



Review

Nearly all global risk assets fell sharply in March, as the war between the USA/Israel and Iran escalated. Global equity markets were weak across the board, in many cases seeing their worst monthly falls in over a year. The UK market, despite being a relatively defensive one, suffered equally and the iShares UK Equity Index tracker fell by a substantial -6.97% over the month.

March was, understandably, dominated by the Iranian conflict and specifically from a market perspective, by the huge surge in oil prices that followed. As it became increasingly clear that this was unlikely to be a brief conflict, alongside Iran's effective closure of the critically important Strait of Hormuz, Brent crude prices surged by c.60% in March alone, closing the month over \$118 per barrel.

The resulting prospects of another global 'stagflationary' shock led to a significant cross-asset sell off with virtually no hiding place. As noted above, global equity markets were very weak, as too were global government bonds, driven by a surge in inflation expectations and growing speculation that central banks would be forced to raise interest rates rather than cut them as had been previously expected. Even traditional safe haven assets, such as precious metals, were not immune as gold had its worst monthly fall (-12%) since the global financial crisis in October 2008.

Most economic and corporate news flow remained relatively robust during March, and the US Federal Reserve, the European Central Bank and the Bank of England all kept their respective interest rates unchanged as expected. However, markets were, understandably, focussed solely on the likely future impact of the issues noted above.

Fund performance / Activity

March was an incredibly difficult month for our fund. The extremely aggressive 'risk-off' moves witnessed across most assets were felt particularly acutely further down the market size spectrum and in the most economically sensitive sectors. These are the areas of the market where our fund has the majority of its exposure and consequently performance suffered materially. As such, our fund fell -17.31% (share class A GBP Net Accumulation) over the period, significantly behind the iShares UK Equity Index tracker fall of -6.97% and the peer group average fall of -7.64%.

There were numerous individual holdings that delivered material negative attribution to performance in March, including DFS Furniture, Persimmon, Bodycote, RS Group, Page Group, International Workplace, Savills, and Victrex to name a few. Not owning oil majors BP and Shell was also hugely detrimental given the rally in oil prices. There were limited individual positive contributors during the month, although our holding in Harbour Energy was the most significant positive highlight. Elsewhere we benefited from not owning certain Index heavyweight stocks, whose share prices performed poorly, including HSBC, AstraZeneca, Unilever, and Rolls-Royce.

Given the heightened level of volatility in markets, we were substantially more active in the portfolio during March. Whilst we introduced no completely new holdings, we added to a large variety of positions where we consider the scale of recent share price weakness to be excessive. These included Savills, DFS Furniture, Bodycote, Atalaya Mining, International Workspace, Wickes, Persimmon and more. We funded these additions through the complete disposal of our position in Entain, as well as



taking profits in holdings that have held up better relatively such as Harbour Energy, Zegona Communications, and Mony Group.

Market Outlook

Clearly the focus of market participants remains the Iranian conflict, its likely duration, and the extent of the subsequent hit to global economic growth and increase in inflationary pressures resulting from the extraordinary surge in oil prices. A key factor in this assessment will be the duration of the effective closure of the Strait of Hormuz, and any residual impediments to the resumption of free-flowing trade once some form of resolution to the conflict is reached.

We have noted previously that, from a historical perspective, these dramatic events have typically not had a material impact on economies and stock markets over an extended period. Notwithstanding that the conflict is already a month old, and a near-term resolution looks unlikely, we are inclined to believe the same will be true this time, whilst accepting an elevated level of uncertainty and acknowledging that we must remain openminded and assess new developments as they transpire.

As can be seen from the short-term performance of our portfolio, a great many mid-sized companies, particularly in the more economically sensitive market sectors, have seen material share price weakness already, with several of our holdings falling between 20-30% in March alone. In most cases, recent trading results have been robust and outlook statements suggest negligible impact from the conflict so far. We are not naïve enough to expect no adverse short-term effects in due course, but viewed through a longer-term lens, we are once more being offered an opportunity to purchase shares in strong, durable franchises at bargain prices. In most cases, as we have argued repeatedly, these companies were already extremely cheap and have only become even more so recently.

To be clear, we take no pleasure in the degree of volatility currently being exhibited in the performance of our portfolio. However, as regular readers will hopefully recognise, we believe our portfolio offers exceptional value at the current time. Consequently, during turbulent periods such as these, our approach remains to add to preferred holdings at what we consider to be even more incredibly attractive valuations, and that is what we are continuing to do today.

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