Longevity Economy strategy

Growth stocks were under pressure due to rising long term interest rates

- Global equity markets were mostly weaker as they continued to digest strong year to date gains
- Our healthcare names and lack of energy sector exposure continued to weigh on performance
- Global populations continue to age likely driving gradual but meaningful changes in consumption patterns

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What's happening?

September largely followed the pattern of August with global equity markets mostly weaker as they continued to digest strong year to date gains. Rising long bond yields have created confusion over the outlook for inflation and resulted in some volatile moves within markets. Growth stock valuation levels are once again under pressure due to rising rates and questions are being asked about how fast inflation will come down. This has acted as a headwind to the strategy's relative performance.

We remain of the opinion that inflation will continue to decline. The Core CPI in the US has declined from 6.6% to 4.1%[1] in the last 12 months and further declines are highly likely given trends in the US housing market. This in turn suggests that central banks will soon stop hiking interest rates and that the current rise in yields will not become a long-term trend. We currently believe that rising long bond yields in the US are driven by technical issues surrounding excess supply, rather than a change in the outlook for inflation and are therefore optimistic that the current valuation contraction is temporary.

A growing conviction that the US economy should be able to achieve a soft landing and a renewed commitment amongst OPEC members to restrain production, resulted in the energy sector being the top performer last month.

Portfolio positioning and performance

The longevity strategy underperformed broader equity markets during the month (as judged by the MSCI AC World Index). There were two main drivers behind this. Our lack of exposure to the energy sector continued to be a

[1] Bloomberg as at 30/09/23

hindrance as this was the only sector to rise in September. A larger cause was that due to a number of factors, our healthcare holdings again underperformed the wider market.

As previously mentioned, growth stock valuations were under pressure during the month. Stocks such as Exact Sciences, TransMedics and HCA Healthcare fell sharply despite reporting no fundamental news. Our diabetes related holdings, and general medical technology stocks, also remained under significant pressure. Further data releases for Eli Lilly and Novo Nordisk's next generation GLP-1 drugs continued to show they drive weight loss and therefore provide health benefits. The market has concluded that this will slow the growth of diabetes across the world and reduce the need for surgical procedures. While this may have a marginal short-term impact, the diabetes market remains large and under penetrated and people will continue to require surgery. Despite recent share price moves, we believe that grow opportunity remains attractive over the longer term.

We sold our holding in Daiichi Sankyo in September and there were no new additions.

Outlook

While the market continues to believe that the US economy will achieve a soft landing we remain cognisant that interest rate increases impact the real economy with a lag and that there are still growth challenges ahead. Therefore, our belief is that earnings estimates for the more cyclical areas of the global economy are too high and that the current bullish sentiment is likely to be tested over the next 12 months. At the same time, we believe that, despite recent increases, interest rates are peaking, and valuation pressures should ease.

Given that the longevity strategy is tilted towards relatively defensive, growth, companies we expect both of the above trends to be beneficial over time. The healthcare sector, a major area of focus for the fund, is well positioned for an economic slowdown as its growth profile should be immune to cyclical headwinds, while valuations are at historically attractive levels. Despite market volatility, global populations continue to age and this in turn will drive gradual, but meaningful, changes in consumption patterns.

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