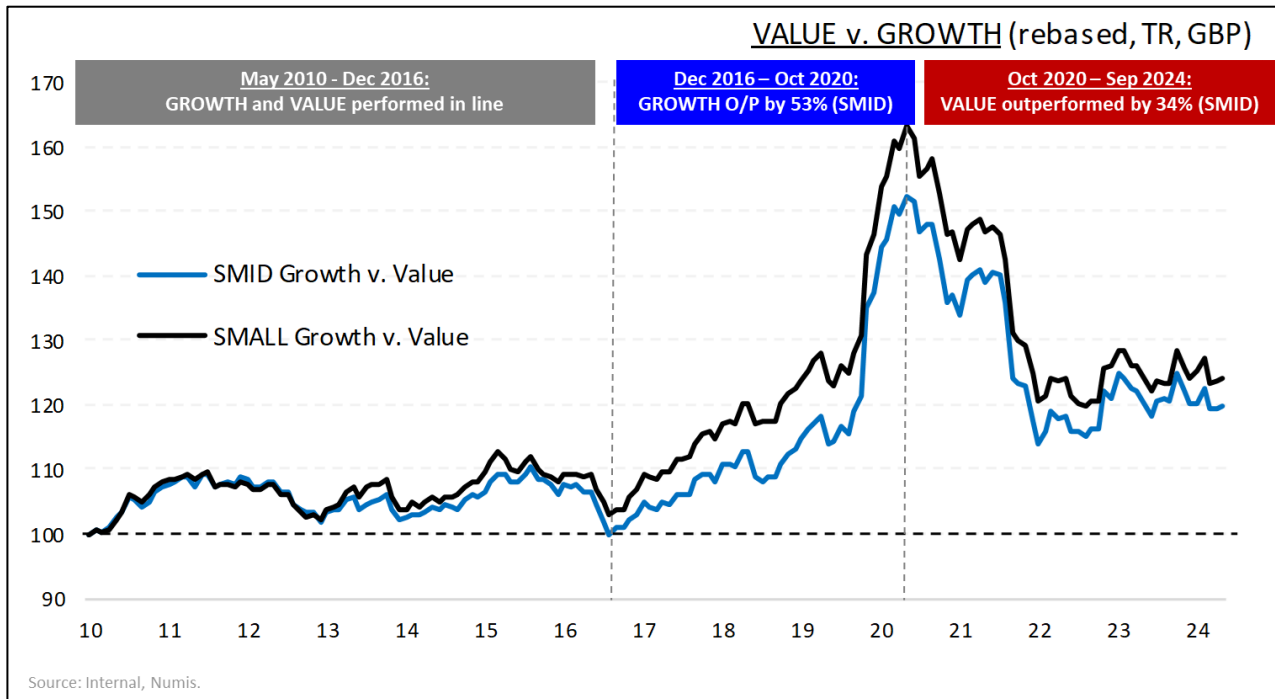
Outlook

Despite the good recent performance for the smaller company sector, we remain in a tough period for the asset class. Global SMidCap trails its LargeCap peer over 6 months; 9 months; 1 year; 3 years; 5 and even 10 years¹. Such a run is almost unprecedented, but most of the impact can be traced back to the very difficult year in 2022 and the stellar performance of US MegaCaps. History suggests that this will not last forever.

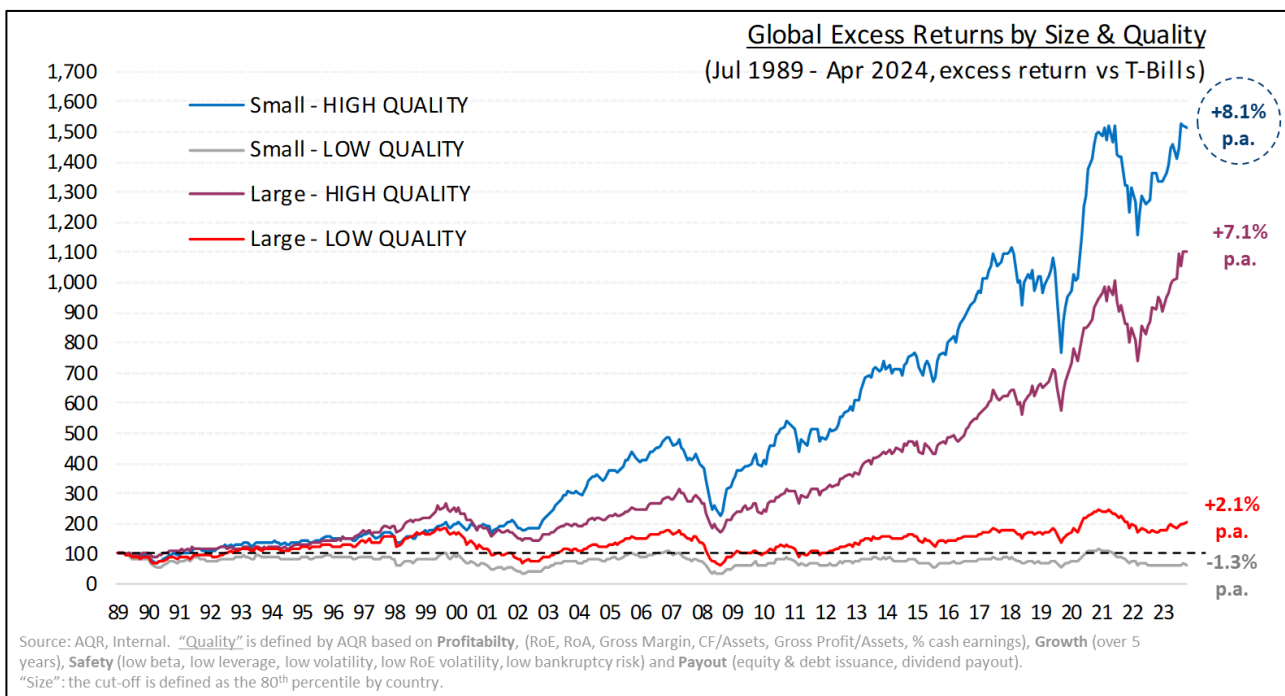
Over the last few months, we have noticed a significant uptick in interest in the asset class as investors look for more attractively valued parts of the equity market. There are reasons for optimism regarding the outlook for smaller companies. Consensus estimates suggest that Global SMidCap will deliver EPS growth of 16% next year, ahead of LargeCap's forecast of just 12% (in USD). Given SMidCap has historically traded at a premium of over 10% versus LargeCap, its current discount to LargeCap of 16% is evidence that the asset class offers exceptional relative value today.

¹ All figures to 30 September 2024 in GBP

Finally, when it comes to our style of investing – Quality Growth - we want to end this note with two charts. The first is a reminder of the performance see-saw between the Growth and Value investing styles over the last 8 years:



We have stuck to our style throughout this difficult period. We continue to believe that investing in *Quality Growth* will serve our clients well for a very simple reason: it is where investors have made the best returns over the long-term.



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