

Please note that the commentary is for the retail class of the Fund.

Performance and fund positioning

After two quarters of gains, equity markets were weaker in the third quarter, declining by 3.4%. The Fund lagged the benchmark by c.2.2%. Over the last 12 months, both the market (20.8%) and Fund (20.5%) returns are healthy.

Within our equity holdings, detractors were spread across various sectors, including consumer staples, railroads, food delivery businesses, and companies exposed to China. In all instances, we continue to hold these names and, in some cases, have increased exposure.

Capri Holdings was a top contributor for the quarter after the announced acquisition by peer Tapestry, owner of the Coach brand, in an all-cash deal valuing Capri at an enterprise value of \$8.5bn or \$57 per share. In previous commentaries, we have written about Capri, which owns three founder-led luxury brands: Versace, Jimmy Choo and Michael Kors. We were attracted by the significant growth runway of the Versace brand alongside the stable cash flows from Michael Kors. In our view, the market largely ignored Capri, and its share price was trading on a trough multiple of around 6x earnings. Tapestry clearly recognised this deep value. The proposed deal was announced on the 9th of August, sending the Capri share up 55% in a single day. We subsequently exited our position.

Uber and Doordash have been positive contributors this year, up over 80% and 60%, respectively, year to date. We built positions in these two companies at very attractive levels after a bruising 2022, which saw both companies and many other longer-duration names sell off as rate hikes commenced in developed markets worldwide.

Doordash is the leading on-demand delivery platform in the US, with a share of around 60% of the growing online food delivery market. It also has an increasing presence in Canada, Europe and Australia. The business exploded during the pandemic but has continued to grow rapidly off this base (organic orders +20% year-on-year in the second quarter) while showing significant improvements in profitability. Earnings in the core US food delivery business are now positive and growing. We continue to like Doordash for its best-in-class management team, exceptional execution, fortress balance sheet (net cash of \$3.8bn), continued strong growth, and ongoing profitability gains in an industry that is becoming more rational post a “growth at all cost” approach taken by many businesses during the pandemic.

Uber’s fundamentals continue to improve, with robust revenue and earnings growth in its rides and eats segments. The company recently reached the critical milestone of GAAP profitability on the back of 70% adjusted EBITDA growth in the second quarter. We continue to believe there is a long runway for growth in both segments. Similar to Doordash, we see the potential for significant ongoing margin improvements on the back of internal cost efficiencies, more rational end markets and growth in high-margin advertising. In a world of higher rates, leading operators with strong balance sheets become harder to displace.

Outlook

Notwithstanding a plethora of macro risks, the current portfolio represents a diversified collection of stocks that we feel are very attractively valued.

Thank you for your support and interest in the Fund.

Portfolio managers

Neil Padoa and Humaira Survé
as at 30 September 2023