LOWES
INVESTMENT MANAGEMENT

Changing World

Quarterly Report to 30 September 2024

Objective

To provide capital growth over the long term by investing in funds which take exposure to what are perceived to be global megatrends.

Strategy

The portfolio has been constructed to invest in funds with exposure to themes that are perceived to be major trends which will shape the world in the future. These are trends which will be driven by demographics, technology, the environment and social behaviour. The portfolio will therefore contain exposure to themes such as technology, alternative energy, food supply, water supply, biotechnology and healthcare, along with companies that offer significant growth prospects, with an emphasis on companies operating in industries with potential for structural change and innovation.

Market Commentary

From an economic perspective concern clearly shifted from inflation to economic growth. For now, inflation appears to be behaving itself. In the euro area the rate has fallen below 2%. In the UK, consumer price inflation has now held steady at 2.2% for two consecutive months. In the US, meanwhile, we have also seen a move down towards target, falling most recently to 2.5%. Whilst there are still some components of the inflation basket which remain sticky, such as housing rents, concerns are dissipating.

Narrative is now more closely focussed on economic growth and how central banks protect it. Whilst the most recent forecast from the Organisation for Economic Co-operation and Development (OECD) remains relatively positive, investors are keen to understand how western central banks will navigate from the current higher interest rate environment to one more commensurate with lower inflation. There was concern that the US Federal Reserve (Fed) had left it too long after a weak August jobs report. This triggered them into action, with their first move being a 0.5% reduction. The market also priced in a number of subsequent cuts in quick fashion. It has not been uncommon for the market to get ahead if itself, a point in case being the fourth quarter of last year. It may have done so again this time too, following a stronger than expected employment report for September which appears to have reinforced the soft-landing thesis.

The Fed, European Central Bank (ECB) and Bank of England are all expected to continue their path of cutting moving forward. The exception to the rule is the Bank of Japan who appear to be in hiking mode. They caught the market off guard with their most recent hike at the end of July, which sent equity markets into a downward spiral. Whilst the hike was only a small 0.15%, it was enough to unsettle investors.

With US interest rates moving one way and Japanese in the other, we saw what appears to be a partial unwinding of the carry trade in early August, the carry trade being where investors borrow in a lower yielding currency, i.e. the Japanese yen, to invest in higher yielding currencies/assets. No one is quite sure exactly how large the positioning in the carry trade is, with some wide-ranging estimates. The general consensus is that positions in the carry trade still exist and therefore a keen eye will likely be kept on the Bank of Japan.

The weakness in markets was met this time with investors keen to get back into the market at lower valuations. Liquidity is certainly abundant, with the Investment Company Institute reporting $6.46 trillion in money market funds in the US.

The question is, is this money likely to make its way into investment markets or stay parked where it is. Plenty to monitor as we enter the final quarter of 2024.

Performance

The portfolio posted a return for the period of -2.19%. This was behind the IA Global sector average return of 0.15%.

Whilst each fund is investing in what are seen as the megatrends of tomorrow, the difference in nature of these themes can mean that you see a large divergence in returns during any period. This indeed proved the case in the third quarter of 2024, with the strongest performing fund posting a return of just over 3% whilst the weakest performing fund returned almost -8%.

The strongest performing fund was Guinness Sustainable Energy. Interest rate cuts, plus the potential for more to be seen before the year end, were a catalyst for the positive performance seen. There were strong performances for energy generation companies such as Iberdrola, a leading wind power producer, along with NextEra Energy, a leading clean energy company is the US. Trane Technologies was also a strong contributor, a company which look to bring efficient and sustainable climate innovations to buildings, homes and transportation. With similar thematics being invested in, the Jupiter Ecology was also one of the positive performers in the portfolio over the quarter.

Conversely, there were weak performances posted by funds such as Polar Capital Global Technology and Guinness Global Innovators. Both funds are highly exposed to the information technology theme.

Source: FE Analytics, Bid-Bid, Total Return

Portfolio Activity and Positioning

During the quarter there were no changes made to the underlying funds. A rebalance was carried out in July which returned the underlying funds back to their original allocation. In an ever-changing world we continue to monitor fund offerings available which may provide exposure to what could be considered the next megatrend. The fund continues to invest in areas such as artificial intelligence, robotics, the energy transition, ecommerce and the cyber arena.

Given the nature of the themes in which the underlying funds are investing in, it is likely that we will continue to see a dispersion of returns over shorter periods of time, such as those seen this quarter. When investing in a portfolio such as this it is important to look through this short-term volatility, remembering that these thematics are those which are predicted to be those which will be within our society for the long term. There will undoubtedly be pauses or even setbacks, but over time they are expected to be those which will determine the future.