# Manager view

Amid international focus on the US presidential election and the evolving situation in the Middle East, the UK Budget demanded domestic investor attention. From an equity market and investor perspective, despite much speculation, the outcome was not as punitive as originally feared. The increase in CGT rates was not as pernicious as expected, and AIM market IHT reliefs are still broadly in place – although at less attractive rates. That said, the bigger picture is less certain, due to the significant increase in tax and borrowing for a government elected on a pro-growth mandate.

Government bond yields rose and sterling weakened in response to the sheer magnitude of borrowing required to fund the government's ambitious spending projects. This has implications for the outlook on inflation and interest rate expectations over the near term. For context, the borrowing required is the largest outside of a crisis such as Covid for the past 30 years. While markets are still digesting the full details, it is important to remember that the UK economy can deliver sustainable growth and drive improved productivity while remaining attractive to both domestic and foreign investors.

Headline UK CPI inflation fell to 1.7% in September, which was below the consensus of 1.9% and, importantly, below the Bank of England's mandated target of 2%. Encouragingly, core and services inflation also fell, to 3.2% and 4.9% respectively – the latter falling below the BoE forecast of 5.5%. Wage growth slowed to 4.9% between June and August, reaching its lowest pace of growth in more than two years. Taken in the round, with economic growth slowing from earlier in the year, this gave the Monetary Policy Committee the capacity for further loosening. With inflation below wage growth, real incomes are growing solidly and should boost households' real purchasing power over the medium term.

The European Central Bank cut interest rates by 25bps, to 3.25%, in October. Against a backdrop of falling inflation and generally weaker economic conditions, most notably in Germany, this move brought the Eurozone's first back-to-back cuts in 13 years. Eurozone inflation fell to 1.7% in September, compared with 2.2% in August, while wage pressures have also eased. The ECB does not want economic weakness to persist and will continue to adopt a data-dependent and meeting-by-meeting approach, with the market anticipating a further rate reduction in December.

There was no interest rate decision in the US in October. With investors focused on the presidential election, the Federal Reserve chose to hold fire until its monetary policy meetings in the final two months of the year.

**Michael Foster**
Lead Portfolio Manager

Michael launched the Ocean Equity Fund in May 2018. He holds the Investment Management Certificate (IMC) and has managed extensive private investments since 2011.

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## Discrete performance

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Fund** | **8.67%** | **-22.63%** | **27.74%** | **-2.40%** | **24.04%** |
| IA Sector | 7.38% | -9.06% | 17.25% | -6.01% | 22.24% |
| Rank in Sector | 79/231 | 202/228 | 9/222 | 53/217 | 80/209 |
| Quartile | 2 | 4 | 1 | 1 | 2 |

Total return, bid to bid, tax UK net, sterling terms. Source: Waystone Fund Services UK Limited/Financial Express Analytics. Past performance is not a reliable indicator of future results. The value of your investment and the income derived from it can go down as well as up, and you may not get back the money you invested.

# Company news

## Morgan Sindall

Diversified construction operator Morgan Sindall issued an unscheduled trading statement that was well received by the market, with shares rising 20%. The business has been trading strongly, especially in its fit-out segment, and full-year profits will be significantly ahead of previous expectations. The fit-out segment is responsible for office fit-outs throughout the UK and has a strong track record and reputation. Employees expect their working environment to be modern and up to date in terms of carbon intensity, facilities and other considerations, and employers need to meet these expectations in order to retain staff. We have long admired Morgan Sindall and like the fact that it has a significant net cash position, which we think gives customers extra confidence when placing business with the company. In addition, it has an impressive order book of £8.7bn, which is underpinned with a signed contract or a letter of intent. In conclusion, we think the business is well invested and positioned as we potentially enter a period of steady economic growth and stability which should allow companies greater visibility to invest.

## Unilever

Unilever, the manufacturer and distributor of household brands such as Domestos, Dove, Hellmann's and Knorr, issued an encouraging Q3 trading update. Revenue growth was up 4.5%, with the all-important volume growth up by 3.6% and ahead of consensus expectations of 3.2%. Importantly, management has been strategically investing in driving marketing, product development and distribution in 30 key power brands, for which volume growth was up 4.3%. The shares have performed well year to date but still trade at a discount to global peers such as Procter & Gamble and Colgate-Palmolive. While there are risks – such as geopolitical uncertainty and the rising cost of palm oil and other key inputs – we think the newish management team is making significant progress in driving best practice within the organisation to make the company's brands more competitive and ultimately more compelling for end consumers. This is focused on key areas such as marketing innovation, proposition sharpness, execution on pricing and distribution. We are encouraged that all the changes being implemented are not only driving better performance among existing power brands but also laying the foundations for the power brands of the future. Unilever has been operating since 1929, and 3.4 billion people come into contact with one of its products every day. If we are set for a period of moderate global economic growth and falling inflation, its brands could be stocked in more households globally. Take India, where Unilever has been trading since 1931 and has a 50% market share in laundry detergent and roughly 30% of the 1.4 billion population have a washing machine. When people transition from hand-washing clothes to machine-washing they increase their laundry spend by 3x – so the opportunity in this category is enormous if a business has a good product, effective marketing and decisive execution to seize the initiative. Unilever has faced criticism for its sustainability claims, but it has reduced its greenhouse gas emissions by 74% since 2015 and is focused on achieving net zero emissions by 2039. It also intends to collect and process more plastic and packaging than it sells by 2025.

## Contact us

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**The Ocean Equity Fund does not have an objective linked to the oceans or marine bio-diversity but the Fund Manager may choose to invest in companies that derive their revenue from shipping and energy transition sectors.**

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