STENHAM
ASSET MANAGEMENT

2024 Investment Letter

Stenham Equity UCITS Fund

Performance Review

Fund vs. Benchmark[1]	YTD 2025	Q4 2024	2024	Since Inception
Stenham Equity Fund (A)	**6.4%**	**-3.3%**	**10.0%**	**196.9%**
MSCI World Index	2.8%	-0.4%	17.0%	196.9%
Relative	3.6%	-2.9%	-7.0%	-0.1%

Portfolio Attribution

Top Contributors – 2024	Portfolio Weight	Attribution
General Electric	4.6%	3.2%
Mastercard	6.9%	1.6%
Constellation Software	4.4%	1.1%

Top Detractors – 2024	Portfolio Weight	Attribution
Cellnex	4.6%	-1.0%
LVMH	5.4%	-0.8%
Canadian National	4.0%	-0.5%

Market Commentary

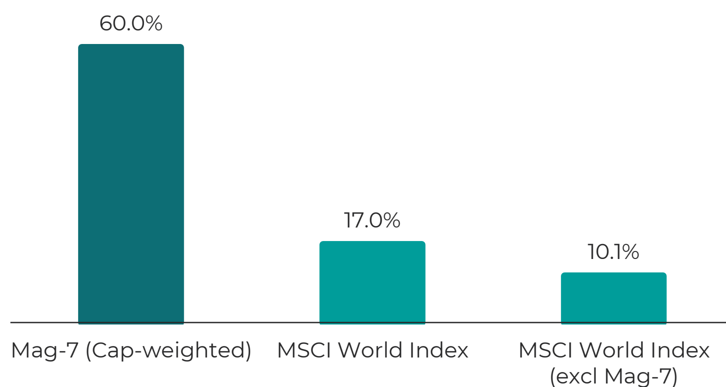
The Fund returned -3.3% in Q4 and 10.0% for 2024. In absolute terms, full-year performance was in line with the long-term annualised return since inception, however, 2024 proved to be a challenging year from a relative perspective as performance lagged the benchmark index.

2024 marked one of the narrowest years of equity market performance in over two decades. The percentage of stocks that outperformed the S&P 500 sunk to a low of 26%, almost half that of the historical average. Most notably, though, was an even smaller subset of companies - seven to be precise. The Magnificent 7 stocks (or Mag-7), namely Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla, drove almost 50% of the MSCI World's performance and now represent a sizeable 24% of the benchmark. This means that, unless you held

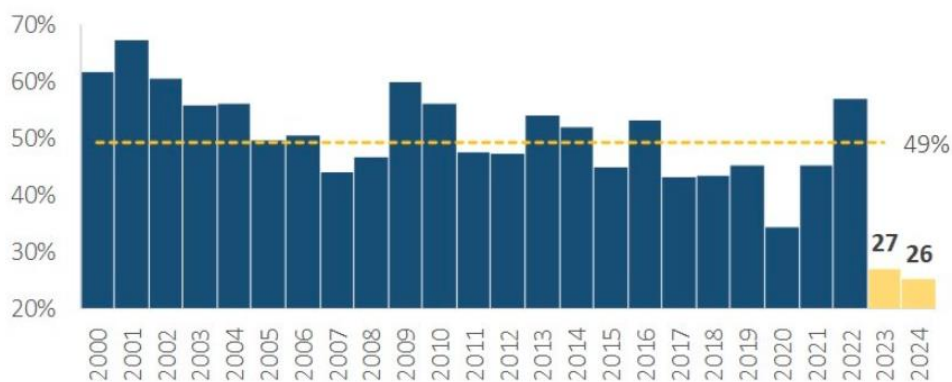
[1] *Performance as of 27 Jan 2025 is presented net of fees. Stenham Equity Long Only Strategy inception date 13 Apr 2012.* ***Past performance does not predict future returns.*** *Source: Stenham, Bloomberg. This is a marketing communication. Please refer to the Fund prospectus and KIID before making any final investment decisions.*

them at an equal weight to the benchmark or greater, the chances of outperforming were slim. While the Fund had exposure to some of these during the course of the year, the underweight exposure to these names was by far the most significant driver of our relative performance in 2024. There are potential reasons why these stocks may continue to command an increasing proportion of the index, such as the rise of passive instruments and the growing importance of technology companies. Vice versa, there are reasons as to why the opposite may be true, when considering market history which often reminds us that "trees don't grow to the sky". A more detailed rationale on the Fund owning some, but not all, of these names is beyond the scope of this letter, though ultimately this comes down to our investment philosophy of owning what we deem to be extraordinary businesses at fair valuations where we can underwrite an IRR above our threshold. A name like Tesla, for example, returned an impressive 63% in 2024. However, earnings estimates for the company fell 37% and therefore the share price performance was driven by the valuation multiple expanding from 65x to a staggering 124x 12-month forward P/E. That said, we continue to actively re-evaluate each of our holdings against our watchlist and pipeline of new ideas to ensure that the Fund is truly a high-conviction best ideas portfolio.

MSCI World Index 2024 Performance[1]



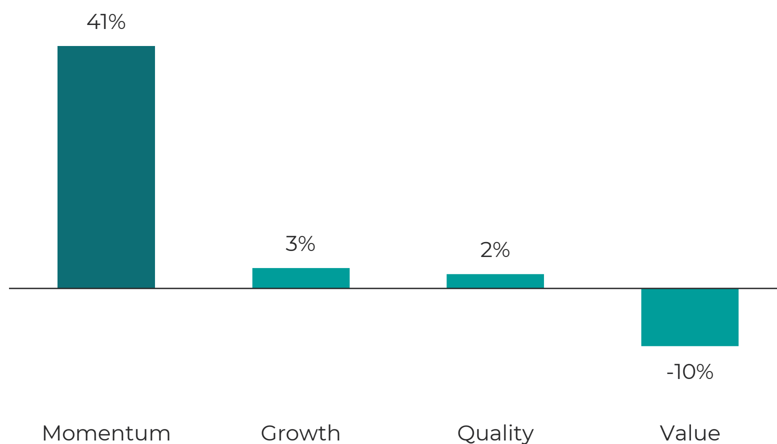
Percentage of Stocks Outperforming the S&P 500[2]



[1] *Data as of 31 Dec 2024. Source: Stenham Asset Management, Bloomberg.*
[2] *Data as of 31 Dec 2024. Source: Standard & Poor's.*

The other key driver of equity markets during 2024 was the momentum factor, which had one of its strongest years on record, up 41%. The result of this factor performance was that the most expensive stocks continued to soar higher due to multiple expansion, meanwhile fundamental factors, such as value, growth and quality, all underperformed the market meaningfully. The Fund is significantly underweight momentum; not intentionally, but rather as a byproduct of our investment philosophy, again focused on the highest-quality businesses trading at reasonable valuations. Whilst we continuously re-evaluate our exposures, we do not actively take factor-based investment decisions as the tides of factor performance, particularly the momentum factor, can change quickly and are largely influenced by short-term drivers rather than long-term fundamentals.

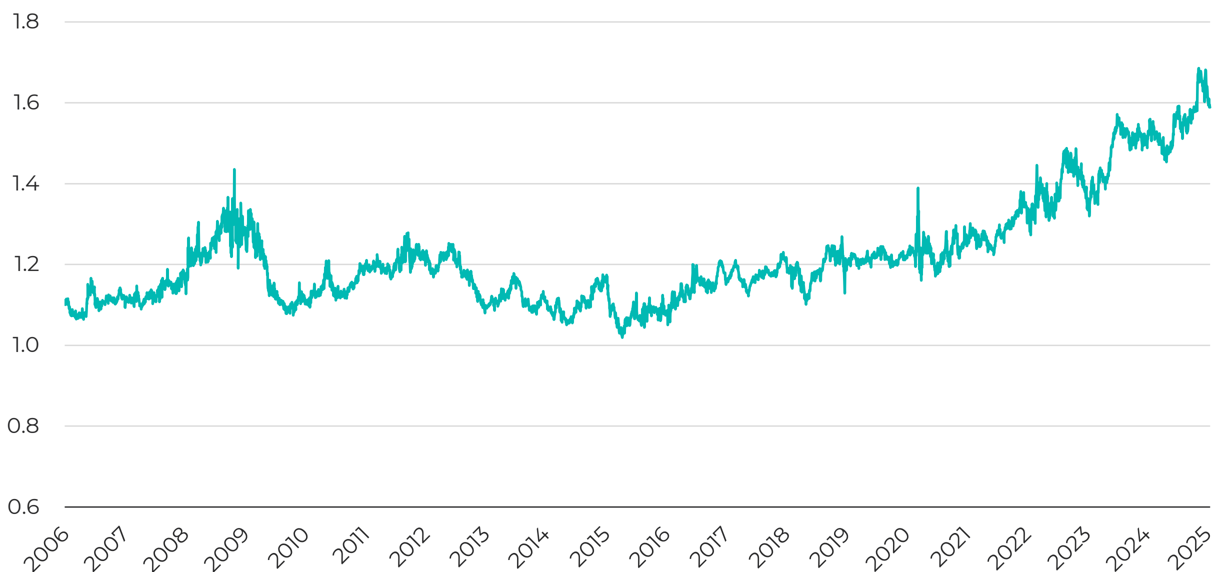
2024 Performance by US Factors[1]



Whilst non-fundamental drivers such as factor performance or market sentiment were headwinds, the Fund also faced headwinds from a portfolio construction perspective due to the broader macroeconomic backdrop. More specifically, the Fund had an average 12% overweight to Europe and 24% underweight to the US over the course of the year, and European equities meaningfully underperformed US equities in 2024. In dollar terms, the S&P 500 outperformed the STOXX Europe 600 by the widest margin in over 20 years. Given the magnitude of this divergence, even though the Fund had 47% exposure to the US in absolute terms, the underweight against the index proved a headwind to relative performance. There are several arguments for why the US economy may continue its outperformance against Europe but, in addition, it is also worth considering that the valuation premium of US equities (S&P 500 Index) versus European equities (STOXX Europe 600 Index) reached a multi-year high in 2024. For the Fund, it is worth noting that the European companies we own are truly global companies, which derive on average almost two thirds of their revenues outside of Europe. Whilst we monitor our geographic exposures at the portfolio level, our process is first and foremost guided by bottom-up fundamental analysis of the companies we are invested in. Overall, our aim is to have the operating performance of the businesses we own dictate long-term performance rather than anything else.

[1] *Data as of 31 Dec 2024. Momentum = Goldman Sachs US Barra HiLo Momentum (GSP1MOMO Index); Growth = Goldman Sachs US Barra HiLo Growth (GSP1GRWT Index); Quality = Goldman Sachs US Barra HiLo Quality (GSP1QUAL Index); Value = Goldman Sachs US Barra HiLo Value (GSP1VALU Index). Source: Stenham Asset Management, Bloomberg.*

12-month Forward P/E - S&P 500 Index Relative to STOXX Europe 600 Index[1]



Portfolio Discussion

Lastly, we evaluate some of the themes and companies we were invested in during the course of the year that impacted performance most significantly.

Luxury (LVMH, Christian Dior, Hermès)

Luxury was a notable detractor to portfolio performance in 2024, driven by a prolonged post-pandemic normalisation and ongoing macroeconomic headwinds in China. Chinese consumers, the sector's largest demographic, faced lower confidence amid weak real estate and equity markets. While high savings rates and low luxury penetration highlight the region's long-term potential, recent policy stimulus has yet to directly benefit near-term consumption. These challenges drove earnings downgrades across the sector, though LVMH outperformed its lower-desirability peers in a context of increased brand polarisation. During the third quarter, we initiated a position in Hermès (RMS FP), positively contributing to performance as we capitalised on the sector's de-rating, while improving the resilience and predictability of our luxury exposure. Looking ahead, we expect the sector's structural growth to remain underpinned by enduring global demand for status-driven consumption and, encouragingly, the sector has reported strong results thus far for Q4 2024 earnings.

Aerospace & Travel (General Electric, Safran, Airbus, Hilton)

Aerospace was the largest positive contributor to portfolio performance in 2024. Our aftermarket engine holdings, including General Electric (GE US) and Safran (SAF FP), outperformed as strong air travel demand and delivery delays extended aircraft operational lifecycles, driving robust engine maintenance demand and upward earnings revisions. Conversely, our Original Equipment (OE) exposure, represented by Airbus (AIR FP), experienced modest underperformance due to supply chain constraints impacting aircraft deliveries, though the company ultimately met its revised targets by year end. Looking to 2025, while we foresee strong aftermarket growth persisting, we anticipate a gradual shift toward OE-driven growth as supply chain

[1] *Source: Stenham Asset Management, Bloomberg.*

pressures slowly subside. In alignment with these trends, we have proactively rebalanced our exposure from aftermarket to OE. During the fourth quarter, we also initiated a position in Hilton (HLT US), funded by a partial reduction of our aerospace holdings. Hilton's high-ROIC franchise model stands to benefit from a multi-decade growth runway underpinned by the shift from independent to branded hotels and is operated by a top-tier leadership team. We plan to elaborate further on our thesis in a subsequent letter.

Towers (Cellnex)

Cellnex was a key detractor to portfolio performance in 2024, declining in line with peers in the cell tower industry as yields rose in the run up to and following the US election. Tower businesses are considered bond proxy assets by virtue of their yield and utility-like nature and, therefore, short-term price performance can be highly influenced by interest rate moves. Following the US election, expectations for interest rate cuts have been scaled back significantly over fears that tariffs and tax cuts proposed by President Trump will drive persistently higher levels of inflation. We remain encouraged by the improving fundamentals of the business as the new management team continue to make progress on higher free cash flow generation, lower balance sheet leverage and significant shareholder returns. Whilst the interest rate outlook remains unclear, we have sized the position to reflect this and still see positive fundamental catalysts ahead, the first of which we have already seen with the company announcing an expedited and greater-than-expected €800mn share buyback programme for 2025.

Railroads (Canadian Pacific Kansas City, Canadian National, Union Pacific)

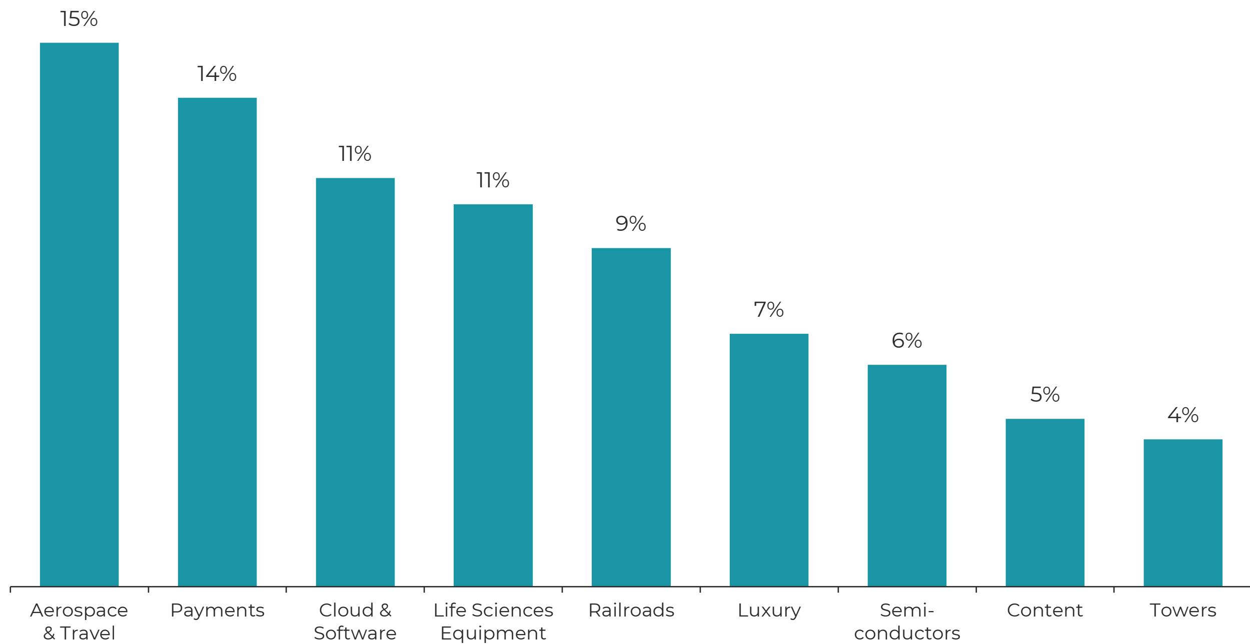
Railroads were also a detractor to portfolio performance in 2024, impacted by weak US industrial production, low truck rates, and temporary disruptions that led to earnings downgrades. Canadian Pacific Kansas City (CP US), our largest sector holding, meaningfully outgrew its peers in 2024, driven by strong operational execution and better-than-expected synergy realisation from its recent merger, a trend we anticipate continuing into 2025. In contrast, Canadian National (CNI US) underperformed due to operational challenges and weaker management execution. Consequently, we decided to reallocate our exposure from Canadian National to Union Pacific (UNP US), which offers lower tariff-related risks due to its greater US domestic focus, benefits from superior management, and traded at a relatively similar valuation level at the point of the switch. Looking ahead, we remain confident in the long-term potential of rail transportation as the backbone of the North American economy and a beneficiary of supply chain reshoring trends. Despite ongoing trade policy uncertainty, we expect Canada and Mexico to remain integral to US supply chains and gain prominence relative to China. Meanwhile, policy shifts favouring manufacturing repatriation and an incrementally pro-business environment could also provide support for the sector.

Outlook

Over 2024, the average valuation multiple for our holdings compressed 10% versus the index, whilst earnings estimates remained resilient, rising 4% on a relative basis. In other words, the valuation opportunity for our holdings has become more favorable whilst the fundamental outlook has also improved. We continue to hold high conviction in the fundamental quality of the businesses we own, which ultimately will drive long-term share price performance. The portfolio return and equity (ROE) and profitability (EBITDA margin) reflect this, currently 2x greater than the average company in the benchmark index. Meanwhile, valuation on a growth-adjusted basis for our portfolio is more attractive compared to the index. We are currently underwriting a 16%

IRR for our portfolio on a weighted average basis, 2x greater than the long-term return of the MSCI World. Whilst our concentrated portfolio approach may mean that the performance of the fund in any given year may differ from the index, our steadfast objective is still to provide superior returns over the long term, driven by the fundamental performance of the businesses we own.

Portfolio Core Themes[1]



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

Kind regards,

Kevin Arenson, Chief Investment Officer & Co-Portfolio Manager
Mihir Kara, Co-Portfolio Manager
Thibault Decré, Senior Equity Analyst
Gabriel Moraes, Equity Analyst

[1] *Data as of 31 Dec 2024. Source: Stenham Asset Management.*

Important Disclosures

This is a marketing communication. Please refer to the Fund prospectus and KIID before making any final investment decisions.

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