STENHAM
ASSET MANAGEMENT

Q2 2024 Investor Letter

Stenham Equity UCITS Fund

Performance Review

Fund vs. Benchmark[1]	Q2 2024	YTD 2024	Since Inception
Stenham Equity Fund (A1)	**(3.3%)**	**+12.3%**	**+218.2%**
MSCI World Index	+2.2%	+14.5%	+182.5%
Relative	(5.5%)	(2.2%)	+35.7%

Portfolio Attribution

Top Contributors – Q2 2024	Portfolio Weight	Attribution
General Electric	3.9%	+0.8%
Alphabet	3.9%	+0.7%
Applied Materials	3.9%	+0.6%

Top Detractors – Q2 2024	Portfolio Weight	Attribution
Airbus	6.2%	(1.6%)
Adyen	3.3%	(1.1%)
LVMH	6.2%	(0.9%)

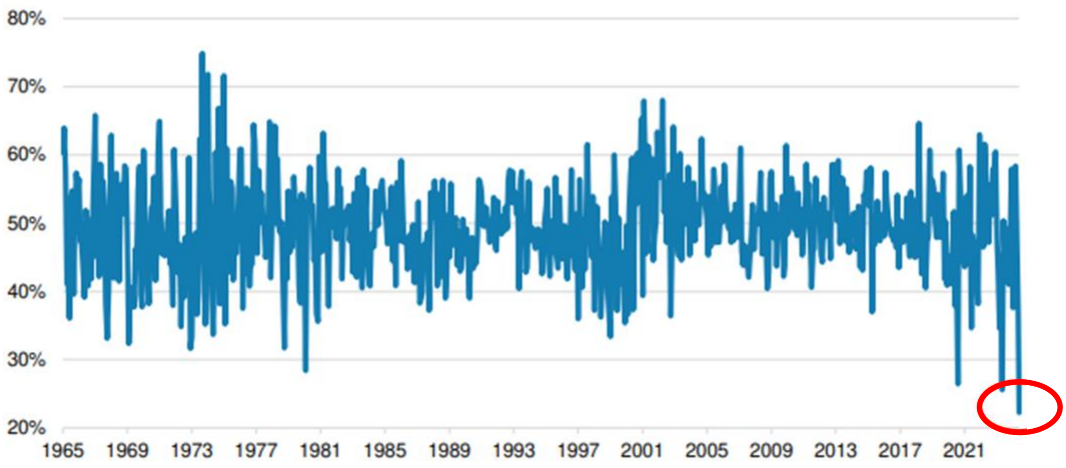
Market Commentary

Q2 proved more challenging on a relative basis as the market rally was largely driven by a narrow subset of stocks. More specifically, these were the large-cap technology names or the Magnificent 7 (Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta Platforms & Tesla). While the S&P 500 delivered +3.9%, the index excluding the Magnificent 7 actually declined -1.5%. Said differently, without a meaningful overweight position in these names, the likelihood of outperforming the S&P 500 during the quarter was extremely low. In fact, data on market breadth (measured by the % of stocks outperforming the index) reached the lowest levels since the mid-1960s, while market concentration (measured by the weight of the top 10 holdings in the index) reached the highest level over a similar period.

[1] *Performance as of 12 Jul 2024 is presented net of fees. Stenham Equity Fund Class A1 reactivation date 18 Nov 2020. Stenham Equity Long Only Strategy inception date 13 Apr 2012.* ***Past performance does not predict future returns.*** *Source: Stenham, Bloomberg. This is a marketing communication. Please refer to the Fund prospectus and KIID before making any final investment decisions.*

Market Breadth in the US[1]

% top 500 members outperforming cap weighted index over rolling 1M



Market Concentration in the US[2]

Top 10 weight in S&P 500

The other aspect of the market rally worth noting is that the momentum factor (long names that outperformed recently versus short those that have underperformed) is having the best start to the year in the last 30 years. Meanwhile, fundamental-based factors (growth, value, quality) have lagged on a relative basis. While the dynamic of markets being driven by technical factors rather than fundamental factors in the short term is not entirely surprising, it is revealing to see the extent to which this dynamic has become more pronounced over time. In our view, this is a function of shrinking timelines for market participants, with the average holding period for stocks having shrunk from a peak of 8 years to now being just 5½ months.

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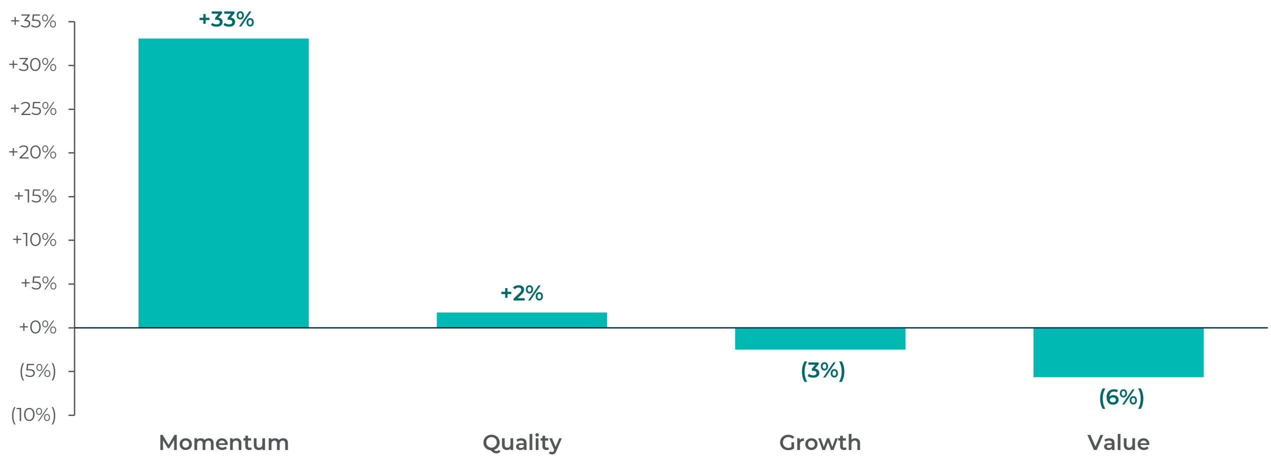
[1] *Data as of 24 Jun 2024. Source: Compustat; Morgan Stanley Research.*
[2] *Data as of 11 Mar 2024. Shadow = NBER US Recession Period. Source: Goldman Sachs Global Investment Research.*

YTD Factor Returns in the US[1]



While the rise of quantitative strategies and non-fundamental flows (e.g. passive funds) has been a well-documented contributor to shrinking time horizons, the other contributor worth noting is the rise of multi-manager or platform hedge funds. These funds, whose strategies are based on betting on companies that are likely to exceed market expectations and against those likely to miss expectations are doing so by taking a view on the company's next set of quarterly earnings results. Anecdotally, we have heard that the holding periods for such strategies can be as short as even just a week. These funds have seen their AUM exceed $300bn and will typically apply several turns of leverage to magnify their returns. The net result is a hugely influential market force moving trillions in volumes with an investment horizon of just a few weeks. The impact of these strategies is becoming more evident over time. There are increasingly more examples of stocks being oversold on an earnings miss (often even on results that are in line with expectations) and overextended on an earnings beat. Over the past 10 years, the absolute stock price move following a company's quarterly earnings results has increased by over 80%. Our observations are not to reflect a view on these strategies but rather their impact on market structure. If stock price moves are becoming increasingly detached from fundamentals in the short term, this creates opportunities for longer-term investors, such as ourselves, to either buy or add to names at attractive valuations. In Q2 alone, we have seen examples of this play out across our portfolio.

Portfolio Commentary

Firstly, ASML (ASML NA) reported Q1 earnings which saw the stock trade 7% lower on the day as their demand backlog came in weaker than expected due to a delay in orders from their key customer TSMC. We viewed this as a short-term headwind as the key question was *when* not *if* TSMC would require ASML's tools to meet the growing demand for semiconductors. We used the share price weakness to add to our position at attractive levels, benefitting from the recovery in the stock during Q2 as the market gained increasing visibility on the demand backlog improving from the temporary weakness.

[1] *Momentum = Goldman Sachs US Barra HiLo Momentum (GSP1MOMO Index); Growth = Goldman Sachs US Barra HiLo Growth (GSP1GRWT Index); Value = Goldman Sachs US Barra HiLo Value (GSP1VALU Index); Quality = Goldman Sachs US Barra HiLo Quality (GSP1QUAL Index); Size = Goldman Sachs US Barra HiLo Size (GSP1SIZE Index); Source: Bloomberg.*

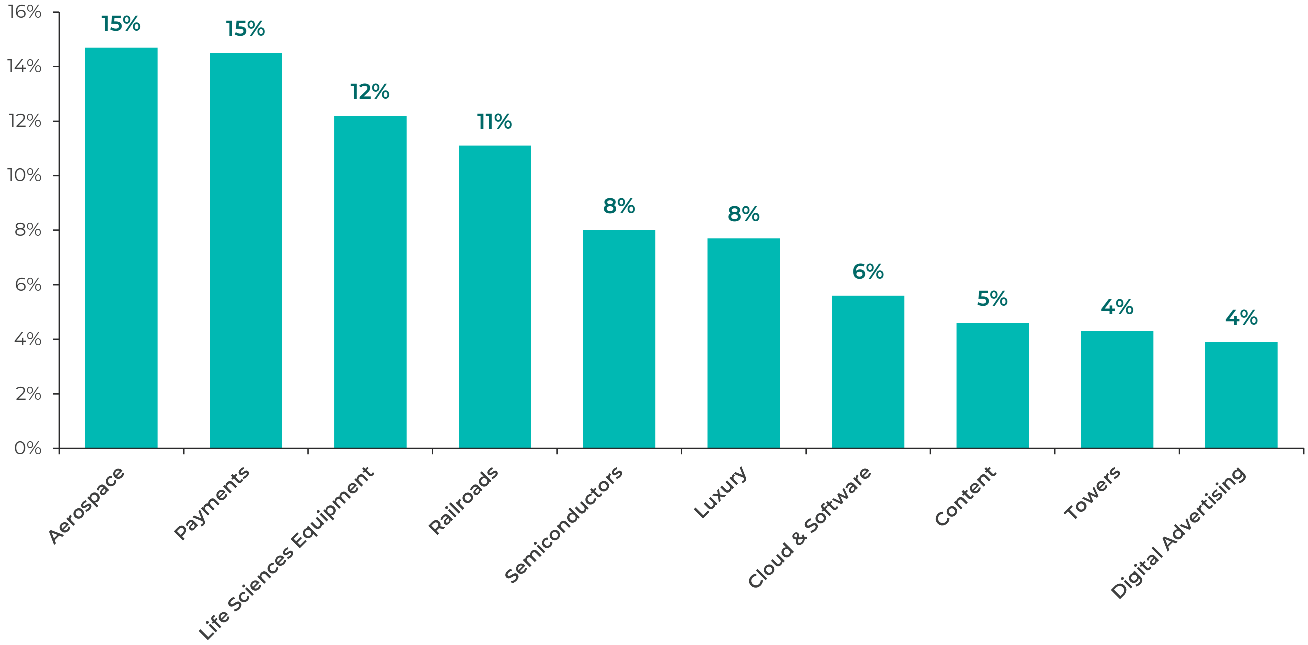
Secondly, Adyen (ADYEN NA) traded notably lower following their Q1 sales release as the company disappointed on net revenue growth, which came in 1% lower than market expectations. We viewed the share price drop as an overreaction given the trends were driven by short-term factors in terms of the mix of merchants that drove volumes during the period, meanwhile the longer-term outlook on volume growth and profitability for the business in fact improved. As such, we used the opportunity to increase our position.

Thirdly, Airbus (AIR FP) traded materially lower after reducing their FY 2024 guidance and pushing out their A320 medium-term delivery target due to persistent supply chain challenges. The stock has declined over 20% from its recent highs, which we see as disproportionate considering the longer-term outlook for the business has not meaningfully changed, with a reduction of just over 5% to 5-year forward cumulative free cash flow (FCF). Although near-term supply is constrained, demand has never been stronger, with Airbus's backlog at an all-time high and their orderbook sold out until the beginning of the next decade. Our view is that these aircrafts will eventually be delivered and this is a timing issue with the supply chain as opposed to a structural issue with the business. We used the recent weakness to add to our position at attractive valuation levels.

Conclusion

In Q2, the earnings estimates for our portfolio companies grew by 4% on a weighted average basis, reflecting the continued improvement in the outlook for our businesses at a fundamental level. However, the valuation multiples for our portfolio companies compressed by 7% on a weighted average basis, reflecting the degree to which market sentiment outweighed fundamentals during the quarter. While decreasing market breadth combined with technical factors playing a more significant role than fundamentals proved to be a headwind in the short term, we believe the opportunities created are attractive for investors with longer-term horizons such as ourselves. As we know, over the long term, the fundamental drivers of the business dictate share price performance and this is where our focus firmly remains.

Portfolio Themes[1]



[1] *Data as of 30 Jun 2024. Source: Stenham Asset Management.*

As always, we appreciate your continued support and investment. Should you have any questions, please do not hesitate to reach out.

Kind regards,

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