FOR PROFESSIONAL ADVISERS ONLY

Defensive Capital Fund

Monthly market commentary

July 2024

July saw a violent rotation out of growth assets into value assets, which aided the Fund's performance due to its inherent value-bias.

Asset market performance

Market	July 2024 total return
UK large cap equities (MSCI UK)	2.5%
European equities (Euros)	0.6%
US equities (USD)	1.2%
Japanese equities (Yen)	(1.0%)
Convertibles (global, USD)	1.8%
High yield bonds (global, USD)	2.0%
Government bonds (global, USD)	3.2%
Sterling vs US dollar (change)	0.2%

Source: Bloomberg, total return, net of all ongoing charges in sterling as at 31 July 2024

Discrete 12-month performance to 31 July	2020	2021	2022	2023	2024
Defensive Capital Fund A Acc (£)	(4.0%)	15.9%	1.7%	(4.1%)	10.7%

Source: Bloomberg, total return, net of all ongoing charges in sterling as at 31 July 2024

Past performance is not a reliable indicator of future results.
*The performance shown is for A share class total return, net of all ongoing charges, mid-price as at 31 July 2024.

The Defensive Capital Fund returned +2.5%* in July, a broadly positive month for risk assets.

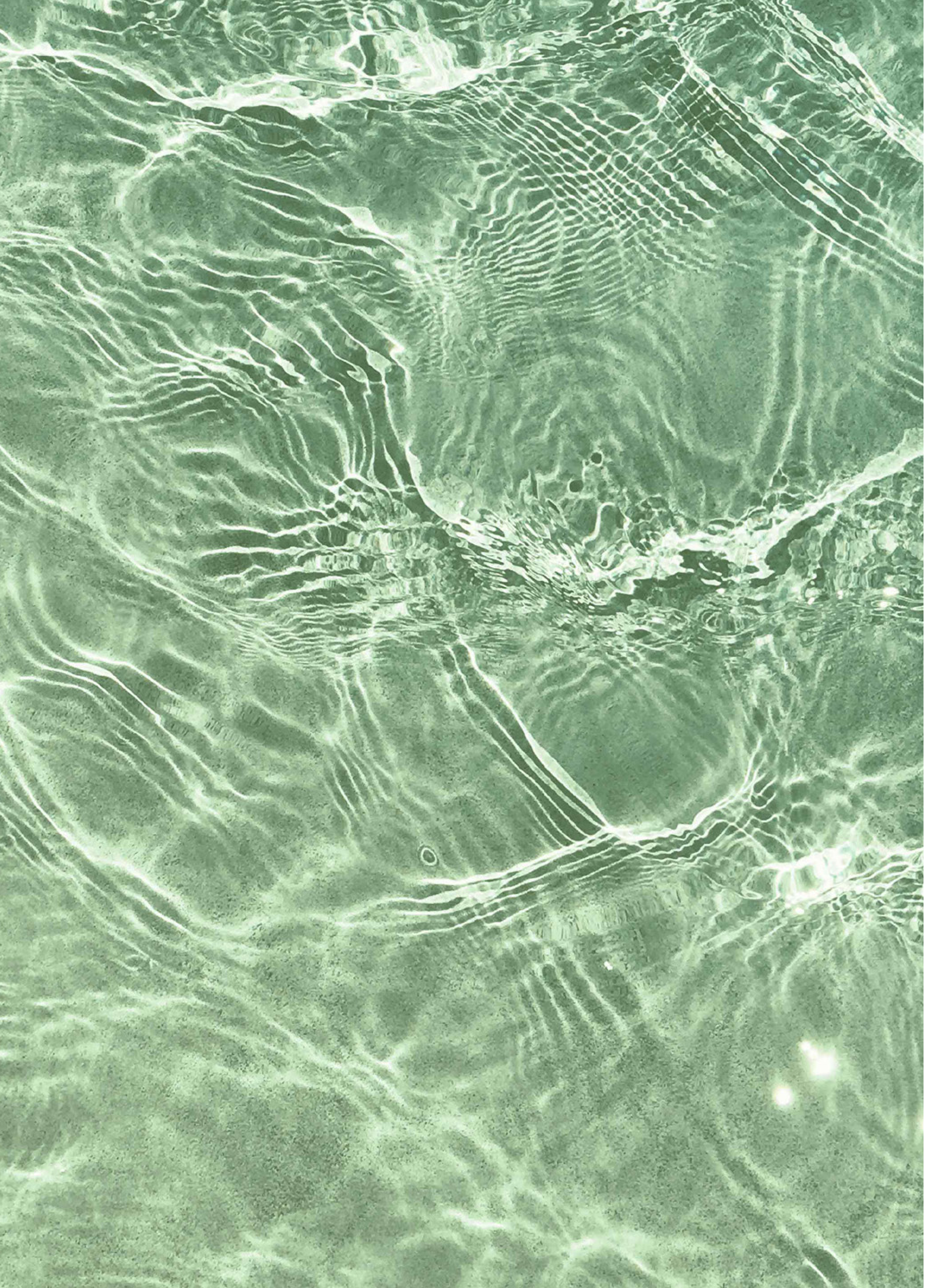
The Fund's strongest contributions this month came from Real Assets contributing +1.2% and Discounted Assets at +0.7%. All asset classes contributed positively.

During the month we added to our position in Yellowcake as the discount to the value of its uranium holdings widened further. We also added to holdings in Taylor Maritime, GCP Asset Backed Lending and Riverstone Energy.

We trimmed some assets on relative strength, including Utilico zero-dividend preference shares (ZDPs), Chrysalis and Empiric Student Property.

Coming rate cuts likely to reduce discounts

The sharp increase in short term rates over the last two years negatively impacted investment trusts in two ways. First, higher yields led to lower Net Asset Values as discount rates were increased. And second, the novelty of positive risk-free rates sucked capital into short-dated government bonds and out of investment trust's widening discounts. Now we are on the cusp of rate cuts (the UK one year government bond yield has fallen by over one percentage point from its highs) we are likely to see the beginnings of a reversal of this trend and a possible tightening of discounts, albeit gradually. Given that many of our holdings are on -30% to -50% discounts there is significant upside.



Stock of the month: Tritax Eurobox (EBOX)

Tritax Eurobox is the European cousin of Tritax Big Box Real Estate Investment Trusts (REIT), both owners of large warehouses primarily used for logistics.

Strong growth in online shopping, with Europe on average around seven years behind the UK in terms of penetration, has led to increasing demand for modern purpose-built “sheds”. A scarcity of land in many locations, as well as increasing build costs have led to strong growth in rents.

We first invested in EBOX in early 2021. The sharp rise in interest rates and hence the cost of debt led the shares to derate. We started buying again in late 2023 when rates had stabilised. We calculated that cash yields on equity would remain strong, even after a refinancing of all the company’s debt, at least in part due to the shares trading on as wide as a -40% discount.

Nor were we the only ones: on 3 June Brookfield Asset Management announced it is assessing a cash offer for the company. The stock was up 17% year-to-date to the end of July, and we estimate around another 15% upside should a deal be completed.

Dr Niall O’Connor

Fund Manager

Niall joined Brooks Macdonald in 2013. He has 20 years of investment experience, many of which were in senior investment management roles. This includes leading the development of a range of complex derivative pricing and risk models for Independent Risk Monitoring. Niall has a PhD in Theoretical Physics and an MA and BA in Physics, all from Cambridge University.

020 7659 3473
niall.oconnor@brooksmacdonald.com

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