

Evenlode Global Dividend Investment View

October 2022 – Results, Part 1



The commentary below applies to both the TB Evenlode Global Income and Evenlode Global Dividend portfolios. Market data is from Factset and FE Analytics.

These are increasingly challenging economic times and companies must continue to work hard to navigate the various economic and operational tides that sometimes act in opposing directions. The volatility in the equity market this year reflects the uncertainties created; equities naturally bounce around in value in response to changing corporate fortunes, but there have been some particularly large swings this year. From a low in Juneⁱ, the market as measured by the MSCI World index rallied by nearly +15% in US dollar terms, before erasing it all and a little more by the early part of October. Over the course of the last year the index is down by -2% in sterling termsⁱⁱ, but by -18% in dollars as the US currency has rapidly appreciated against most other global currencies. The Evenlode Global Income fund has fared a little better over that time, being down -1% in sterling and -17% in dollarsⁱⁱⁱ.

The performance of businesses underlies both the fund and market performances and coming round like clockwork, the third quarter corporate reporting season is currently underway. The numbers reported typically focus on revenues more than profitability and cash flow, but the accompanying commentary helps us to piece together a picture of the world of business.

The revenues reported look encouraging at first blush. Businesses that have updated so far are typically reporting percentage growth for the quarter and the year to date in the high single digits to low double digits. Some of that is driven by solid demand coming out of the end of the coronavirus pandemic, such as for the luxury goods giant LVMH, cosmetics colossus L'Oréal and eyewear titan EssilorLuxottica. For others in the consumer goods space the numbers are being delivered more by price increases to offset input cost inflation. Nestlé, PepsiCo and Reckitt have increased prices in the high single digits to double digits in percentage terms, the flip side being that volumes (the amount of stuff being sold) have been relatively static.

There are however some businesses that have seen falling demand following pandemic highs, such as US laboratory testing outsourcer Quest Diagnostics. Reckitt falls into this category somewhat, having seen high demand for disinfectant Lysol during the worst of the pandemic. Others are more at the brunt of current challenges. Global sportswear brand Adidas has endured multiple supply chain challenges and reduced demand on the back of lockdowns in China, which are ongoing under the continuation of the country's zero Covid policy.

Microsoft, a technology leader and currently the fund's largest position, reported persistent growth in its business driven by the adoption of cloud technologies and services. The sector has seen weak stock market performance over the course of the last year. This has probably had more to do with the high valuations that had been reached than the underlying performance of the businesses in the sector, which has been strong with Microsoft as a poster child.

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Where market prices have fallen, valuations look more attractive. For example, we had been reducing the fund's position in technology overall as prices went up through the course of 2020 and 2021 and have started to reverse that trend alongside the reversal in market fortunes.

As a result, the overall valuation of the fund looks attractive on a long-term basis using our discounted cash flow estimates, and on a short-term basis with a free cash flow yield of 5.2%. Near term it is likely that companies will not generate as much cash this year as they did last year, as they use their cash flow to deal with the evident operational challenges that they are facing. But longer term, their cash generating ability and growth prospects remain intact.

This has been a quick summary of results so far, very much a 'Part 1'. There will no doubt be more interesting stories to come as the remainder of the portfolio companies update us in the coming weeks and we will provide a full roundup in November.

Ben, Chris, Bethan, Rob and the Evenlode team
26th October 2022

Please note, these views represent the opinions of the Evenlode Team as of 26th October 2022 and do not constitute investment advice.

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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.

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ⁱ 17th June 2022. MSCI World TR. Source: Financial Express

ⁱⁱ 25/10/2021-25/10/2022. MSCI World TR. Source: Financial Express

ⁱⁱⁱ TB Evenlode Global Income B Acc GBP. Total Return, bid to bid. Source: Financial Express