

Monks Investment Trust: manager insights

September 2024

Monks' manager Spencer Adair discusses how companies in the Trust have performed in the past financial year, and shares his thoughts on investment opportunities in the areas of digital payments, AI and 'infrastructure upgrade'.

Your capital is at risk. Past performance is not a guide to future returns.

Spencer Adair: Hello, and welcome to this update for the Monks Investment Trust. My name is Spencer Adair, and I am the manager of Monks. In this short update, I will provide a brief reminder of our investment approach, comment on performance and explain why we are excited about the prospects of the portfolio in the years ahead.

Monks' proposition

Monks seeks to deliver capital growth by investing in a diversified collection of what we believe to be the most compelling growth stocks anywhere in the world. We recognise that companies grow in different ways, and we embrace three earnings growth profiles, investing in a blend of what we call 'stalwart', 'rapid' and 'cyclical' growth companies. We explain more about this in our annual report on the website, but in principle, look to manage the portfolio that is balanced across these three growth types.

Our belief is that share prices follow fundamental progress in earnings over long periods. Therefore, our objective is simple – to be long-term holders of growth companies and let the power of compounding drive returns.

Our shareholders are our number one priority, and so we seek to keep costs low. As assets grow, fees will fall, maximising returns for shareholders. Our borrowing costs are low too – the average borrowing cost for Monks' debt is 2.7 per cent – a low hurdle when set against the growth that we believe we can deliver over the long term. Finally, we have been active buyers of our own shares. Monks has continued to trade at a discount to its net asset value, which is the value of its assets

minus its liabilities, in the past financial year. During this time, we have bought back around 7 per cent of its issued share capital, which is amongst the highest in its sector.

Performance

In the 12 months to the latest financial year end, April 2024, we have delivered a return of just under 18 per cent. While this is 1.5 per cent behind the global index, we believe there is much to be optimistic about.

We see strong evidence that many companies in the portfolio are executing well. Indeed, the combined increase in their earnings for the year was just under 12 per cent. Amongst the strongest performers in the portfolio were Martin Marietta and CRH in materials and building supplies; Meta, the social media business, which has successfully grown demand for its advertising capabilities and delivered record profits; and DoorDash, the leading online food delivery business. The latter is successfully building out a last-mile delivery network that we think will make it the envy of many and support a growing ecosystem that will become the convenience platform of choice for consumers in the United States.

On the other hand, our exposure to insurance businesses and a selection of healthcare companies was a headwind for performance. For the former, the lingering effect of the pandemic has weakened Chinese consumer demand and made it difficult for companies to actively sell insurance products in the region. We have retained a position in insurance company AIA but decided to move on from both Prudential and Ping An Insurance.

The backdrop for healthcare businesses has been very challenging. Excess inventory built up following the pandemic – which has suppressed demand – and a much more difficult funding environment for drug developers has made it difficult for some holdings. Royalty Pharma, a provider of capital to drug developers, has seen its share price fall. Yet we continue to believe that operational progress is on track. Its stream of royalties from its existing portfolio of drugs continues to grow healthily, and the company is investing heavily in its future growth. For example, in the last quarter it spent \$1.6bn. Now that compares to an average of \$2bn annually over the last five years. Elsewhere, we have sold our shares in Novocure, which suffered disappointing results from a late-stage cancer treatment trial.

Innovation beyond the obvious

While markets have been narrowly focused over the past year, we have continued to embrace a wide array of opportunities and believe the portfolio is well-balanced across our three growth profiles.

Importantly, our portfolio holdings are aligned with deep structural changes in economies and societies that we believe will be a helpful tailwind for growth in the years to come.

Let's highlight three to illustrate what I mean.

First, digital payments. The value of global digital payment transactions is growing fast. It has doubled to over \$6tnn in the past five years alone, and we believe that there remains much to go for. We have purchased a new position in Block, which owns Cash App, the most popular finance application in the US, and it owns Square, the point-of-sale hardware that enables small merchants without an online presence to accept digital payments. We are excited about Block's potential to integrate these two offerings and build significant long-term value. The portfolio has exposure to a range of other digital payment businesses. These include Mastercard, Adyen, the Dutch payments business and the rapidly growing MercadoLibre in South America.

Second, the excitement around the potential for artificial intelligence, or AI, is to a large extent underpinned by the technological advances in semiconductors that are driving the exponential acceleration of computing power. We have deliberately grown the portfolio's exposure to the semiconductor industry – it is now 10 per cent of the portfolio – over the past couple of years. We purchased shares in NVIDIA in June last year as the leading global designer of graphics processing units, a key enabler of AI applications. And we haven't stopped there. We have recently added holdings in semiconductor companies Texas Instruments and Samsung Electronics. Growth in both cases will be driven by the secular trends towards greater electrification: for example, in the car market, the use of consumer electronics – think smartphones, tablets and laptops – and the ongoing build-out of data centres to support increased cloud computing capacity.

Finally, we have continued to invest where companies may be beneficiaries of an 'infrastructure upgrade', particularly in the US. Now, there are several factors here, including reshoring trends and infrastructure spending – supported by legislation like the Inflation Reduction Act – which are likely to support a material uptick in capital spending on areas such as roads, energy and digital networks. We recently established a position in the Canadian company Stella-Jones. It is North America's largest manufacturer of pressure-treated wood products. The growth case rests on its core product, wooden utility poles, that literally hold up the electric grid. They are used for both electrical and for communication infrastructure. For the US to decarbonise its energy systems and have a chance of achieving its Net Zero ambitions, substantial investment will be required in its national power grid. We believe volume growth and pricing power will boost profitability in the coming years.

Outlook

Across our portfolio, companies are successfully fine-tuning their operations to the present while continuing to invest for the future. Monks has delivered strong earnings growth. Importantly, forecast earnings growth for each of the next three years is higher than the FTSE World Index. There are encouraging signs that the investment markets – against a backdrop of stabilising inflation and interest rates – are more willing to recognise this, and that our performance against the benchmark has begun to rebound sharply.

We look forward. What is most exciting is that the rate of change and technological development is accelerating and underpins a growing, and often underappreciated, opportunity set. By virtue of our willingness to take a wide-angled view of growth we have the latitude to invest beyond the obvious. This allows us to harness the growth potential of lesser known but exceptional growth companies.

Our portfolio reflects an eclectic and growing opportunity set that we are confident can deliver for shareholders in the years ahead.

Annual past performance to 30 June each year (net%)

	2020	2021	2022	2023	2024
Monks Investment Trust	15.3	30.2	-32.1	6.8	19.6
Net Asset Value	17.0	37.2	-26.8	9.1	17.9
FTSE World Index	5.8	25.5	-2.8	13.5	21.1

Source: Morningstar and FTSE. Share price, total return, sterling.

Past performance is not a guide to future returns.

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Monks Investment Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. The value of its shares, and any income from them, can fall as well as rise and investors may not get back the amount invested.

The specific risks associated with the Monks Investment Trust include:

- The Trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.
- The Trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- Unlisted investments such as private companies can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.
- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.
- The Trust can make use of derivatives which may impact on its performance.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

For a Key Information Document for the Monks Investment Trust, please visit our website at www.bailliegifford.com