NORTH CAPITAL

Spotlight:

Is now a good time for the VT North Capital Active Equity Fund?

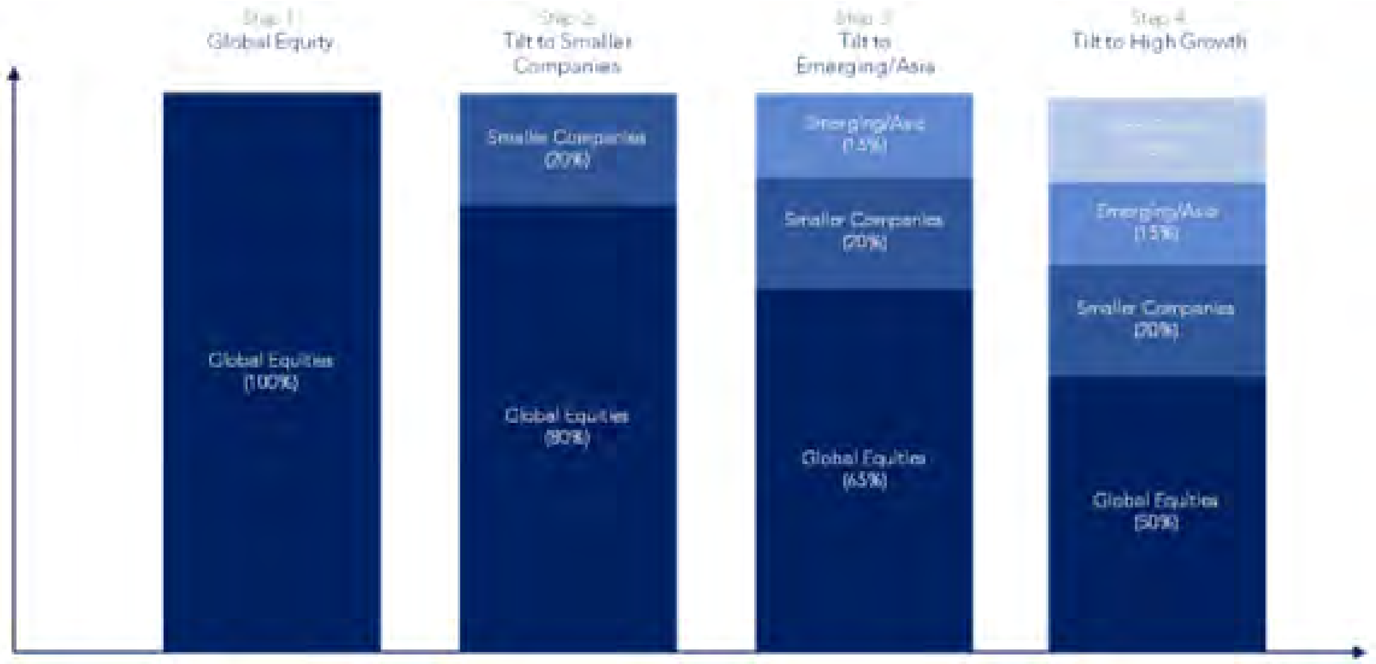
March 2024

Spotlight: Is now a good time for the North Capital Active Equity Fund?

In June we will have achieved a four year track record in managing our VT North Capital Active Equity Fund, which seeks to achieve capital growth over the long-term. The fund, which has delivered a return of 8% annualised since inception (to the end of February 2024), is a globally diversified blend of around fifteen comprehensively researched and truly active funds, all of which have outstanding track records and robust investment processes. We believe there are three key reasons for choosing the fund – our portfolio construction incorporates three engines for growth which seek to enhance performance over the long-term, the current environment is rich with opportunities for active managers, and our comprehensive approach to screening helps us select the best funds for our valued clients.

Engines for Growth

A component of our portfolio construction is the incorporation of three specific engines for growth within equity markets. This compliments our aim of finding the best-in-class global equity managers. Our strategic allocations to the growth investment style, smaller companies and emerging markets are illustrated below:



Each engine for growth is deliberately included with the purpose of providing additional value in aggregate over the long-term in comparison to a more traditional global equity fund. The rationale for each of these is outlined in the following section.

Katy Forbes
Chief Investment Officer

Growth investing as an engine for growth

- **Companies of the future:** Growth investors look to own the companies that will lead the way into the future. These companies aim to outcompete as the new technologies they create increase efficiency relative to their older and slower moving competition, creating potential for significant upside.
- **Flexibility:** We seek the best active managers with the ability, investment freedom and long-term thinking to look past periods of low profitability and volatility in companies to benefit from future growth.

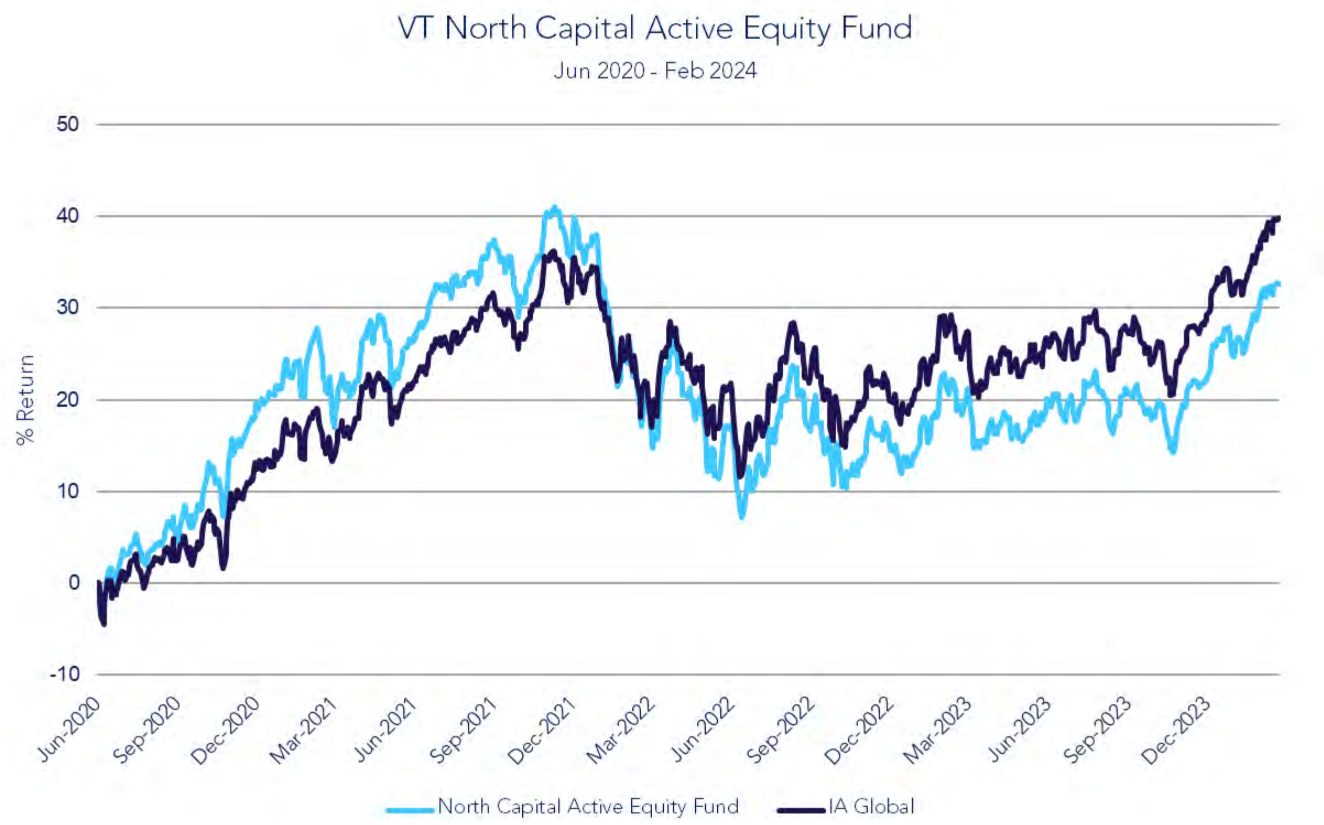
Emerging Market (EM) equities as an engine for growth:

- Innovation edge: Asia (which dominates the EM index) is the most dynamic region in the world and has quickly become a huge innovation center; we believe this will continue to drive domestic and global wealth higher into the future.
- Domestic growth: Growth in personal consumption is a long-term structural opportunity in EMs due to growing consumer wealth and the expanding middle class.

Smaller Companies as an engine for growth:

- Dynamic: smaller businesses are typically more nimble businesses, demonstrating a higher ability for organic growth than their larger counterparts.
- Inefficient market: Smaller companies are largely under-researched b market analysts who fail to appreciate their growth potential. This creates opportunities for strong active managers to add value.

Connor Davidson
Senior Investment Analyst



The Last Three Years

Performance dipped below the Investment Association Global (IA Global) benchmark in 2022 when the growth style underperformed. This style helped the fund beat IA Global in 2023 but, due to the drag of smaller companies and emerging markets, there is still some ground to make up since inception.

Why now?

We believe we are now in a good environment for our growth engines. The recent shift lower in inflation and the subsequent pause in rate rises from central banks is significant - we expect these changes in backdrop to help economies grow for longer. We foresee a greater benefit for small cap stocks because their interest cost burden is reduced, corporate confidence is supported and headwinds to merger and acquisition activity are lessened. We have, therefore, recently increased our allocation to smaller companies. EMs also lagged in 2023 as the reopening bounce in activity in China proved disappointing. However, some of the best active managers still outperformed global equity indices due to the breadth of opportunities available across regions and sectors in the universe. For example, Indian and Mexican equity markets have delivered annualised double digit returns over the last three years. With exports rising in Korea and Taiwan over recent months the positive outlook for EM corporate earnings is broadening, even if China continues to struggle due to a sharp slowdown in its property market impacting consumer activity.

Many global active managers struggled to outperform in the 2010s when low interest rates provided broad support to equities. However, with higher interest rates compared to a few years ago, returns on capital invested need to be greater and this higher hurdle is likely to result in more dispersion between winners and losers. This is an environment we expect to provide excellent opportunities for leading active managers to harvest returns and in which selecting the best funds will be critical. There are thousands of funds available so selecting the right ones to invest in can be overwhelming and time consuming. At North Capital, part of our role is to screen and review the options available and select the best funds for our clients. We do this rigorously using both quantitative and qualitative tools.

Based upon our view that catalysts are in place for our high growth, smaller companies and EM investment engines, and our opinion that it is a good time for active management, we believe the VT North Capital Active Equity Fund is well placed to deliver strong returns going forward.

For more information, please contact your adviser.

Disclaimer

All financial products carry a certain degree of risk and the value of investments and the income from them can fall as well as rise and you might not get back the original amount invested. This can result from market movements and from variations in exchange rates between sterling and the currency in which a particular investment is denominated. More than one risk factor may impact an investment at any given time which means that risks can have quite unpredictable effects on the value of investments. Past performance is not an indicator of future results.

Tax and legal information is provided based upon our understanding of current legislation and where appropriate applicable rates. These may change in the future and they may not apply to individual circumstances. North Capital does not give tax or legal advice and you must consult with an independent tax adviser and/or legal adviser for specific advice before entering into, refraining from entering into or exiting any investment or structure or planning.

The opinions expressed in this publication are our current opinions and should not be seen as investment advice or as an invitation to purchase or sell any investments. The material only represents the views of North Capital Management Limited unless otherwise expressly noted. The material is based on information that we consider reliable, but we do not represent that it is accurate, complete and/or up to date, and it should not be relied on as such. North Capital Management will not accept any liability for the consequences of acting or not acting upon the information contained in this publication. North Capital Management Ltd is authorised and regulated by the Financial Conduct Authority (FRN 713442). Reg. in Scotland (SC509360).

NORTH CAPITAL

58 North Castle Street, Edinburgh EH2 3LU
+44 (0) 131 285 0860 info@northcapital.co.uk
northcapital.co.uk