Quarterly Commentary

ValueInvest Global

Q2 2024

ValueInvest DANMARK

This is a marketing communication. Please refer to the Prospectus and the KIIDs when making any final investment decision. All sources Bloomberg unless otherwise stated.

Market Review

The stock market rally continued in the second quarter of 2024 though not at the same pace we observed in the first quarter. It seems that geopolitical events such as the wars in Ukraine and in the Middle East faded from investor sentiment. Instead, investors seemed focused on the potential actions from central banks in the US and Europe. The European Central Bank (ECB) made its first interest rate cut in five years, lowering the rate by 25 basis points to 3.75%. A couple of days later, the US Federal Reserve (Fed) held its federal funds rate steady at 5.25% to 5.50%. The Fed further commented that, while inflation was elevated, the economy was expanding at a solid pace and unemployment remained low. After expectations of several rate cuts to start the year, the Fed now expects only one rate cut in 2024, followed by four cuts in 2025 and four more in 2026.

Sectors like information technology (IT) and communication services once again performed strongly. As an example, the share prices of NVIDIA Corp. and Apple Inc. gained around 40% and 25%, respectively, with both companies having market capitalization rates that exceed $US3 trillion. Combined, NVIDIA and Apple account for 8% of the MSCI World Index. The IT and communication services sectors now account for roughly a third of the global index, with our portfolio's exposure being only around 4%. Sectors that lagged throughout the second quarter included materials, real estate, and consumer discretionary, all of which recorded negative sector performance.

Source: Bloomberg, unless otherwise noted.

Within the Fund

In the second quarter, the Global Equity strategy (the "Strategy") underperformed its benchmark, the MSCI World Index (net).

Individual detractors from the Strategy's performance included The Estée Lauder Companies Inc. and Lamb Weston Holdings Inc. Contributors to performance included Henkel AG & Co. KGaA and Unilever PLC.

Shares of the prestige beauty company Estée Lauder experienced a difficult quarter. The release of its fiscal year 2024 third-quarter report did not help improve investor sentiment, although management said that the company has now reached an inflection point in its turnaround. Estée Lauder reduced its full-year sales forecast and now expects organic sales of -1% to -2% (previously -1% to +2%). The company is seeing softness in consumer sentiment within North America and mainland China. On a brighter note, the company reports that the important Asia travel retail market improved and returned to growth in the quarter. The company's execution of its Profit Recovery Program (2025 and 2026) is crucial as it is expected to add incremental operating profit of $US1.1 billion to $US1.4 billion. With sales growth and cost savings, the operational leverage should kick in and deliver a significant margin recovery. Given the company's lineup of strong brands within skin care, makeup, fragrances, and hair care, we believe it is well positioned to capture the long-term growth potential in the prestige beauty segment.

On April 4, Lamb Weston had its largest one-day share price drop ever with the stock falling 19%. The company published weak fiscal-year third-quarter results due to disruption from implementing a new enterprise resource planning (ERP) system and soft restaurant traffic trends. The outlook was revised down, but the stock price reaction now looks more like an overreaction, and afterward the share price of Lamb Weston recouped some of its losses. The company has not been successful predicting the market trend, which created uncertainty from the stock market's perspective. The transition to the updated ERP system in North America led to poor inventory visibility at distribution centers, which meant that the company had problems in order fulfillments, lowering the volume. On a positive note, the order fulfillment in North America is now back to normal, and French fry attachment rates (the commitment consumers have to buying more fries and ordering them more often as a side) in North America and key international markets have been stable. Fries remain high-margin items on restaurant menus. We added to the Strategy's position in Lamb Weston in the second quarter after the stock market event.

Henkel, the German consumer staples company, raised guidance for 2024 on several fronts when it presented its first quarter results. Notably, the company raised and narrowed its earnings per share (EPS) guidance to between +15% and +25% (from +5% and +20%). The stronger outlook is a result of Henkel's two divisions performing well, with the consumer brands division seeing especially high organic sales growth of 5.2% after having divested some of its underperforming laundry and home care brands over the past year. We bought Henkel in the second quarter of 2023 as we believe that the market underestimated its restructuring potential and the potential for structurally higher margins driven by cost reduction and organizational simplification.

The multinational consumer goods company Unilever delivered a solid start to the year with volume growth exceeding market expectations. In the first quarter, underlying sales grew by 4.4%, split equally between volume and price. All segments delivered growth. The full year outlook was reiterated with the company expecting sales growth between +3% and +5% in combination with a modest margin expansion. We particularly note that an increasing share of growth is now expected to come from volume, which we believe is reassuring and indicates an improved competitiveness. The company seems to be in a strong position overall, and its portfolio optimization and transformation efforts are gaining traction.

Sources: Bloomberg and company financial statements, unless otherwise noted.

Active changes

We continuously monitor all of the Strategy's investments, ensuring that they remain consistent with our investment case. If investments no longer fulfill our quality or valuation criteria, we exit our position.

This was the case with the US company Kimberly-Clark Corp., which we sold in the second quarter. We had owned a position in the company for many years, and performance-wise, the beginning of this holding period was much stronger than in the latter period of ownership, though we always received a relatively strong dividend. However, we concluded that stronger opportunities for growth existed, so we exited the position.

A company with better growth prospects was the global provider of IT and consultant services Accenture PLC. We added a position in Accenture to the portfolio in June. As companies plan large-scale adoption of artificial intelligence (AI) to enhance their operations and extract greater value from data, they often lack the necessary in-house skills to implement these technologies. This presents a significant opportunity for enablers of complex digital technologies, such as IT and consultancy service providers. Accenture serves more than 9,000 clients worldwide, three-quarters of which are in the Fortune Global 100 and Fortune Global 500. The strength of Accenture lies in its expertise across a diverse range of industries, its vast pool of talented professionals, and its ability to leverage global teams to deliver the best results. Accenture is, in many ways, a one-stop shop, and we believe that it is not only an efficient business operator, but a strong capital allocator focused on investing in the growth of its business, maintaining cutting-edge technology, and returning excess cash to its shareholders. The global IT services market is fragmented, with Accenture's share estimated at only about 5%, leaving significant opportunities to make acquisitions and expand. We believe that the current slowdown in IT service spending is temporary. In the coming years, we anticipate an increase in IT spending driven by the adoption and implementation of AI technology. Our starting position in Accenture is 1%.

We also added Nike Inc. to the portfolio after having the global leader in athletic footwear and apparel on our watchlist for years. The stock is not inexpensive despite it falling 50% from its height two and a half years ago, but our long-term case for buying Nike is a margin-improvement story. The company has a longer-term "high teens" operating income margin target, but, in the last two fiscal years, it has only delivered a margin in the 12% to 13% range. In our valuation, we stay somewhat conservative, only assuming an operating income margin around 15% some years down the road. We are building a slow position in the company as we are aware that it is facing several headwinds ranging from smaller competitors gaining shares to too much internal "fat" in the organization, leading to a $US2 billion cost-cutting exercise. It also seems that there is a lack of product innovation. Nike's transformation will take time, so our starting position in Nike is a conservative 0.5%.

In terms of general fine-tuning, we increased the position sizing in Anheuser-Busch InBev SA/NV, Diageo PLC, Estée Lauder, Lamb Weston, Roche Holding AG, and Visa Inc. We reduced the Strategy's positions in adidas AG, Clorox Co., Danone SA, Essity AB, Ingredion Inc., Merck & Co Inc., Novo Nordisk A/S, and SAP SE.

Sources: Bloomberg and company financial statements, unless otherwise noted.

Outlook

For the past 12 months, the MSCI World Index (USD) has given a return above 20%. Approximately half of that return has come from expanding valuation multiples. These multiples were not low to begin with, and they are now even further above the long-term average. While we do not ring the valuation alarm bells just yet, we still think it is worth pointing out because knowing the source of returns can help validate the quality of those returns.

In short, stock market returns are made from two sources: fundamental business return (cash flows and earnings growth) and changes in valuation multiples. The fundamental part has higher quality than the latter because business owners can better rely on the (hopefully) repetitive nature of cash flows and earnings growth created by their business. Changes in valuation multiples are anything but repetitive because they are set by the emotional swings of investors.

Future stock market returns are likely to be lower than what we've seen in the recent past. A starting point of above-normal valuation multiples on peak profit margins opens the potential for disappointment.

Our focus remains on owning a portfolio of companies with resilient cash flows and earnings growth trading at attractive valuation levels. We always prefer our returns to be driven by the development of the businesses we own. We estimate our businesses as a group can create cash flows and earnings growth in the high single digits; we also estimate that the businesses are trading below their intrinsic value. The combination of those two factors provides a solid basis for decent and resilient future returns. As a reminder, 100% of our investments are in the most stable earnings categories – A, B, or C – which further adds to our target of generating solid risk-adjusted return over a multiyear cycle.

Source: Bloomberg, unless otherwise noted.

Performance is calculated net of fees and expenses. Unless otherwise indicated, source of data is Bloomberg, MIME S.A. The MSCI World Index is a free float-adjusted market capitalisation weighted index designed to measure equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged, and one cannot invest directly in an index. The benchmark is a Performance Comparator, and the Fund may bear little resemblance to its benchmark. The performance quoted represents past performance and does not predict future returns.

Rolling 12-month performance	30/06/2023 30/06/2024	30/06/2022 30/06/2023	30/06/2021 30/06/2022	30/06/2020 30/06/2021	30/06/2019 30/06/2020
ValueInvest Global A	-0.20	13.53	-5.11	16.65	1.09
MSCI World	22.59	14.00	-3.10	31.44	3.95
Excess Return	-22.79	-0.47	2.01	-14.79	-2.87

ValueInvest
DANMARK

Disclaimer