
LO Funds

Generation Global

Newsletter

Sustainable Equities • Equities

30 September 2024

MARKET OVERVIEW

In Q3 2024, global equity markets experienced a dynamic mix of progress on inflation, monetary policy shifts, and rising volatility. Early in the quarter, US inflation data surprised positively as housing costs decelerated, marking a return to pre-pandemic levels. This development, coupled with dovish comments from the Federal Reserve, fuelled expectations for upcoming rate cuts. US growth remained resilient, with strong retail sales and robust capacity utilisation, while the eurozone economy stagnated due to weak manufacturing, particularly in Germany. In China, disappointing outcomes from the Politburo meeting hinted at the need for more substantial stimulus, but only moderate policy adjustments were made by the central bank. August was particularly volatile for equity markets. A sharp early-month selloff, driven by concerns over AI monetisation, weakening US economic data, and a surprise rate hike by the Bank of Japan, rattled investors. However, the market quickly recovered by mid-month, supported by a strong corporate earnings season, where US companies largely beat earnings expectations, despite weaker sales numbers from mega-cap tech firms like Alphabet and Tesla. Concerns about US-China tensions over chip export controls added to the uncertainty, but volatility subsided as the month progressed. September marked a pivotal moment as the Federal Reserve initiated a larger-than-expected 50 basis point rate cut, signalling a shift in focus from inflation control to labour market support. This was followed by further easing from European central banks, while China announced a coordinated package of stimulus measures aimed at stabilising its economy, supporting its housing market and boosting liquidity. These accommodative moves across major economies provided a tailwind for risk assets, leading to a broad rally in global equities by the end of the quarter.

In this confusing environment, what can you do? Generation continues to follow the moral of Voltaire's novel *Candide*: "We must cultivate our garden." Rather than getting lost in abstract debates or grand speculations, Generation focuses on what it can control. For them, that means finding great companies, at the right price, in which to deploy your capital.

The portfolio is comprised of high-quality companies with strong balance sheets and excellent management teams. Generation's proprietary measure of Business Quality is near an all-time high. Even at a time of economic uncertainty, the portfolio has estimated annual earnings growth in the mid-teens over the coming years. The companies have another crucial advantage: they are pushing the world towards a sustainable future. They are implementing policies on climate, nature and equality – not to please politicians or regulators but because it is the smart thing to do.

So far this year the portfolio has returned 14.7%. Some of the stocks have done especially well, including semiconductor capital-equipment manufacturer Applied Materials and Latin American online marketplace Mercado Libre. Over the same timeframe the benchmark has returned 18.9%. As sustainable investors, however, Generation thinks for the long term. On a five-year basis the portfolio has returned 11.5% annually, against 13.0% for the benchmark. On a 10-year basis, the portfolio has delivered a comfortable excess return of 3.4%. Compounded over many years, this represents substantial outperformance.

Of course, underperformance over these shorter time periods is frustrating. But they take a long-term view. Generation has also made some modifications to its investment process and are now executing nicely. Their new data scientist is already improving the information flow to the investment team. Analysts are not just finding information quicker; they are finding better information. The team are now able to more closely track their investment cases and risk factors over time, so that they can minimise 'thesis drift' and challenge each other effectively. Generation has made improvements to its processes for boosting analysts' 'psychological safety,' giving people maximum confidence to dissent when they believe that the collective is missing something.

The team is seeing good opportunities in the market. This chimes with a recent paper written by investor Clifford Asness. Asness argues that social media has made today's markets even less predictable than before. Companies and their share prices can 'go viral,' meaning that shares are more likely to disconnect from their fair value. The onslaught of information can cause investor confidence to rise, even if the quality of that information is low. To use Ben Graham's parlance, Mr Market

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Newsletter · LO Funds - Generation Global · Data as at 30 September 2024

now has bigger mood swings than he used to. But this has an upside for investors like Generation. They believe there are more inefficiencies than before. Capital allocators willing to take the other side of these inefficiencies can be rewarded with higher returns.

The portfolio has solid projected earnings growth in the coming years. In addition, the fair value of the portfolio, they believe, is about 25% higher than its current price. If these effects combine as the team hope, then they have reasonable odds of growing your capital at double-digit rates. The magic of compounding, coupled with relentless discipline about the prices that they are willing to pay, make them optimistic about the future.

PERFORMANCE REVIEW

Generation's process is underpinned by a bottom-up approach to stock selection, the manager refers to the stock attribution attached for the drivers of performance during the month of September.

As long-term investors that integrate a sustainability lens into their analysis, Generation is focused on their long-term outlook for the companies in the portfolio and whether their thesis remains intact, despite any near-term headwinds and share price movements.

The top performers during the month included Anta Sports, CBRE and Trimble. The bottom performers included Nutanix, Vestas Wind Systems. Whilst these companies are experiencing short-term headwinds, Generation retains its conviction in his long-term thesis on these names and others in the portfolio.

Generation is focused on strong execution of its process and has made adjustments on areas the manager identified for improvement.

PERFORMANCE

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds - Generation Global (USD) PA	30.11.2007	USD 1919 mn	2.48%	13.80%	312.98%	9.84%	11.28%
LO Funds - Generation Global (USD) NA			2.53%	14.32%	346.45%	10.47%	11.75%
MSCI World ND USD			1.83%	18.86%	219.68%	12.98%	10.03%

Past performance is not a guarantee of future results. Performance is presented net of fees. AUM as of the date of the table.

PERFORMANCE REVIEW

Category	Description	Portfolio Weight	Benchmark Avg Weight	Portfolio Total Return	Benchmark Total Return	Security Allocation	Security Selection	Total Security Effect
LO Funds - Generation Global	Total Fund Gross Fees	100.00	100.00	2.64	1.83	0.92	-0.02	0.89
	ANTA SPORTS PRODUC HKD0.10	1.56	0.00	25.46	--	0.35	0.00	0.35
	CBRE GROUP INC CL A CL A	3.32	0.05	8.16	8.11	0.21	0.00	0.21
	TRIMBLE INC COM TRIMBLE INC	2.40	0.02	9.63	9.53	0.19	0.00	0.19
	AMAZON COM INC COM	7.45	2.53	4.39	4.39	0.14	0.00	0.14
	TEXAS INSTRUMENTS INC COM	1.91	0.27	-3.83	-3.63	-0.10	-0.01	-0.11
	EQUIFAX INC COM	2.51	0.05	-4.12	-4.23	-0.13	0.00	-0.12
	VESTAS WIND SYSTEM DKK0.20	2.58	0.03	-3.73	-3.71	-0.15	0.00	-0.15
	NUTANIX INC CL A CL A	2.68	0.00	-6.22	--	-0.21	0.00	-0.21

Benchmark is MSCI World ND USD.
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 Holdings and/or allocations are subject to change.

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