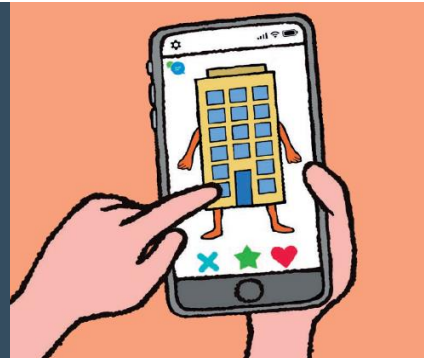


GLOBAL SELECT FUND

Investment Commentary

Q3 2024



Market review

The “SmallCap Effect¹” showed signs of life in the third quarter of 2024. SmallCap outperformed its LargeCap peer by a healthy 3.4% across the developed world. The outperformance of SMidCap was even more impressive at 3.7%².

This marks only the second quarter of outperformance for Smaller Companies since the final quarter of 2022 (the other being Q4 2023). 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.

¹ The “Small Cap Effect” refers to the observed phenomenon in financial markets where stocks of smaller companies (SmallCaps) tend to outperform those of larger companies (LargeCaps) over the long term. This effect was first documented in academic literature by Rolf Banz in 1981. Banz's study found that SmallCaps, on average, had higher risk-adjusted returns than their LargeCap counterparts, which could not be fully explained by traditional asset pricing models like the Capital Asset Pricing Model (CAPM).

² Returns in GBP

Portfolio

During the quarter, the NAV of the Sterling Accumulation Share Class gained 5.5%, an outperformance of 2.1% 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. **Adyen**, the global payments platform, rose on the back of the good half-year results aided by market share gains. **MTU Aero Engines**, the manufacturer of engine components and provider of MRO services, saw its stock rise amid signs that geared-turbo-fan repair activities are progressing well, alongside the potential for positive updates at the November Capital Markets Day.

The weakest contributions came from **NCAB**, the full-service supplier of PCBs, which underperformed after reducing Q3 earnings expectations on the back of continued weakness in European markets (particularly in Germany). **Icon**, the leading provider of clinical trial services, gave up some of its recent gains following commentary that the pharmaceutical industry is exhibiting cautious spending behaviour. **Trex**, the world's largest manufacturer of wood-alternative decking and railing, weakened following lower DIY demand and an inventory build.

Outlook

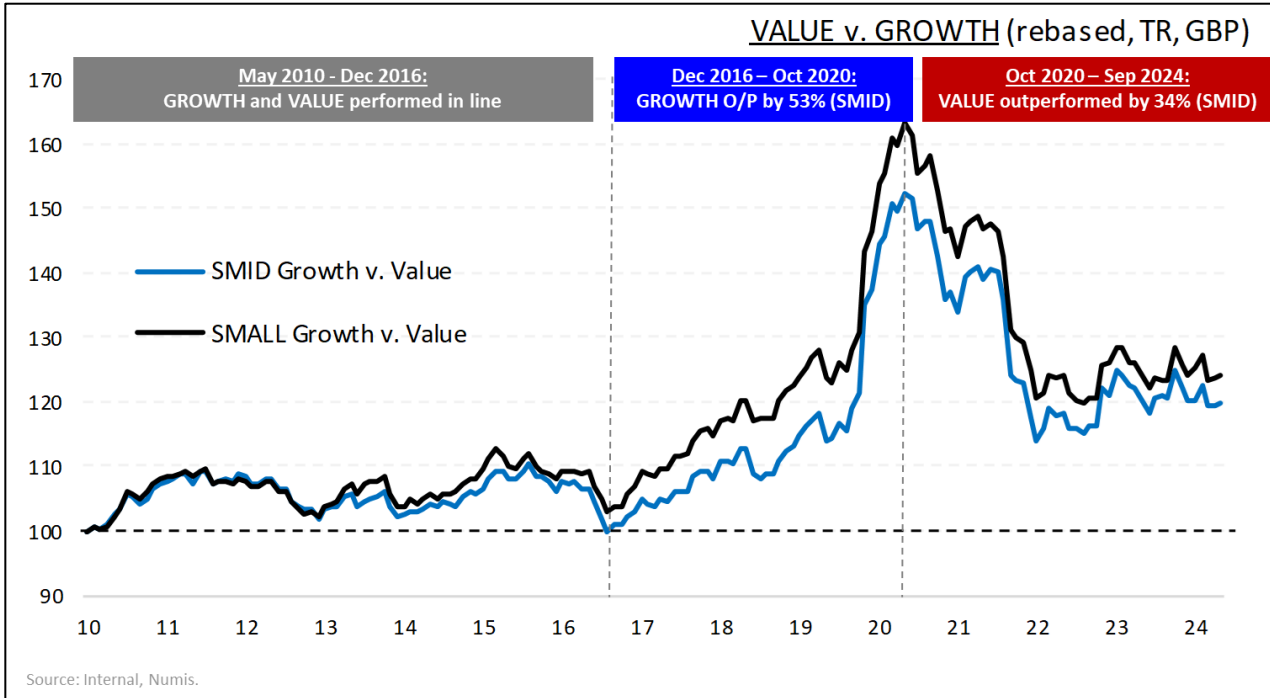
Despite the good recent performance for the smaller company sector, we remain in a tough period for the asset class. Global SMidCap trails its LargeCap peer over 6 months; 9 months; 1 year; 3 years; 5 and even 10 years³. Such a run is almost unprecedented, but most of the impact can be traced back to 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

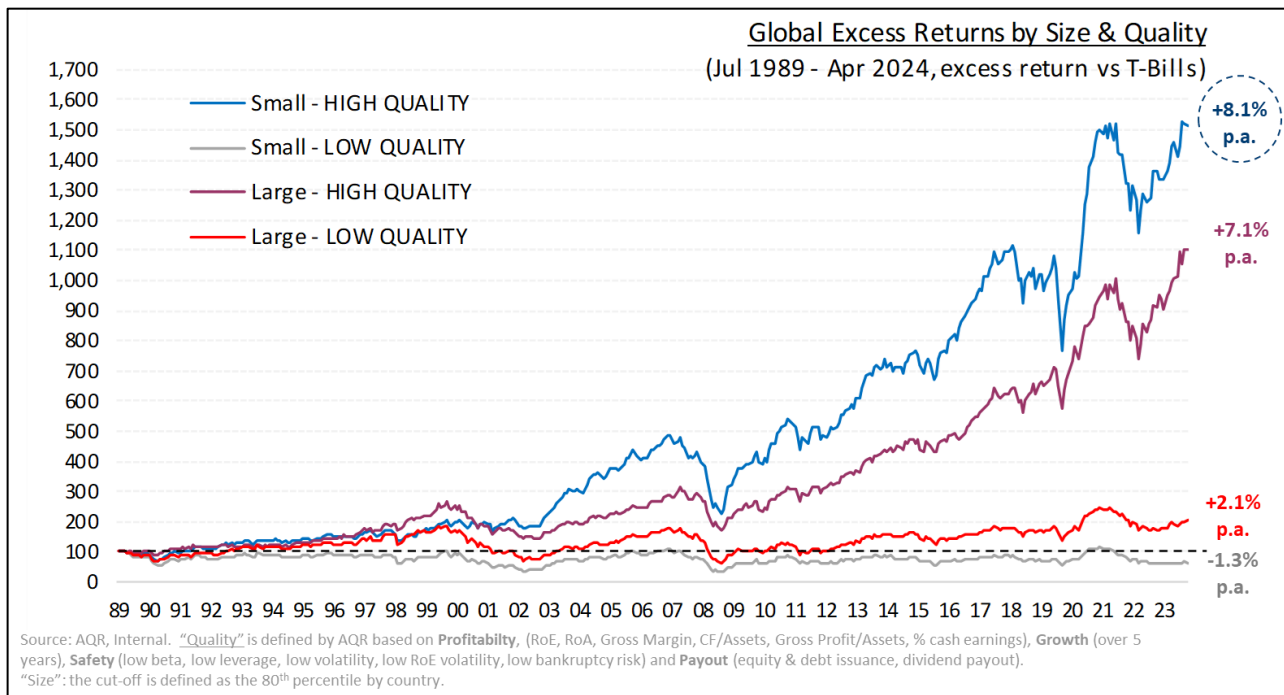
³ All figures to 30 September 2024 in GBP

exceptional relative value today.

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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