

Evenlode Global Dividend Investment View

September 2023 – New(ish) holdings

The commentary below applies to the Evenlode Global Dividend portfolio which follows the Evenlode Global Income strategy. Market data is from FactSet and FE Analytics.

As we move from Summer to Autumn, 2023 gets a bit longer in the tooth and things continue to evolve in the ever-changing world of the global equity market. From a corporate perspective some of the questions around the operating environment are starting to be answered in the easing of supply chain constraints and input cost inflation ameliorating, although in recent weeks the price of oil has risen once more. Other questions are still open, particularly how consumer and business spending might evolve in a world of higher interest rates and perhaps greater economic uncertainty. The Evenlode Global Dividend strategy has been charting its own course, in recent months in a sideways-to-slightly-downwards way. In the context of a rising market this represents underperformance, and relatively new holding Diageo exemplifies why this is the case. It speaks to some of the uncertainties that are around, but also to the opportunity that we see in an attractive valuation picture for our investable universe of high quality, cash generative companies.

Diageo is the world's largest maker of spirits and will be familiar to many mainly because of its brands such as Jonnie Walker. It is one of the larger companies on the London Stock Exchange and has been a very long-term holding in the Evenlode Income fund as well as the newer Evenlode Global Opportunities portfolio. The shared philosophy across the Evenlode funds and weekly investment meetings have enabled us to build our knowledge of the company. So, Diageo is not an unknown, undiscovered business, but one that we understand well, with steady cash flows, a loyal customer base, and attractive long-term growth potential, and the valuation had got to a point where we could not ignore it. The company has a dividend yield of 2.6%, which looking forward is forecast to be very well funded by ongoing cash generation. The company is compellingly valued according to our discounted cash flow modelling. So why the lacklustre share price performance? We don't know the thoughts of other equity market participants of course, but we can hazard a guess that nervousness around the growth picture has something to do with it. Diageo's large North American business has been weak, seeing a slight decline in the first half of 2023 in what is usually a mid-single-digit growth market. It is entirely possible that this continues for a while, but if we're thinking about this investment over, say, five to ten years or more then near-term weakness is not so troublesome. To make the most of what appears to us to be a compelling entry point we have made space in the portfolio's consumer goods exposure by selling down some other names in the portfolio at the margin. The sector is where we see some of the best valuations generally though as share prices have drifted downwards in recent months, and it is good to be able to diversify the exposure at an attractive price.

As a broader indication of value, the portfolio's free cash flow yield is predicted to weigh in at 5.3% once this year's results are in. This is not the highest it's ever been but is at the top end of where the portfolio has traded for the last couple of years; one has to look at the 'pandemic years' of 2020 and early 2021 for higher figures. Whilst this figure is important, it is not the only part of the equation. We want to see growth in that free cash flow that ultimately will be the driver of performance, something that will only be seen in the fulness of time but if analyst forecasts are of any use as a guide is



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something that we expect. That's despite companies like Diageo and other potentially seeing a slowdown, and the valuation of the portfolio more than compensates for this uncertainty in our view.

Ben, Bethan, Chris, Rob and the Evenlode team

29 September 2023

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