Evenlode Global Income Investment View

January 2024 – Conference season

EVENLODE
GLOBAL INCOME FUND

Market data is from Factset and FE Analytics.

The start of 2024 saw a long deep chill settle on the UK creating beautiful scenes, frozen hands, and the odd accident on ice. Then the still was abruptly broken with storm Isha breezing in, bringing fallen trees and travel disruption. Whether this portends anything for financial markets we don't know, but so far in the short period since the new year the global stock market and the fund have tracked sideways, a relative chill following a strong November and December (the US market, driver of the world's equity performance in recent years, recently edged up to an all-time high). Like a bike rider in slippery conditions or battling the wind, market prices rarely stay very still for long, so it will be interesting to see what happens in the coming month or so as we start to get fresh news on performance and outlook from companies. Last year's strong market driven by large technology businesses provides extra interest to the market backdrop. What market moves there have been have continued to be driven by excitement about artificial intelligence, and the path of interest rates has filled the information void in the traditionally quiet Christmas and New Year period for corporate news.

Having ended 2023 with a flourish of activity in the portfolio we haven't made any material portfolio changes over the last month. Periods of inactivity, of which there have been relatively few in the pandemic and post-pandemic times, don't mean that tools are downed of course (although the team were permitted a Christmas break). Analysis of companies proceeds and the time up to Christmas has become 'conference season,' where brokers and research houses get companies together in one place to tell investors what they're up to and, naturally, why their business presents an investment opportunity. In the remainder of this view our colleague Rob Strachan, analyst on the investment team and Evenlode Global Income team member, discusses the experience of participating in these fixtures of the capital markets.

The conference experience – Rob Strachan

We like to understand the real-world fundamentals of the businesses that we own in our portfolios. This means properly understanding how they make money, what risks they face and how these are managed. We research deeply across many different sources like company results and calls with industry experts, but nothing beats sitting down in person and meeting the companies. A good way to do this is to attend an investor conference, where typically hundreds of companies and investors come together to have lots of meetings over the course of a few days.

I attended a four-day conference in December with our colleague Sam Ratcliffe, having 4-5 meetings with companies each day. Here are some of the highlights of the discussions that we had.

- German business Fuchs make specialised industrial lubricants for use in niche applications. They noted the critical nature of their products which are often a real source of improved performance. As an example, Fuchs gave an example of an excavator (digger) that saved around 140 litres of diesel a day from using a Fuchs product vs the industry standard, a substantial efficiency gain. The cost to customers is low in comparison to their total expenses and also compared to the risk of either switching or product failure. Fuchs occupies a sweet spot in the market, in between big oil companies that only bother with high volume standardised products, and smaller niche players who struggle to compete on a global scale.

- GSK is a pharmaceutical company with revenues split across HIV, respiratory conditions, and vaccines for diseases like shingles and meningitis. We discussed the importance of culture and how GSK has focused on increasing the efficiency of decision making and improving research productivity, by combining the science and commercial sides of the business at an earlier stage. The company argued that big pharma is not just about spending decisions, either internally or externally, but about bringing together a complex arrangement of knowhow built on deep expertise in a particular therapeutic area. Efficiency of GSK's research and development is something that analysts have been questioning, so it is helpful to hear how the company responds to those views.
- Halma (owned in Evenlode Income) is a holding company that owns about 50 operationally independent subsidiaries that focus on the areas of safety, health care and the environment. Small, regular acquisitions are core to their strategy, aiming for half of their 10-15% growth target to come from buying businesses. As such, Halma argued their biggest competition is owners not wanting to sell. This is countered by Halma's discipline and patience, willing to build relationships over decades. Unlike other market participants, Halma don't intend on selling companies and will own most acquired businesses indefinitely. Halma pointed to their very long track record and manifested culture as a competitive advantage. This means they are the preferred buyer in what are mostly private transactions with founders, who often stay on to continue to manage the business. We discussed incentivisation and were pleased to hear that their method is simple, focused on performance within employees' spheres of influence, with a wide employee shareholder base.

Conferences are quite intense mentally as you never quite switch off. Waking up in the dark in an old country hotel, we got into a minibus taking us to a larger hotel, with a similar aesthetic, where we spent the day meeting companies in bedrooms of various forms (yes, that can present a slightly bizarre backdrop for the discussion of cash flow and margins!), chatting to other investors and analysts, eating, typing up notes and posting them on to our research platform, EDDIE. To get the most out of each meeting, preparation had been done ahead of the conference, but a refresh is needed to get in the zone. At the end of the day, dark again, it was back to the smaller hotel and swiftly to sleep, before doing it again early the next morning (maybe squeezing in some very early morning exercise if only on the more determined days). Generally speaking, you leave quite tired but very satisfied in the knowledge that you have had a highly productive week.

I have attended this December conference a few times and it almost feels like time travel. Everything signals to the brain that it has been frozen in time, exactly as you left it a year before. However, the companies and the world they operate in are always changing. And like the businesses we invest in, our own knowledge and experience compounds year after year, augmenting the value extracted from the conference, for the benefit of the investment team and our clients. This is why we think it is so important to continuously engage with our companies to improve our understanding at a deep level as the business world and the environment around it changes.

Whilst conferences are an efficient way to see a lot of businesses in a short space of time, there are some drawbacks. Mental fatigue for the analyst means that only so much should be attempted in order that the quality of meetings and information gathering is retained. Fatigue must also be a factor for the executives and investor relations teams that are doing the presenting, meaning that to get into a lot of detail 'off the script' may be better done in a different setting. Naturally the company in question will be presenting the best version of themselves, something we always keep in mind in our analysis.

Not all conferences are created equal of course, and we are quite choosy about the ones we attend; if we are to expend time, energy and (depending on location) carbon attending; we want to get the most bang for our buck. Our plan for 2024 is currently being drawn up, and we'll report back any interesting findings. In the meantime, we'll be meeting with portfolio companies as they release their full year results marking the next round in our continuous analytical effort.

Ben, Bethan, Chris, Rob and the Evenlode team

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