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For wholesale investors only

CT Pyrford Global Absolute Return Fund (AU$)

30 September 2024

Q3 2024 Commentary

Firm Update

Firm AUM at the end of the period was AUD$ 11.84bn.

There were no changes to the investment team.

Performance

The fund returned 5.11% gross over the quarter. Since inception in June 2014, the fund has delivered 6.33% gross, per annum.

The aim of the fund is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

Market Environment

This quarter saw strong returns across equity markets, yet it wasn't a straight upward line as markets experienced increased volatility. A combination of weaker US economic data, an interest rate hike from the Bank of Japan, and a lack of summer liquidity meant stocks were hit hard in early August. However, the long-anticipated start of the Federal Reserve's rate cutting cycle in September, along with new stimulus in China, and a less hawkish tone from Japanese policymakers, eased investor concerns and supported a strong rally in stocks towards the end of the quarter. In the US, the broader rally in the S&P 500 was welcomed, easing concerns that performance had been concentrated around a handful of giant technology names for much of 2024.

Yield curves have steepened with the 30-year US bond yield a touch higher than its level at the start of the year. Most notably, gold has taken off, up 30% year to date with central banks looking to diversify away from the US. The Fed has rightly shifted its attention to the labour market which remains intact for now.

While earnings expectations and valuations are elevated in the US, the onus is on the real economy to accelerate and grow into its current multiple. Any signs of a crack in growth will be met with sharp downward reactions regardless of the Fed response. There will likely be more volatility ahead, with November's US election one of several potential catalysts.

With inflation cooling, other western central banks also cut rates. The European Central Bank delivered its second rate cut in September, while the Bank of England cut rates at its August meeting. The shift in investors' expectations for interest rates helped government bonds to perform strongly. In the UK, a tighter labour market means the Bank of England needs to tread carefully with regards to the speed of future easing.

Key Drivers & Detractors

Within the portfolio, equities provided the largest returns with our overseas equity allocation outperforming the wider market, domestic equities added and our domestic and overseas bond allocation and the currency hedging program also contributed to performance over the quarter.

Within the domestic equity allocation contributors were led by Brambles this quarter. Brambles, an international operator of the CHEP blue, was another contributor from the overseas portfolio. The wooden pallet pool globally reported very strong results in August. Underlying profits increased by 17% from the combination of pricing momentum and efficiency improvements. The company increased its dividend by 30% over the full year, taking it to the top of its payout range, but confidence in the outlook for next year and beyond also resulted in that guidance range being increased. Another positive was the progress the company was able to report in providing data and supply chain analysis to its clients, following several years of investing in the means of tracking pallets and their loads on their delivery journeys. A detractor for the quarter was Woodside Energy. Their results were down on the previous period, but in line with expectations and the dividend announced was much higher than expected. The stock price weakness in the period is primarily down to weakness in the oil price which has fallen from above $80/barrel at the end of Q2 to $68.25 on September 30th. Increasing tensions in the Middle East were not enough to balance concerns that a planned increase in production by Saudi Arabia later in the year, in the face of weakening economic outlooks, would put further pressure on that price.

Within the overseas equity allocation AIA Group and Maybank added whilst ASM Pacific detracted. AIA Group contributed this quarter with strong results. They also disclosed guidance for operating profit per share of between 9-11% CAGR to 2026 for the first time indicating strong traction/outlook across their markets, especially in China where there is a lot of scepticism. They also disclosed greater guidance on cash returns i.e. dividends and buybacks which was greatly received. Maybank reported strong Q2 profits, which were above consensus expectations. The primary reasons were lower credit costs and higher trading income. Loan growth was also strong, up 11% year on year, driven by robust broad-based demand in Malaysia, Singapore and Indonesia. Data centre investment has been a tailwind, with Maybank now having over RM10bn in related loans approved and in the pipeline. Going forward, Bank Negara Malaysia is expected to hold rates steady, rather than follow the Fed's recent rate cuts, which should benefit the Malaysian banking sector. ASM Pacific reported results in line with expectations but their guidance for the third quarter was below expectations following muted uptick in traditional semiconductor packaging equipment machines, citing weak end demand for consumer electronics. Their surface mount technology division also saw weak orders following weakness in the industrial and auto segments. Advanced packaging remains a bright spot.

The Australian yield curve edged down over the quarter as investors digested the minutes from the Reserve Bank of Australia's September meeting. We are positioned at the short end, reducing our duration risk whilst offering an attractive coupon. We are also positioned at the short end within our overseas bond allocation. The yield curve in the UK, the US and Canada shifted lower at the short end. Our exposure to overseas government bonds was behind the broader index partly due to the weakening of the Canadian Dollar against the Australian Dollar.

Our US Dollar and Euro exposure is hedged, meaning we avoided the impact of a depreciation in the US Dollar this quarter and the Euro was broadly flat. The US Dollar weakened by 3.90%.

Asset allocation & positioning

We remain defensively positioned. Our current allocation is 50% equities, 48% government bonds and 2% cash.

Within the fixed income allocation, Pyrford adopts a defensive stance by owning short duration securities to minimise the impact on the portfolio from interest rate rises. At the end of the period the modified duration of the fixed income portfolio stood at around 3.0 years. Whilst these shorter duration bonds are unlikely to yield high returns, they will provide significant capital protection for the portfolio and importantly they are highly liquid. 30.6% of the model portfolio is invested in overseas bonds, with 17.5% in the US, 8.6% in the UK and 4.4% in Canada. 17.4% of the portfolio is invested in Australian government debt.

Within the equity portfolio the companies we hold are defensive names, which we would expect to perform well during volatile periods. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value. Within Europe there are no holdings in the peripheral Eurozone countries where sovereign debt concerns remain. The European portfolio is concentrated in Switzerland and the relatively healthy economies of core Europe and the UK. In Asia, we prefer the Southeast Asian markets over Japan. The potential growth rate in Japan remains low given the poor demographics and low productivity growth. Economies in Southeast Asia offer sustainable economic growth supported by increased labor output or productivity growth and trade at more reasonable valuations.

We continue to hedge the Euro and the US Dollar to meet the portfolio target exposure of no more than 45% in non-AUD, unhedged currencies. Our hedging rule is to hedge currencies that are more than 25% overvalued relative to the base currency. Whilst the US and Euro are not more than 25% overvalued as per our hedging rule they are the most expensive currency relative to the Australian Dollar.

Quarterly ESG & Proxy Voting Summary

As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try and influence the business practices of companies.

Pyrford voted 77 proposals in 6 company meetings in the quarter. We voted against management on 6 proposals. We also attended 120 company meetings worldwide, and ESG issues are a standing agenda item in every meeting we conduct.

For a detailed overview of ESG activity, please visit our website for all voting records and our latest annual ESG report.

Risk disclosure

The investments and investment strategies discussed are not suitable for, or applicable to, every individual. All investments involve risk, including the possible loss of principal and a positive return is not guaranteed over any period. Past performance is not a guarantee of future results. Performance data shown in the document may not be in the local currency of the country where an investor is based. Actual returns may increase or decrease as a result of currency fluctuations. Dividends are not guaranteed and are subject to change or elimination.

Regulatory disclosure

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