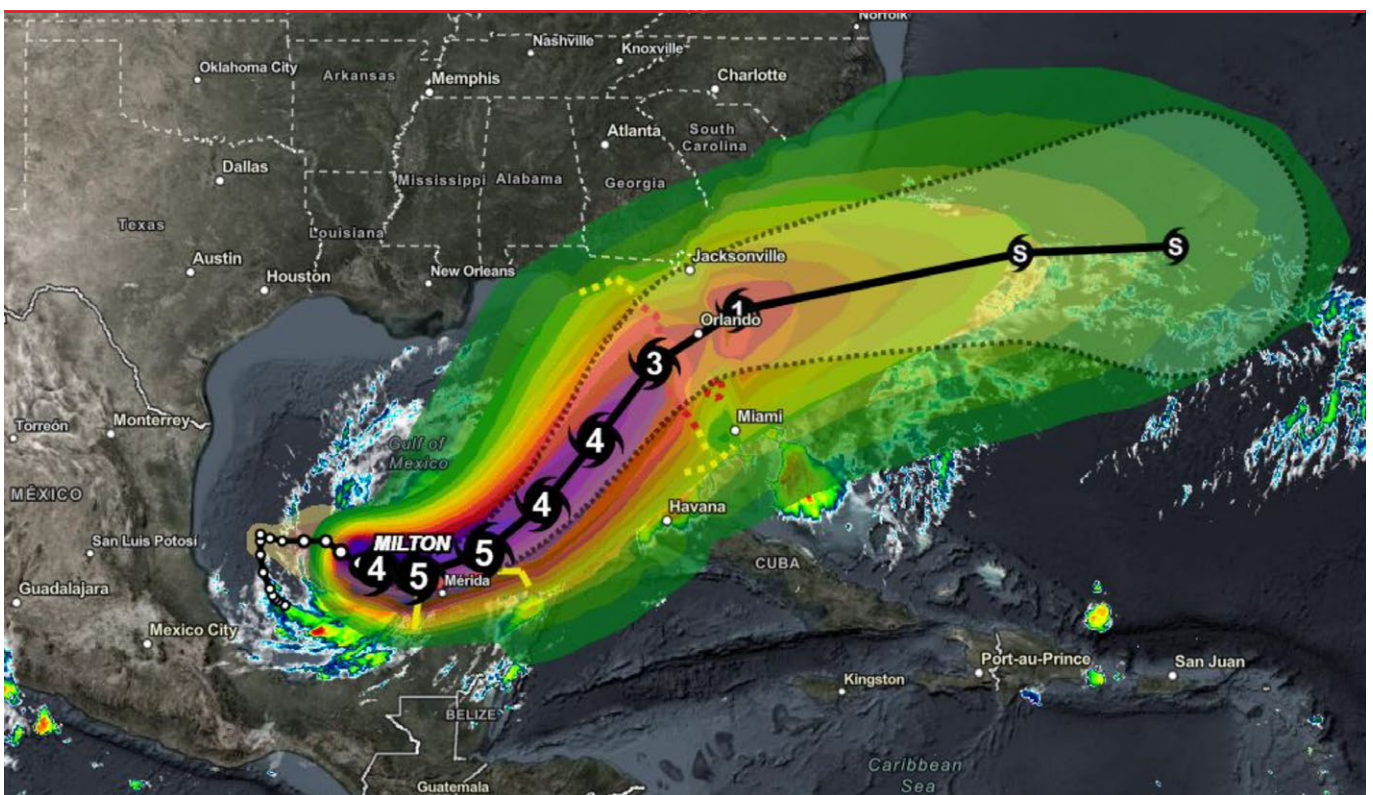




Ravenscroft

Quarterly Newsletter Q3 2024

COMMENTARY



Source: Environmental Systems Research Institute

by MARK BOUSFIELD

“Mmm, a flood is threatening
My very life today
Gimme, gimme shelter
Or I’m going to fade away.”

Gimme Shelter - Rolling Stones, 1969

In the run-up to this quarter’s commentary whilst reading and watching news stories about the devastating impact Hurricane Helene and Milton have had across the southeast of America, I was struck (not for the first time) by the metaphorical similarities between storms, how we prepare for and navigate them, and the volatility we encounter when investing into financial markets.

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Over time our ability to forecast serious storms has, unlike forecasting markets, improved dramatically. However, that doesn't necessarily mean that we can prepare for a hurricane any better than we have in the past: they tend to ravage anything in their way regardless! This is only amplified by the fact that for many of us there is a very deep reluctance to abandon what is probably the most valuable investment we'll ever make – our home.

Investors can use hedging strategies to try to insulate their investments from potential market volatility. This will sometimes work (always supposing that our forecast was correct) and sometimes not; it will almost always cost money.

While portfolio hedges – or trying to time your money in and out of markets – can seem like an attractive (and sensible) thing to do when a financial cataclysm is forecast, the truth is that implementing such strategies successfully is extremely challenging.

In our experience a more reliable way to weather storms, year after year and century over century, is simply to recognise that they will occur, construct our portfolio accordingly and get on with one's life. The same can be said for navigating markets: the keys to success are to understand the world you live in and then invest for the long term. Which, in our view, is best done by identifying investment themes that will stand the test of time and retain their relevancy now, during any storms and well into the future.

One of the themes that we have invested into for many years is the rise, over time, of emerging market economies and, particularly, the emerging consumer. When we first opened the doors at Ravenscroft Investment Management, in 2008, the financial world was in crisis mode as we entered what is now referred to as the Global Financial Crisis. As banks were bailed out across the world and China stepped in with an enormous £300bn stimulus plan, it was easy to imagine an economic power shift from the developed world to the developing economies that had less debt, better demographics and good growth prospects. In fact, and as so often

happens in forecasting, markets have done the exact opposite. Since 2008, US businesses have largely outperformed: over the last year or so this has been even more starkly illustrated by the turbo-charged performance of the now-infamous Magnificent 7. Meanwhile, emerging-market stocks have de-rated to the point where they now trade at a material discount to their developed-market peers.

Nevertheless, the long-term theme of an emerging global middle class remains firmly intact. Recently, we have seen emerging economies outpacing the developed world on an output-per-capita basis. As Ruchis Sharma, chair of Rockefeller International, points out, this isn't just because of the China effect. It is much broader than that. Earnings are expanding faster, as are margins; moreover, emerging markets are less geared (less debt) and trading at cheaper valuations. This is a very positive mixture and we are beginning to see this reflected in markets.

Within your portfolios we have a diverse set of themes because we know that at any point in time some will be in the doldrums – as our emerging consumer has been – while others are catching the wind, as technology has over the past 18 months. A diverse combination of themes fuels a smoother and more consistent engine of returns for you, our clients, since not all cylinders need to fire at the same time. This is why it has been pleasing this quarter to see emerging markets step up just as technology hit a relatively soft patch. At the margin, our job is to look out for areas that may have become overheated or that have fallen deeply out of favour and tilt your portfolios accordingly. Our most important job, however, is to remain steadfastly focused on those things that help us to weather the financial storms regardless. While we may be buffeted along the way and have better and worse years of short-term returns, it is only by remaining focused on long-term investment into quality assets – all identified by long-term themes at sensible prices – that we can continue to be confident that your portfolios will not only endure, but also give you the best chance of achieving your financial goals.

PORTFOLIOS

CAUTIOUS PORTFOLIOS: LOWER RISK

by BOB TANNAHILL

Objective: The Cautious portfolio's objective is to increase its value by predominantly allocating capital to fixed income investments. The portfolio can also invest into global blue-chip equities with strong cash-flows and progressive dividend policies. A neutral position would be a 75% bond/25% equity split and the maximum equity-weighting of approximately 35%. The cash generated can be re-invested to provide capital or taken as an income stream.

The Cautious strategy returned 3.3% ⁽¹⁾ over the third quarter - ahead of the sector, which returned 2.5% ⁽²⁾.

The third quarter saw a change in market dynamics with the infamous mega-tech stocks, dubbed the Magnificent 7, peaking in early July before suffering a material correction and ending the quarter approximately

flat. At the same time, we had the first interest-rate cut from the Federal Reserve in the form of a "jumbo" 0.5% on the back of a continued deceleration in inflation and a few high unemployment numbers. While the "soft landing" narrative came out of the quarter largely intact, we did see a clear change in the underlying market dynamics; this can be seen in the performance of our underlying funds. Most notably, there was a broad shift towards income-bearing assets in the markets, on both the equity and bond sides of the portfolio. As investors start to take cuts more seriously this was a positive tailwind that lifted the whole fund.

Equities were the strongest performers, backed by growing confidence in the goldilocks "soft landing" scenario. Pleasingly, within our equities we benefitted from a few helpful trends. A number of support measures from the Chinese authorities helped lift our emerging-market positions, especially Prusik (+9.2%) ⁽³⁾, which has been bargain-hunting in Hong Kong for some time. At the same time, KBI (+6.4%) ⁽⁴⁾ benefitted from a rebound in our environmental solutions positions. In previous quarters, these positions had been painful while large-tech stocks led the market, so it is pleasing to see our faith in them being rewarded when the tech stocks flattened. Only time will tell if this dynamic will continue, or if big tech has another leg-up in it.

The bond side of the portfolio was very well behaved with our core positions rising between +4.8% (M&G) ⁽⁵⁾ and +2.5% (Royal London) ⁽⁶⁾. With the big Fed rate-cut, funds with more interest-rate sensitivity



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PORTFOLIOS

("duration") and more exposure to the Dollar bond market did best. Thus, it was not surprising to see M&G and Jupiter (+4.2%)⁽⁷⁾ leading the pack while our shorter-dated funds, such as Royal London, lagged. While longer-dated bonds will do better in periods when investors focus on cuts, these gains can quickly fade when guesses about the future change. Accordingly, our approach is to focus on the strong income streams that bonds offer today while avoiding bets on the vagaries of future interest-rates as far as possible.

In our diversifiers bucket, all three positions made money although our near-cash asset (iShares £ Ultrashort ETF) was the overall laggard of the portfolio rising a modest 1.3%⁽⁸⁾ in line with its income yield. Fermat posted a strong quarter, returning 5.5%⁽⁹⁾. We did have a catastrophe towards the end of the quarter in the form of hurricane Helene hitting Florida's "big bend" region. Initial estimates of the damage do not suggest the fund will experience any material negative consequences. Our remaining defensive fund, Ruffer, also posted a positive period at +3.6%⁽¹⁰⁾. The fund did its job in early August when equity markets took a sharp dive; it popped over 4% in around a week helping to offset losses elsewhere in the portfolio. More importantly, this is precisely the type of behaviour that we had hoped the fund would display when we bought it.

We made no changes to the portfolio over the quarter.

Looking forward, the portfolio remains in a good place with our equity funds looking broadly fair value, with some pockets of attractive value in funds such as KBI and Prusik. On the bond side, we are being paid an attractive income; the pair forming a solid base for future returns, market conditions permitting. The next challenge for the portfolio may be if we see bond yields fall materially. While this would provide welcome capital gains in the short term, it would increase the risk of future volatility and force us to make tougher choices about how to generate income. We will, however, cross that bridge if we come to it.

12 MONTHS ROLLING PERFORMANCE

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	Annualised Since Inception 31/12/11
Cautious Portfolio	10.5%	5.0%	-10.2%	5.6%	1.8%	4.3%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results.

Source data: Ravenscroft (CI) Limited and FE fundinfo; collated 10/10/2024.

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HIGHER INCOME PORTFOLIOS: MEDIUM RISK

BY BOB TANNAHILL

Objective: The Higher Income portfolio's objective is to provide investors with a current income that is higher than cash rates. The current income target is 6%. The portfolio invests across a diverse range of assets including dividend paying equities, investment grade and high yield bond and infrastructure investments. The cash generated is taken as an income stream.

Over the quarter the Higher Income strategy returned 3.1%⁽¹¹⁾ – ahead of the run-rate implied by the yield (circa 6%) of 15% per quarter – as capital values rose thanks to the dynamics outlined below. The strategy is well on track to achieve its goal for the year of a 6% income yield and a flat or rising capital value.

The third quarter saw a change in market dynamics with the infamous mega-tech stocks, dubbed the Magnificent 7, peaking in early July before suffering a material correction and ending the quarter approximately flat. At the same time, we had the first interest-rate cut from the Federal Reserve in the form of a "jumbo" 0.5% cut on the back of a continued deceleration in inflation and a few high unemployment numbers. While the "soft landing" narrative came out of the quarter largely intact we did see a clear change in the underlying market dynamics, and this can be seen in the performance of our underlying funds. Most notably a broad shift towards income bearing assets in the markets, both on the equity and the bond side of the portfolio. As investors start to take cuts more

seriously, this was a positive tailwind that lifted the whole fund.

On the equity side our developed-market positions did well as investor confidence in the goldilocks "soft landing" narrative grew. Schroder was up +5.6%⁽¹²⁾ and Fidelity was up +3.8%⁽¹³⁾. The laggard was Pacific, which marginally fell (-0.5%)⁽¹⁴⁾ due to weakness in emerging markets outside of Asia. This weakness comes on the back of a very strong period for the fund and does not cause us any specific concern.

The core bond positions in the portfolio were broadly solid, ranging from TwentyFour Income at +3.9%⁽¹⁵⁾ to iShares £ Ultrashort ETF +1.3%⁽¹⁶⁾. The weaker performers were generally the lower-risk or shorter-dated positions, so the pattern is consistent with our understanding.

The two, more volatile, investment trust positions continued to bounce around; however, the volatility was more on the upside in the third quarter. The Renewables Infrastructure Group ("TRIG") rallied strongly over the quarter, ending up +11.3%⁽¹⁷⁾ while Sequoia Economic Infrastructure Income was also up, albeit a lesser +2.4%⁽¹⁸⁾. TRIG hit something of a sweet spot over the quarter as a combination of demand for both income assets and environmental solutions helped drive the price higher. This was aided by positive noises coming from the FCA about the handling of investment trust costs within client disclosures for UK firms; this should act as a technical tailwind for the whole UK investment trust space.

We made one change during the quarter, which was to sell our direct UK government bond position, following an interest payment, and pro-rate the proceeds across a number of other holdings. We bought this bond at the fund's inception: uncertainty around factors like inflation was elevated and the bond paid us a healthy 5.5%. Today, the yield on the bond has dropped below 5% as the price has risen and we feel we can better deploy this capital elsewhere.

We have an estimated forward-looking income yield on the portfolio in excess of 6% that provides both a solid base from which to keep delivering income and a buffer against short-term noise, whatever economies and markets combine to throw at us over the next few years.



Image: iStockphoto

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BALANCED PORTFOLIOS: MEDIUM RISK

BY DAVID LE CORNU

Objective: The Balanced Portfolio's objective is to provide capital appreciation through a balance of fixed income and global equities. A neutral position is a 50% bond/50% equity split and the maximum equity weighting is 60%. The cash generated can be re-invested to provide capital or taken as an income stream.

The quarter has been rewarding for our investors. At last, the Bank of England and the Federal Reserve have begun their interest-rate cutting cycle. A combination of better-behaved inflation, concerns around a slowing economy and weakening labour markets motivated the former to cut rates by 0.25% in August and the latter to cut rates by 0.50% in September. Governments and investors expect a series of interest-rate cuts through 2025 and 2026, which should be supportive for consumer spending, economic activity and corporate profits. This has helped investors mostly to look past rising geopolitical tensions and military conflict.

Our Balanced strategy delivered a return of 1.6% ⁽¹⁹⁾ over the quarter; taking the year-to-date return to 5.3% ⁽²⁰⁾, which compares to a return of 2.3% ⁽²¹⁾ and 6.0% ⁽²²⁾ from the Investment Association 20-60% Sector. Crucially, in such a tumultuous year, returns are ahead of cash rates and the prevailing rate of inflation. Nevertheless, the weakening USD is proving a headwind for GBP investors this year, since circa 30% of the underlying investments are priced in USD, which has fallen more than 5% versus GBP this quarter.

In July, we sold the Polar Global Insurance Fund. At the time of purchase, we were attracted by the insurance sector's lack of sensitivity to inflation and the fact that insurance tends not to be a discretionary spend and is a beneficiary of rising interest rates. It has performed better than expected since purchase and we now view the sector as fully valued. We then became concerned that falling interest rates might negatively impact the sector due to falling investment income, hence the time seemed right to sell.

We have also sold long-term holding Guardcap Global Equity fund. The fund has added value over the long term, but recent performance has disappointed and, following review, we concluded that we could use the funds better elsewhere. The sale proceeds, and proceeds from the partial sale of the iShares Ultra Short Bond holding, were used to introduce positions in Fundsmith Equity and Brown Advisory Global Leader. We have owned Fundsmith previously and Brown Advisory Global Leaders has been on our radar since its launch in 2015. The fund invests in a concentrated portfolio of 30-40 shares looking for businesses that are



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growing market share and can compound performance over long periods of time – the fund has a solid track record.

Our rolling thematic review has moved onto Healthcare. This continues to be a key thematic allocation with the case for investment as strong as ever. This is due to a combination of demographics driving growth in healthcare spending, rapid innovation and changes in the healthcare services landscape where an increasing move to public and private partnerships create significant opportunities for investors. We have concluded our high-level review and expect to increase modestly our already overweight exposure (17.4% versus 11.4%), while reducing our Biotechnology exposure (despite maintaining a significant overweight to the sector).

We are still discussing which fund or blend of funds to embrace. Whilst our current managers are doing a great job, we owe it to investors to look at all of the investment options with appropriate exposure since there

are other exceptional fund managers in this space. The review is further complicated by the need to consider the healthcare exposures within our global equity investments. Those managers would also seem to agree that the Healthcare sector remains attractive; at the time of writing their exposures range from 10% to 27%.

Looking ahead, investors will be pondering: (i) when is the next interest-rate cut? (ii) will inflation continue to behave? (iii) how grim will the UK budget be? (iv) will Trump or Harris light the fireworks on November 5th? (v) will military conflict continue to escalate? Whilst there are enough questions to prompt some short-term volatility, our base-case scenario is that we will avoid extreme events through a combination of further interest-rate cuts and increased clarity on American politics. Consequently, investment markets should move higher by the end of the year. Seasonal trends suggest Q4 is usually kind to investors so let's hope that in 2024 the trend is our friend – and the Santa rally arrives on time.

12 MONTHS ROLLING PERFORMANCE

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	Annualised Since Inception 31/12/11
Balanced Portfolio	10.2%	4.9%	-11.5%	8.6%	2.7%	6.8%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results.

Source data: Ravenscroft (CI) Limited and FE fundinfo; collated 10/10/2024.

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GROWTH PORTFOLIOS: HIGHER RISK

by SAMANTHA DOVEY

Objective: The Growth Portfolio's objective is to provide long-term capital appreciation by investing predominantly into global equities. A neutral position is a 25% bond/75% equity split and the maximum equity weighting is approximately 85%.

Over the quarter our Growth strategy returned 0.0% ⁽²³⁾ versus the IA Sector 40-85% of 1.6% ⁽²⁴⁾, bringing the year-to-date to figures 4.9% ⁽²⁵⁾ and 7.7% ⁽²⁶⁾, respectively.

The winner for Q3 2024 in the global space was Lazard Global Equity Franchise as it posted +8% ⁽²⁷⁾ on the quarter. It was really pleasing to see that our global funds, on the whole, outperformed their relevant indices. The generic index was negative on the month, so our review process seems to be having positive results.

In the thematic space returns were far more varied: our defensive holdings in utilities and healthcare were positive, whereas our more growth-orientated holdings in technology were down nearly 8% ⁽²⁸⁾ and traditional energy was down 9% ⁽²⁹⁾.

Towards the end of July, we made some changes following a review of core global equity positions – all as part of an ongoing series of thematic reviews.

We have made the decision to sell Guardcap. The decision has not been taken lightly, since the fund has been a positive investment since initiated. However, we have noticed a build-up of flags during more recent periods of performance. Whilst the investment process that the team employs has remained the same since buying, we have noticed a couple of stocks in the portfolio that have continued to lag. Following a number of meetings with the managers, we consider that their sell discipline could have been better – and that our sale proceeds can be invested for additional growth potential elsewhere.

Accordingly, Guardcap proceeds have been deployed into new funds, Brown Advisory Global Leaders and Guinness Global Innovators.

Brown Advisory Global Leaders is a concentrated portfolio of 30-40 high quality companies displaying strong business models with barriers to entry and a competitive advantage. We have monitored the team for a number of years, and they have a solid investment process focused on a fundamental, bottom up and research-intensive approach. Holdings



Image: iStockphoto

include companies such as Microsoft, Alphabet, Mastercard and Unilever with the highest exposures to the Technology and Financials sectors, (predominately payment networks and trading platforms over banks), providing a quality growth bias.

The Guinness Global Innovators fund looks to provide its investors with capital growth through investment into companies that are positioned to benefit from advances in technology, communications and globalisation. Their investment process is split into two stages, first being universe creation where the trends and themes driving growth are identified, followed by stock selection where companies are subjected to a thorough due diligence process. Their themes cover a diverse range of sectors, and currently include networking, cyber security, smart devices and e-commerce to name a few. The fund provides exposure to names such as Salesforce, Meta, Thermo Fisher and Paypal.

These holdings sit alongside core equity funds, Lazard and Fundsmith to ensure the portfolio holds a diversified suite of core equity exposures.

Looking forward, each of the quarterly reviews that we have carried out – so far: technology, emerging markets, global equity and healthcare – moves us on to assess the performance of the “allocations” rather than the funds on a standalone basis. This reflects the fact that our fund investments are chosen both for their individual merits and for their wider contribution to our portfolio construction.

As we look forward to the next quarter and the 2024 year end, all eyes are turned to the US election.

12 MONTHS ROLLING PERFORMANCE

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	Annualised Since Inception 31/12/11
Growth Portfolio	8.8%	3.6%	-9.3%	13.9%	2.2%	7.8%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results.

Source data: Ravenscroft (CI) Limited and FE fundinfo; collated 10/10/2024.

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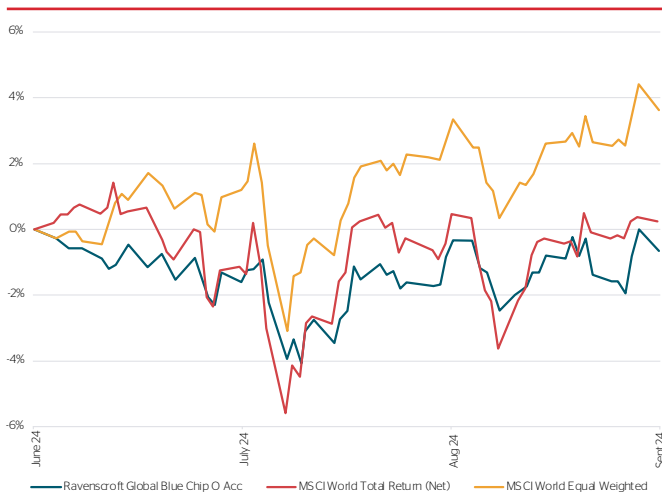
GLOBAL BLUE CHIP PORTFOLIOS: HIGHER RISK

by BEN BYROM

Objective: The Global Blue Chip portfolio invests into approximately 25-30 global blue chips that are in line with our long-term investment themes. The aim is to invest into such companies at an attractive valuation and hold them for the long term. The cash generated can be reinvested to provide capital growth or taken as an income stream.

Q3 was a volatile affair as equity markets endured a bout of volatility mid-quarter when the momentum trade in US large caps - the asset class that had dominated performance returns for much of the year - spectacularly collapsed over a four-week period. The volatility was contained to just those leveraged into such trades, and once all scores had been settled the MSCI World Total Return (Net) retraced its losses to finish the period +0.24% ⁽³⁰⁾ return in GBP. In contrast, the Global Blue Chip strategy returned -0.66%. ⁽³¹⁾ This took year-to-date performances to 12.96% ⁽³²⁾ and 0.62% ⁽³³⁾ respectively.

Chart 1. Ravenscroft Global Blue Chip Performance against MSCI World (Net) and the MSCI World Equal Weighted for Q3 2024, in GBP



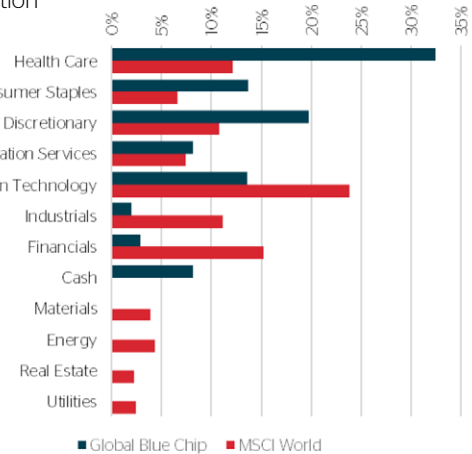
Source: FactSet and Ravenscroft, compiled 03/10/2024

It is clear to see two things from the chart above:

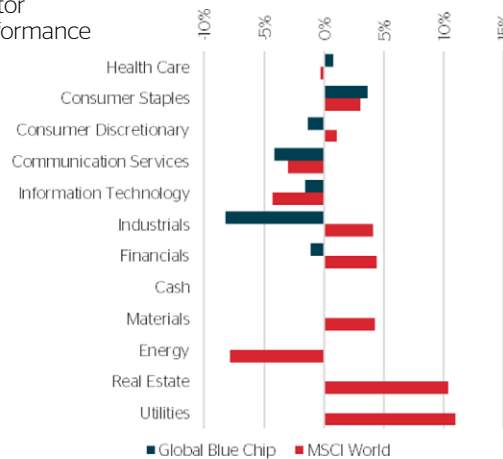
1. The strategy's conservative nature served it well during this period of volatility, driven by the performance in defensive sectors, such as healthcare and consumer staples.
2. The equal weighted index outperformed both the strategy and its market-cap-weighted cousin. This is due to the breadth of the rally, which incorporated the more cyclical areas of the market where we have little or no exposure and have a higher representation in the equal-weighted index than they do in the market-cap-weighted alternate.

Chart 2. Sector Allocation, Sector Performance and Contribution by Sector for Q3 2024

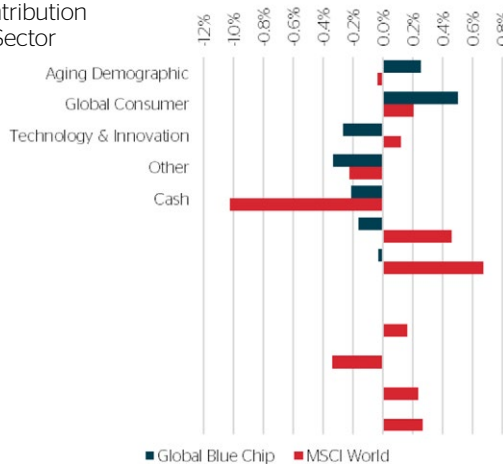
Sector Allocation



Sector Performance



Contribution by Sector



Source: FactSet and Ravenscroft, compiled 03/10/2024

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Performance Breakdown

Looking at the performance through the lens of our themes and the most appropriate sectors helps us break down what happened from a relative perspective.

Ageing Demographics – Healthcare Sector (including the life sciences)

Healthcare, as a sector, performed very well during the volatility spike but gave up all of its outperformance in September to finish marginally below the market return. Our holdings collectively outperformed and delivered the bulk of the strategy's returns during the quarter. Sanofi and Bio-Rad entered the top 5 contributors for differing reasons. Sanofi has been executing well and business momentum is driving shares nicely. Bio-Rad has been in the doldrums since we started owning it, but things seem to be turning around and there are a number of positives to look forward to in 2025. The company is also buying back shares, signalling that the stock is too cheap.

It wasn't all win, win, win, unfortunately, as Edwards Lifesciences succumbed to the madness of the earnings release lottery. The company did cut guidance for its Transcatheter Aortic Valve Replacement ("TAVR") devices due to unexpected bottlenecks arising at hospitals in the US, slowing down the expected flow of procedures. TAVR procedures are the main bloodline for the company's revenue. Even so, we believe the 30% correction in one day was an extreme overreaction. We can only assume the market thinks there is more to it, especially given shares have yet to recover their losses. Whilst we do believe Edwards shares represent great value (you can't delay lifesaving therapies indefinitely), the market is now in show-me mode given its myopic focus on results three to six months out. Edwards represents a great time arbitrage investment opportunity in our humble opinion.

Global Consumerism – Consumer Staples and Discretionary Sectors

Consumer stocks were a net positive contributor to performance thanks largely to some of our staple holdings, which were buoyed by stimulus news coming from China. It is largely hoped that the rate-cuts and liquidity injections will stabilise the property market and improve the wealth effect, fuelling a recovery in consumer spending. China has been a marginal drag on this sector for much of the year. With rate cuts underway in the US, will China's latest measures be enough to start a renaissance in holdings such as Diageo, Heineken, Estée Lauder, BMW, LVMH, and Disney? All have exposure to the Chinese consumer in one way or another. We shall see.

eBay and Haleon made the top five contributors list whilst Airbnb, Stellantis, and BMW made the top five detractors. eBay and Haleon offered investors some cheer with their respective earnings reports. eBay's focus on growth categories is paying off and the market likes the differentiation from other online platforms. Haleon showed strength in the US - its biggest market - whilst the recent volatility shined a light on the resiliency of its business model and portfolio of products (mainly over-the-counter medicines). Airbnb succumbed to the earnings lottery after it reported good growth but offended with lower-than-expected guidance. Shares sold off sharply offering another time-arbitrage investment opportunity. Stellantis is getting shot at from all sides: whether it's fending off Chinese competition in Europe or winding down inventories in the US, all while ramping-up by far its largest-ever new product onslaught. The company recently revised down guidance for the year, which did not improve sentiment. BMW has also been swept up in the negative sentiment surrounding the auto industry, having lowered full-year guidance after it recalled over one million vehicles due to faulty brakes. It has also reported continued softness in China, one of its core markets. We acknowledge that the cyclical nature of the industry caught us off guard somewhat, since their share prices pre-empted this weakness - even though reported sales and profit numbers remained robust. The behaviour of their shares will ultimately signal the recovery too, in our view. When we see signs the market in their shares is beginning to stabilise, we will look to act accordingly.

Technology & Innovation – Technology and Communication Services

The biggest detractor in absolute returns as the portfolio's holdings were swept up in the volatility surrounding large cap tech. With that said, Oracle punched a return that made the top five contributors list after a very positive earnings announcement that surprised to the upside, and a well-received Oracle Cloud World (their investor day presentation). Oracle remains one of our most successful investments despite being eyed sceptically by the investor community. This has kept a lid on progress but keeps valuations attractive; it remains one of our biggest holdings as a result.

Looking forward to the final quarter we have seasonal factors in play and a US election in November. Statistically, therefore, there is a good chance of some chop in markets as uncertainty around the election grows. This may provide opportunities to introduce holdings we are watching closely and add to existing positions at favourable prices.

12 MONTHS ROLLING PERFORMANCE

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	Annualised Since Inception 31/12/11
Global Blue Chip Portfolio	5.3%	12.0%	-4.5%	16.9%	4.8%	10.4%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results.

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GLOBAL SOLUTIONS: HIGHER RISK

by SHANNON LANCASTER

Objective: To generate capital growth over the long term (over 5-10 years). The strategy invests into 10-20 carefully selected third party equity funds; following the same, stringent investment process as the other multi-manager portfolios in our range. It is a highly focused portfolio which invests in companies providing goods and services dedicated to finding solutions to the challenges the world faces today.

Our Global Solutions strategy returned 2% ⁽³⁴⁾ over the third quarter of 2024, outperforming the MSCI ACWI which returned 0.6% ⁽³⁵⁾.

Globally, equities broadly had a positive quarter as major central banks continued to ease their respective policy rates. At a sector level, while energy, technology and healthcare struggled, key areas for Global Solutions like utilities, industrials and materials performed well.

Q3 brought some much-welcomed, renewed appetite for China as authorities committed to further monetary and fiscal support. Within emerging markets, consumer discretionary, staples, healthcare and financials did well. Technology and energy were bottom of the pack after a strong start to the year.

Healthcare funds had a volatile quarter after a strong year. During August, the first results of the US government negotiation on the prices of certain drugs were revealed, as part of the Inflation Reduction Act. The results are in line or even somewhat better than companies had already factored into their guidance, triggering a strong pharma performance; however, this trend reversed, and the subsector ended negative for the quarter. Healthcare technology and life sciences businesses performed well and, pleasingly, the Fed's rate cut in early September benefitted both small and mid-cap businesses as well as biotechnology companies.

Emerging markets enjoyed positive performance after a challenging year. The top-performing fund in Q3 for Global Solutions was Aikya Global Emerging Markets, which invests in high-quality companies with attractively priced future growth prospects. Their goal is to generate healthy long-term returns with strong downside protection. The result is a portfolio that is primarily made up of consumer staples, discretionary and healthcare businesses, all of which aim to improve lives in emerging markets. Over the past three months, both its sector and regional exposure were in favour as a result of Chinese and discretionary



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PORTFOLIOS

businesses bouncing back. Meituan Dianping bounced hard in September returning over 40%, Foshan Haitian was up over 30%, and a number of other holdings posted very strong double-digit returns. UBAM Positive Emerging Impact and Impax Asian Environment were also positive for the quarter, benefitting from a rebound in emerging-market clean-energy names and consumer-focused businesses.

Environmental solutions exposure contributed positively to performance over Q3. Ninety One Global Environment had a strong run with a number of top ten holdings posting positive returns. We were pleased to see a number of EV and energy transition businesses rebound. A great example of this is CATL which posted 35% in September alone. CATL is a global leader in EV and energy-storage battery manufacturing and in Ninety One's view, the long-term outlook for the business is exciting, especially at current valuations. The structural-growth opportunity for the company is supported by its R&D focus and scale advantage and, despite having experienced some weakness through the year due to negative sentiment towards Chinese equities, the business is in a great position going forward.

There were no changes to the portfolio during the quarter.

As we look to the final stretch of the year, all eyes will be on the US Presidential election. Our fund managers are confident that, beyond noise, the threat to meaningful parts of the Inflation Reduction Act that could impact the portfolio are minimal. They are keeping an eye on potential tariffs that could impact some clean energy positions, but, in reality, the volatility creates substantial opportunities for them.

As Howard Marks once said, we can't predict but we can prepare. In practice this means we are continually reviewing our themes and funds to ensure that we own the best investments aligned with the correct long-term trends shaping the world around us. We are excited about the current risk-reward of the portfolio and encouraged by attractive valuations.

12 MONTHS ROLLING PERFORMANCE

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023
Global Solutions Portfolio	7.2%	-2.8%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results.

Source data: Ravenscroft (CI) Limited and FE fundinfo; collated 10/10/2024.

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FUND IN FOCUS: GLOBAL EQUITY FUNDS

by TOM YARWOOD

Over the summer, the Ravenscroft multi-manager team conducted a thorough review of the global equity exposure, which resulted in several portfolio adjustments, including the sale of GuardCap Global Equity and the introduction of two new funds: Brown Advisory Global Leaders and Guinness Global Innovators.

GuardCap had been part of the Balanced and Growth mandates since Q4 2018, contributing positively to returns as a quality investment until its sale in August this year. The decision to divest was not made lightly; however, several emerging warning signs had been identified during more recent periods, with certain individual stocks continuing to underperform. After extensive discussions with the managers and internal deliberations, it was concluded the sell discipline did not align with what was wanted from a core equity position. Whilst unfortunate, this highlights the importance of these reviews, especially in the context of a changing world.

Brown Advisory Global Leaders invests in market-leading companies across the world and is managed by an experienced team that's been in place for almost a decade, led by Mick Dillon. Backed by a solid investment process, the strategy has successfully navigated various market conditions whilst continuing to deliver robust performance. Since its launch in May 2015, the Fund has returned 215% ⁽³⁶⁾ in GBP.

The team's genuine long-term focus means they view themselves as partial owners of the businesses they invest in, forming long-term relationships with their holdings. This approach is enabled by their intensive, bottom-up stock selection process and the mindset that this is a part of their fiduciary duty and cannot be outsourced. The result is a concentrated, low-turnover portfolio of 30-40 high-quality global companies they have conviction in. This sounds complicated but many of Brown's top 10 holdings are well-

known to many, including names like Microsoft, Alphabet, Mastercard, and Unilever. Its largest sector exposures are in Financials (payment networks and trading platforms rather than traditional banks) and Technology, whilst the Fund maintains an underweight to the Consumer and Healthcare sectors. This bias to quality-growth stocks contrasts the value-approach pursued by Lazard GEF, introducing a different dynamic to both Balanced and Growth portfolios.

Guinness Global Innovators is a long-only, global growth fund that aims to achieve long-term capital appreciation through investment into companies positioned to benefit from the innovation across various sectors, including advancements in technology, communication and globalisation. Simply put, innovative companies are more likely to generate higher returns over time and, as a result, outperform in the long term. Launched in 2003, it's one of Guinness's longest-standing strategies and, for the past decade, has been capably co-managed by Matt Le Page and Ian Mortimer; both are very well known to us through their management of the Global Equity Income ('GEI') strategy that we've held in our Income and Balanced portfolios for years.

A universe of potential investments is created by identifying the trends and themes that drive innovation, with each potential idea then subject to rigorous due diligence, mirroring the extensive stock selection process used in the GEI Fund. However, being positioned for growth, the managers are much more valuation-conscious here and cautious of overpaying for high future growth expectations, instead focusing on companies with already-established profitable growth and avoiding those unable to convert revenue growth into positive earnings growth. Since market sentiment and 'hype' can sometimes inflate the valuations of innovative companies, the managers maintain a strict valuation discipline and an equally weighted portfolio. This disciplined approach led them to trim and crystallise profits in their position in Nvidia (held since 2003) five times during the first five months of 2024. Like Brown, their top 10 holdings also include well-known names such as Netflix, PayPal and Meta Platforms (Facebook); its current themes span a diverse range of relevant sectors, including networking, cyber security, smart devices, and e-commerce. The Fund's c.40% allocation to technology gives it a clear growth-tilt but in a well risk-managed scenario. YTD, the Fund has returned 14.45% vs 13.23% for the MSCI World, which is pleasing to see given current market conditions, and we are very excited about its potential in portfolios going forward.



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BOSCHER'S BIG PICTURE: GLOBAL REFLATION SHOULD BE GOOD FOR MARKETS BUT INFLATION REMAINS THE KEY

by KEVIN BOSCHER

As we approach year-end, it is increasingly evident that the global economy continues to “normalise” after an unprecedented and extraordinary post-pandemic period.

The resilience of the US economy, together with a new cycle of interest-rate cuts from developed economies and a much-welcome round of additional policy stimulus from China should be supportive for both global growth and markets over the next year or so. The biggest threat to this rosy scenario is the escalating conflict in the Middle East, but it is difficult to assess the likely impact of this on financial markets at this stage.

Despite concerns over softer US employment, recent data confirms that US growth remains robust and may actually be moving away from its “soft patch”. US consumers, which account for almost two-thirds of economic activity, remain in good shape, having significantly deleveraged their balance sheets since the global financial crisis, which has made them more resilient to higher rates, at the same time as plentiful savings, a positive wealth effect

and rising real incomes have supported spending. A very loose fiscal policy also helps and the US looks set for a prolonged period of large and growing deficits, regardless of who wins the election. Another positive is a new cycle of increased capital investment by businesses.

Falling inflation, which is being driven by a normalisation from the pandemic and war-related shocks, together with a recovery in goods and labour supply, is enabling the Fed and other central banks to ease monetary policy, even if it is proving difficult for inflation to return to the 2% target. The Fed has rightly shifted its focus from fighting inflation to supporting employment and the economy, which is part of its dual mandate. The Fed is also cognisant that real rates have moved higher as inflation has fallen, which is a threat to the growth outlook. Also, goods deflation will likely persist with China exporting deflation as it continues to face a cyclical and structural growth problem. The good news is that China seems to be stepping up its fiscal and monetary stimulus.

Looking beyond the next year or so, one of the key questions for investors remains the trajectory of inflation and whether the global economy is transitioning back towards disinflation (ice) or higher and more volatile inflation (fire). Whilst both scenarios remain possibilities, I am still leaning towards the latter camp for several reasons. In addition to demographic-related wage pressures, it is likely that many governments, including the UK, will need to operate a looser fiscal policy and bigger deficits as they tackle the challenges of a fracturing global economy (energy and food security plus increased defence spending), climate change, an ageing demographic (more spending on healthcare, pensions and welfare) and income and



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wealth inequality. Indeed, we are already seeing clear evidence of this in the US with Europe and the UK likely to follow suit in time. In addition, elevated geopolitical risks and the changing world order will increase the threat of higher energy and commodity prices over the next few years.

If the major economies are running bigger fiscal deficits, then this will present a real challenge for central banks given the record levels of debt in the global and individual economies. They may need to practice financial repression and keep interest rates lower than the macro backdrop would naturally dictate, thus adding to upward pressure on inflation. A consequence of this is that central banks (and governments) may target higher nominal growth through an elevated inflation target (say 2-4% or nominal growth of 4-5%). They can argue that this would help governments as they tackle these challenges, boost long-term growth potential, help ease income and wealth inequality and lessen the risk of deflation. It would be more difficult to openly admit that higher nominal growth would also help to “inflate away the debt” but this would be one of the objectives. Indeed, it is very notable that the Fed’s expectations for interest rates over the next two years and upbeat forecasts for the economy are sending out a powerful message that it now views 2% as a sensible floor for inflation rather than an average or median.

This medium-term macro backdrop is positive for global equities but not necessarily for bonds. Solid and accelerating growth is good for earnings while lower interest rates and bond yields are positive for valuations and profitability. Liquidity should also improve as monetary policy is eased and the credit cycle improves at the same time as valuations for many markets look reasonable. As the global growth outlook improves, the equity bull market should continue its recent trend and broaden out with cyclicals, value and small-cap stocks outperforming, although the more expensive mega-cap growth stocks should also do well in this environment. Emerging markets, which have underperformed for most of the past decade, should also benefit from a stronger China, accelerating global activity and an easier Fed, especially if this results in a weaker Dollar, which is likely to be the case.

The implications for bonds are less clear. Strong growth will put upward pressure on real yields, but this could be offset by falling inflation and lower rates. Valuations look reasonable although government bonds are now discounting a lot of good news about the quantum of rate cuts over the next year or so. Should inflation expectations rebound due to strengthening activity and the pendulum swinging towards the fire scenario, then the Fed and other central banks will be unable to cut rates as much as the markets are currently expecting. In addition, free-spending governments will continue to necessitate a plentiful supply of bonds at a time when central banks and many foreign investors are still reducing their holdings. Credit markets will benefit from an improving profits outlook but spreads (excess yield over equivalent government issues) are tight and if rates disappoint and sovereign yields rise, this would be problematic. In the meantime, it makes sense for investors to remain in shorter-dated maturities as yields are relatively attractive and longer-dated issues will be more sensitive to the inflation risks.

A new cycle of global deflation is positive for markets, especially equities, but beyond the near term, the outcomes could be very different depending on whether the disinflationary trends prevail, or inflation makes an unwelcome return. As nobody can be certain where we are headed, it makes sense to continue to ensure that portfolios are positioned to benefit, or at least not lose out – whichever scenario dominates. The main threat is a widening of the Iran-Israel conflict and a potential spike in the oil process above the \$100 level. In this case, both bonds and equities would need to adjust downward to the rising risk of inflation or stagnation. Other risks revolve mainly around the US election and a deflationary China bust.

Although the macro environment is gradually returning to some form of normality, it is also evident that some things will be very different. Adaptability, flexibility, an open mind and a proven process will be key to investment success.

Data Sources

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All performance data above was collated on 10/10/2024.

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