



Manager's Letter 3rd Quarter 2024

Results of the third quarter 2024

The strategy has had a very good quarter, and the year to date has also been extremely rewarding, with the performance very substantially ahead of the MSCI World Index.

Since the strategy is now very highly committed to the USA, it seems appropriate to start there. The market in America has been extremely strong this year, with the S&P 500 Index 20.8% higher at the end of September. Although there have been some periods of considerable volatility, a buy and hold strategy has paid handsomely, and portfolio turnover activity has been very limited so far this year.

The US market started the quarter very steadily, but ended July badly, as there was a sharp correction in technology and other growth stocks, mostly due to profit taking ahead of the second quarter reporting period. But such nervousness was unjustified, as several of the strategy companies announced strong results. **Progressive** (insurance) reported some particularly good figures which saw new premiums rise by 22%, well ahead of forecasts, translating into substantially higher earnings. Increasing adoption of the latest iteration of the Da Vinci robotic surgical device and strong procedural growth were the highlights, as **Intuitive Surgical** reported some excellent numbers. The astonishingly reliable **Cintas** (uniform rental) reported another set of very good results to round off their financial year. Revenues rose by 8.3%, but margins were materially higher, leading to a comfortable beat of earnings forecasts, and the shares responded very cheerfully, gaining substantially. **Comfort Systems**, one of America's leading installers of HVAC systems also reported an impressive set of results that beat estimates on all fronts, and unsurprisingly, the shares responded very positively. **Arista** and **Vertiv**, respectively, leaders in data centre networking, and cooling for data centres, both announced excellent quarterly numbers. However, **Vertiv** guided conservatively, while concerns over competition were raised for **Arista**, which led to both stocks being marked lower.

The process continued in August with robust second quarter results from our US holdings, propelling some of the shares to new highs and allaying any fears of a US recession. Taser and body camera company **Axon** reported a blowout quarter, with revenue growth of 35%, as their new software offering gained further traction. **SharkNinja** brushed aside fears of a slowing US consumer as it beat revenue expectations by almost 15%. New product lines continue to drive a new phase of growth for the business, with its latest offerings within haircare, fans and air purifiers beating expectations. Results within our technology names were also encouraging, as **Uber** grew monthly active consumers by 14% and completed 2.77bn trips. Online language learning platform **Duolingo** bounced back from a disappointing first quarter with a strong return to growth, as monthly active users of 103.6m and paid subscribers of 8m were well above expectations. But the main event for the month was the announcement of results from **Nvidia**, a bell weather stock for the development of AI over the past few years. Despite reporting 122% revenue growth, this still fell short of the lofty expectations of investors, as concerns surfaced about the next generation of product line experiencing delays. The stock was down after the results but recovered most of the losses by month end, and in any case has had an amazing year.

September was very much quieter, and corporate news was quite limited, with only two holdings reporting figures. They were all extremely satisfactory and came from **AeroVironment** (drones) and **Broadcom** (semiconductors). **AeroVironment's** first quarter was strong, with sales 24% higher. In July they announced a \$990 million contract with the US Army, which was subsequently challenged by a rival manufacturer, causing a sharp correction in the stock. These results, together with confirmation



of the contract, reassured the market. **Broadcom's** third quarter results were unenthusiastically received despite beating expectations. But it gained nicely as the market recovered and ended the month well ahead. Several other US positions performed robustly in September with the market getting a substantial boost from a 0.5% cut in interest rates by the Federal Reserve. Talk of a recession has very much subsided and inflation is also heading in the right direction. For now, we believe that the US market remains highly promising.

India has accounted for around 15% of the strategy for most of the year and has been a substantial contributor to the outperformance. All four holdings had a decent quarter with this period seeing corporate news dominated by the first quarter reporting period. Both **Zomato** and **Bharti Airtel** produced excellent results which drove both stocks higher. **Zomato** saw strength across both main segments as Food Delivery grew 10% and Quick Commerce was up 22%, with 113 store additions expanding their footprint further. **Bharti** delivered strong profitability with significant opportunity for further growth and is seeing a much increased take up of their broadband offering. **Avenue Supermarts** revealed some very sound first quarter figures with sales 18.6% higher. The shares continued to make solid, if unspectacular progress, while **Bharti Airtel**, and **Zomato** moved up strongly.

But the highlight of the quarter was an extremely fruitful investment expedition to India. It was impossible not to conclude that business conditions there are outstanding. The country is in a hurry, and helped by the Modi government's reforms, growth is accelerating, with high quality managements capitalising on the opportunities available. **Bharti Airtel**, now the country's leading mobile telephone operator, is seeing an explosion of demand for connectivity, whether through smartphones, or broadband to homes and businesses. The country is becoming wired up at an astonishing pace, with a mobile telephone increasingly a necessity. **Zomato** has been a hugely profitable position for the last year. The company started as a food delivery business and has rapidly expanded into "Quick Commerce", where they set up small stores stocked with everyday requirements. These are ordered online and delivered within minutes by fleets of small motorcycles. It is already a huge success and looks likely to grow substantially. Finally, a meeting with **Godrej Properties** confirmed that the residential property market is in excellent condition, and although interest rates are not expected to decline materially, demand and affordability both remain good.

Finally, in Europe which has been around 15% of the strategy for most of the quarter, **ASM International**, the Dutch semiconductor equipment company, was caught up in the worldwide correction in technology stocks and was sold down in July, despite the announcement of some highly creditable second quarter figures, and a very strong order book. There was little significant corporate news for **Novo Nordisk** which produced some satisfactory quarterly figures, although concerns about pricing and capacity constraints for their leading weight loss drug Wegovy, are rising. As a result, and after a very happy and very profitable three years, the holding was sold. Second quarter results from **Ferrari** contrasted sharply with the widespread negative trends within luxury goods. The company reported some excellent sales of its new models, with shipments rising 3% and revenues a healthy 16% higher. Investors were clearly encouraged by the result and the stock was up materially in August, having traded quietly for the preceding three months. **Rheinmetall** remains a key beneficiary of growing defence spending both in Germany and globally, with results largely in line and a reiterated guidance to hit €10bn in sales this year. The shares were little changed over the quarter.



Outlook

Overall, therefore, it has been a good quarter, and so far, an exceptionally encouraging year. We retain our optimism about prospects for both the US and Indian markets and hope to be able to report on a successful end to the year in January. However, several important issues will arise between now and then, not least the US election. We doubt that it will have a significant impact, but it is beginning to look as if the market is starting to discount a Trump victory. The inflation data will also have to be watched carefully. We hope and expect it to remain subdued, allowing for further interest rate reductions. But most importantly, another US quarterly reporting season is already upon us, which hopefully will provide reassurance about the health of the US economy, corporate America, and more specifically, the strategy's US holdings.

Biography



Andrew Dalrymple | Founder & Investment Manager

Andrew is Founder, Director and CIO at Aubrey, as well as being lead Investment Manager of the Global Emerging Markets and Global Equity strategies.

A graduate of Cambridge University, he began his career at Cazenove & Co then joined James Capel in 1987 and was transferred to James Capel (Far East) in Hong Kong in 1991. He continued in his role as an Asian specialist working with UBS Warburg from 1992-1998 in Hong Kong.

Andrew joined Stewart Ivory in 1998 and in 1999 he established the Global Opportunities Fund, the First State Global Opportunities Fund, which remained his signature fund throughout his tenure at First State Investments. Since inception (August 1999) through June 2006 the fund rose 112.2% compared to a rise of 3.8% in the MSCI World Index. The Fund was top quartile over 1,2,3,4,5 years and since inception

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