MONKS INVESTMENT TRUST MANAGER INSIGHTS

Investment manager Malcolm MacColl discusses recent performance, portfolio positioning and how the team considers three earnings growth profiles in stock selection.

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

Hello and welcome to this update for the Monks Investment Trust. My name is Malcolm MacColl and I am one of the Trust's managers.

In this short update, I will provide a reminder of the Monks approach, and comment on performance. I will also explain changes we have made to the portfolio and reasons we are excited about the future.

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 balance of what we call 'stalwart', 'rapid' and 'cyclical' growth companies, which I'll explain more about shortly.

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. We look to keep costs low for investors, and as assets grow proportionate fees will fall, maximising return for shareholders.

Performance

Recent performance has been disappointing. Rising inflation and interest rates across much of the developed world, exacerbated by the situation in Ukraine, have arguably shortened investors' time horizons, and certainly reduced their tolerance of uncertainty. This has been unhelpful for the share prices of the types of growth companies that we invest in within Monks.

While the operating performance for most of our companies has remained strong, in hindsight we had too much of the portfolio positioned in 'rapid' or the highest, growth companies and there have also been some stock selection mistakes. We have taken action to reposition the portfolio and sell those businesses that are less well-placed to navigate a world of higher inflation and interest rates. This includes the sale of companies such as Carvana, an online used car retailer in the US.

Importantly though, stock turnover remains low, meaning that most of the portfolio remains the same as it was 12-24 months ago. This reflects our confidence in the long-term prospects of the holdings in Monks, which have strong balance sheets, pricing power, and crucially far better growth prospects than the broader market.

Portfolio positioning

Turning to portfolio positioning, Monks is intentionally diversified. In the current environment, we have more of the portfolio invested in our growth 'stalwarts' – around 37 per cent – which are typically well-established companies with significant pricing power like Elevance Health, the US health insurance giant, and Microsoft, the leading productivity software and cloud computing business.

These companies have performed well in share price terms, and we see a growing opportunity to recycle some of the gains from these holdings into underappreciated opportunities in the 'rapid' and 'cyclical' growth space.

We have already made some moves in this direction with additions to existing 'rapid' growth holdings. Fears about near-term consumer demand and margins have lowered share prices and allowed us to add to transaction-based online platforms like Amazon, DoorDash and Mercado Libre in recent months. These companies invested significantly throughout the pandemic, which is a source of angst for many investors, but our view is different. We think these companies have further entrenched their competitive positions and will benefit as economies recover.

Elsewhere, in an environment where advertising spend needs to be carefully managed, we have added to companies whose services offer enterprises the best return on their spending. We have increased the position in The Trade Desk, which specialises in programmatic advertising, and we have added twice to Meta, the owner of Facebook, WhatsApp and Instagram.

We have also been gradually increasing Monks' exposure to several 'cyclical' growth opportunities, where current market worries are masking structural growth. This is true of Advanced Drainage Systems, whose plastic storm drains are lower cost, more durable and easier-to-fit than concrete equivalents, and Floor and Décor, which we believe to be a category killer in the hard flooring business.

Beyond these enthusiasms we wanted to share some our thinking on artificial intelligence and machine learning.

The potentially transformational nature of artificial intelligence, or AI, has exploded onto the scene this year. The emergence of generative AI technologies, such as ChatGPT, gives rise to the possibility that we may be at the early stages of a paradigm shift in computing. AI looks set to have broad and far-reaching set of implications for all sectors.

We know better than to be too precise in our predictions about the application of nascent technologies, but we are confident that the AI revolution will need a lot of data and computing power.

The Monks portfolio has exposure to range of businesses that are likely to be beneficiaries of AI. This includes enterprise cloud operators, semiconductor companies and next-generation ecommerce businesses.

For example, semiconductors, we believe, are the "picks and shovels" underpinning many of these applications and we have been growing our exposure across the semiconductor value chain for some time, which now comprises 6 per cent of the portfolio. We have longstanding holdings in the chip manufacturer, TSMC, and testing company Teradyne, and these have been supplemented with new positions including the materials and filtration business Entegris, and the wafer processing company ASM International.

Outlook

Moving to the outlook, we recognise that the past 18 months have been difficult for Monks' shareholders and we hugely appreciate your support. We remain committed to our approach and excited about the opportunities we are finding.

The operating environment for companies has changed, and it is the most competitive and well-managed businesses that will thrive. Greater value is likely to accrue to fewer companies: those with the strongest balance sheets, the ability to fund their growth and durable competitive advantages. These are traits we believe characterise the holdings in the Monks portfolio. The portfolio's holdings, in aggregate, are forecast to grow earnings at nearly three times the market average over the next three years. We are therefore confident about the portfolio's ability to deliver attractive returns for Monks' shareholders long into the future.

Annual past performance to 30 June each year (%)

	2019	2020	2021	2022	2023
Monks Investment Trust	9.5	15.3	30.2	-32.1	6.8
FTSE World Index	10.4	5.8	25.5	-2.8	13.5

Source: Morningstar and FTSE. Share price, total return, sterling.
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For a Key Information Document for the Monks Investment Trust, please visit our website at www.bailliegifford.com

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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.

- The Trust's risk could be increased by its investment in private companies. 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's exposure to a single market and currency may increase risk.

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- 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.

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