SARASIN
FOOD & AGRICULTURE OPPORTUNITIES

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ECONOMIC REVIEW

The stock market made strong gains during the quarter, with most sectors performing well. Although US 10-year government bond yields began the quarter at multi-year highs, which weighed on share prices, a continued fall in inflation across the developed world prompted greater optimism among stock market investors.

Alongside this, the US Federal Reserve, European Central Bank and Bank of England did not raise interest rates during the quarter. This prompted investors to determine that interest rates may now have peaked and that cuts may not be too far away.

FUND REVIEW

Shares in online groceries provider Ocado were boosted by resilient UK consumer demand and falling inflation. Restaurant chain Chipotle performed impressively, helped by robust demand and attractive pricing for its healthier meal choices. Discount retailer Costco's business model benefited from growing demand from cash-strapped consumers looking for bargains. The company announced a special dividend for shareholders.

In contrast, a weak Chinese economy and a challenging environment for dairy products held back the performance of China Mengniu. Agribusiness and food company Bunge suffered from lower margins for crushing soybeans after its share price had rallied strongly in the previous quarter. The share price of agricultural and construction equipment maker CNH fell as demand for agricultural equipment shrank with an easing back of crop price and over concerns about non-residential construction demand.

FUND TRANSACTIONS

We sold our holding in consumer ingredients company International Flavors & Fragrances as its management struggled to integrate DuPont's nutrition business following a merger that has left IFF with a high debt burden. We started a new position in high-protein beverage manufacturer BellRing Brands, which we believe will benefit from health and wellness trends.

OUTLOOK

Food and agriculture sector companies face two growing uncertainties. First, geopolitical threats, particularly the war in Ukraine, that threaten food supplies. Second, climate change is increasingly a focus for investors.

Looking more generally, we expect inflation in the US and Europe to slow during 2024 and end the year close to central bank targets of 2%. That means central banks can reduce interest rates, which had been their main weapon in the battle to bring down inflation. Lower interest rates should help to boost economic growth.

Having said that, stock markets could be subject to a number of political threats in 2024. Conflict is unfortunately on the rise, particularly in Gaza, between Russia and Ukraine, and in Africa. In the US, the build-up and outcome of the presidential election could cause stock market upheavals.

We think it is too soon to pivot the portfolio to a greater number of high-growth and high-value companies. There could be fewer interest rate cuts than the market expects.

We remain cautious and defensively oriented, with food retail and contract catering the main areas where we see better opportunities. We are also keen to re-engage with select emerging markets, where the food consumer is becoming more sophisticated.

Our core themes in the fund (diet change and nutrition, rising productivity, decarbonising food system, and food security and resilience) will be relevant for many years. We believe these factors are combining to transform the global food and agriculture system. This should result in new opportunities to generate an attractive investment return.

We also continue to think that we have a robust and diversified portfolio that has less risk of major corporate earnings downgrades as we head into 2024.

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