



Evenlode Global Equity Investment View

Q4 2021

The commentary below applies to both the Evenlode Global Opportunities and Evenlode Global Equity portfolios.

Since launching the Evenlode Global Equity fund in July 2020, we have operated in remarkable economic conditions. The global pandemic increased financial market volatility, with recurrent bouts of uncertainty sparked by new virus variants and potential public health responses. In the equity markets, 2021 will be remembered for a market resurgence led by technology stocks as the global digital transition was accelerated by COVID's persistence. In this investment view, we review the fund's performance over the past year, recent portfolio changes, and the valuation environment for 2022.

2021 Performance

Cumulative Performance (%)	6 Months	1 Year	Since Launch
TB Evenlode Global Equity Fund (B Acc GBP)	14.7	26.0	35.1
IA Global Sector	6.7	17.7	31.3
MSCI World Index	9.9	22.9	33.7

Rank in sector	4	36	125
Funds in sector	464	451	436
Quartile	1	1	2

Source: Evenlode, Financial Express, total return, bid-to-bid, GBP. Past performance is not a reliable indicator of future results. Fund launch date 15 July 2020.

The fund finished ahead of both its comparator benchmark, the MSCI Global Index, and peer group, the IA Global Equity sector. This was largely attributable to outperformance in second half of 2021, as the global recovery broadened, and the short-term performance of cyclical sectors (notably energy and commodities) plateaued.

Information Technology was unsurprisingly the greatest driver of absolute returns in 2021 for both the Evenlode Global Equity fund and its benchmark. Within the fund, there were notable increases in share prices for Accenture (+60%), Microsoft (54%), and Google's parent company, Alphabet (+67%)¹. These companies have benefited greatly from the ongoing transition to cloud-based technology and have seen a step-change in demand and profitability during the pandemic. While some of the sector's share price gains have reversed in January 2022, the underlying operational trajectory of the businesses remains robust.

The greatest contributor to the fund's outperformance was the Industrial sector. This may seem an unlikely source given Evenlode's philosophy of investing in asset-light companies, however the sector includes business-to-business media companies, such as RELX (+34%) and Wolters Kluwer (+41%). The shift to cloud-based technology solutions is also an opportunity for the providers of critical digital services and data. As customers shift from internally hosted infrastructure, a greater proportion of technology budgets can be redirected to software and data.

Our Healthcare exposure had the weakest relative performance against the benchmark. This was largely due to the underperformance of Medtronic (-10%), which recalled medical devices over safety concerns, delayed the expected launch of two key innovations, and lost share in the diabetes business. We have undertaken several expert calls to understand the outlook for the company and remain encouraged by the late-stage development pipeline and commitment to R&D investment.



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Q4 2021

Portfolio Changes – H2 2021

As investors with a long-term investment horizon, we prefer to minimise trading where possible. Low portfolio turnover allows the attractive long-term economics of the portfolio companies to drive returns. However, we will trade to take advantage of valuation opportunities (prices falling) and to manage valuation risk (prices rising). In a year of broadly rising equity prices, such as 2021, our trades are focused on the latter.

In the second half of 2021, we made four disposals. In July, we exited positions in the Swedish industrial software company Hexagon, and the Swiss pharmaceutical giant Novartis. In December we exited the French IT consultant Capgemini, and another Swiss pharmaceutical company, Roche. All four of these trades were on valuation grounds, with better risk-adjusted opportunities available elsewhere. Hexagon and Capgemini have been among the best performers for the fund since launch, with the transition to cloud computing driving demand. We retain significant exposure to this trend through other portfolio companies, which we believe have stronger competitive positions and are on more attractive valuations.

Through the second half, we also added three new positions. These were the US contact-lens manufacturer, Cooper Companies (in July); the US investment services company, Broadridge (in August); and the UK industrial software provider, Aveva (in December). All three have strong growth drivers that we believe are undervalued by the market.

Cooper Companies is the world leader in myopia (short-sightedness) treatment lenses and has recently gained medical approvals in China and the US for paediatric corrective lenses. It is estimated that 50% of people in China currently suffer from myopia and the number of global myopia sufferers is also increasing rapidly, driven by aging demographics and increased screen time. This provides significant upside to a business that has been growing steadily as consumers switch from monthly lenses to dailies.

Broadridge provides an investor database for companies, which enable US companies to identify their shareholders and request votes on corporate actions and resolutions. This has traditionally been achieved via paper forms, posted to shareholders, but is increasingly transitioning to email. This reduces systemic costs while structurally increasing profits for Broadridge as it is managing an increasingly fixed-cost business. As the transition progresses, Broadridge will likely shift to a subscription model, creating a recurring revenue stream.

Finally, Aveva has built a reputation in industrial design software, used in oil refineries, power plants, and ship design. Through mergers and acquisitions, Aveva has extended the offerings into asset lifecycle and performance management software, which optimise utilisation and availability of user assets. As we transition to cleaner sources of energy, industrial suppliers will need to adapt their operations and dramatically improve efficiency. This will require increased consumption of the technology that Aveva supplies.

All three new additions have a strong competitive advantage over their rivals and are well positioned to grow market share within their niche. They have evidenced a willingness to invest behind their competitive advantage and we are confident that these investments will generate attractive returns.



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Outlook for 2022

The new year began with the “big-tech” companies taking centre stage. First, Apple passed a market valuation of \$3 trillion, with Microsoft not far behind. Then, the Nasdaq entered correction territory, falling by 10% from the previous peak in November 2021. As long-term investors, we are focused primarily on company fundamentals rather than the quicksilver moves of the market. However, these price swings do again raise the question of whether current technology valuations can be justified.

While spot valuation metrics (such as price to earnings) may offer investors a sense check, Evenlode’s foundational valuation philosophy is that a company should be valued relative to its long-term prospects. This includes considerations of a company’s level of investment and the opportunities for sustained growth. Spot metrics may be suppressed by investing today in activities that are beneficial for the future of the business, or conversely boosted by underinvesting. However, investing less today does have a negative effect on future revenue and profit growth. Underinvestment means “more jam today, less jam tomorrow”.

Our valuation model incorporates the amount of investment a company is making and the return on that investment. This helps us consider the long-term prospects for companies in our portfolio decisions. It’s important to stress that even incorporating the degree to which they are invested in the future, not all mega-cap technology companies are cheap on our valuation. At a sufficiently high share price, no equity will produce an acceptable return for its holders. We retain positions in Microsoft and Alphabet, Google’s parent company, because we deem the long-term returns on investment to be sufficient to justify the current valuation. We will continue to adjust our position sizes in these companies according to the business and valuation risks they face, as we do with all companies in the portfolio.

While our comparator benchmark, the MSCI World Index, has risen by 23% over the past year, there remain a number of valuation opportunities. However, we do argue that the importance of understanding a company’s underlying growth opportunities and competitive advantage has also increased. This is where we will continue to spend our time and effort.

A repeat of the market performance of 2021 seems unlikely, given the starting valuations and early performance. However, we still expect excellent fundamental performance by the companies that we invest in. For the companies in the Evenlode Global Equity portfolio, present analyst expectations are for an average increase in free cash flow of 21.7%ⁱⁱ. That will provide plenty of firepower for future investment and shareholder returns. We will continue to seek out investments where the market undervalues a company’s lifetime cashflows, as we believe this is the best opportunity to drive performance over the long haul.

We would like to thank all our investors and look forward to communicating with you regularly throughout 2022.

Chris Elliott, James Knoedler and the Evenlode Team
20 January 2022

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EVENLODE
GLOBAL EQUITY FUND

Please note, these views represent the opinions of the Evenlode Team as of 20 January 2022 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities.

For full information on fund risks and costs and charges, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectus, which are available on the Evenlode Investment Management website (<https://evenlodeinvestment.com>). Recent performance information is also shown on factsheets, also available on the website.

Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Fund performance figures are shown inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs unless otherwise stated. The figures do not reflect any entry charge paid by individual investors.

Current forecasts provided for transparency purposes, are subject to change and are not guaranteed. Source: Evenlode Investment Management Limited. Evenlode Investment Management Limited is authorised and regulated by the Financial Conduct Authority, No. 767844.

ⁱ Source FactSet, 1 Jan 2021 to 31 Dec 2021

ⁱⁱ FactSet Analyst Estimates, 20 Jan 2022