# Evenlode Global Investment View

April 2021 – Evolution

*The commentary below applies to both the Evenlode Global Dividend and Evenlode Global Income portfolios. All market data is from Factset.*

Over the course of the last year, new variants of the damaging and novel coronavirus have evolved and are now being sequenced and detected. Viruses do change rapidly by their nature, part of the biological mechanism that can make them successful in the battle for survival of the fittest. The human race has of course been rapidly developing its defences in the form of vaccines, which have been successful so far, and lockdowns, as a more immediate attempt to reduce the spread of the virus. We hope that the collective global effort continues to bear fruit.

The volatility induced in equity markets by this struggle has presented opportunities to buy new positions and reasons to sell existing ones within the Evenlode Global Income portfolios. We have spoken and written about these along the way as they've occurred, and we have a couple more to report now – the disposal of technology firm IBM and brewer AB Inbev. We'll discuss these below, and also thought it worth highlighting some changes that don't involve adding or subtracting entire positions but are of note in the evolution of the portfolio.

We make portfolio changes for one of two reasons, either because the relative valuation appeal of a company's stock has changed as its market price fluctuates, or because something has changed in our assessment of a business' prospects and risk profile. Market prices usually change more readily than most business fundamentals, although the pandemic has presented some acute challenges for companies. Taking a long term and approximate view of equity valuation means that we can gradually 'nudge' positions to reflect the changing market picture. In an environment like the one over the last year, with large dispersions in share price returns (as we wrote about in January), there can be more reason to be a little more active than usual. We're not talking about frantically turning the portfolio over, but evolution at the margin can make quite a difference to the shape of individual positions through time. Here are four examples where we have made reasonably significant changes to position sizes over the course of the last year.

**Nestle**

Despite a recent run-up in the share price the stock of the world's largest food company hasn't really gone very far over the last two years. CEO Mark Schneider has been actively working the firm's portfolio, disposing of less attractive assets like local bottled water brands and acquiring businesses in its chosen areas of strategic priority like health supplements and coffee. Margins have improved, but not to very high levels that might make us concerned about potential under-investment in the business. That strikes a balance between investment for tomorrow and profit and cash flow for today's shareholder. We've increased the portfolio position by two percentage points over the last six months, reflecting the relative valuation appeal and an unchanged view on the attractive economics of the business.

**Procter & Gamble**

The portfolio's position in P&G also sits two percentage points above where it was six months ago. Whilst the stock price is a little above pre-pandemic levels, the absolute valuation looks good and particularly attractive relative to the broader market and other parts of our investable universe that have enjoyed more buoyant share prices. Additionally the firm has a reasonably strong balance sheet, with net debt compared to profitability below the average for the portfolio, improving the overall financial risk profile of the fund. At the coal face P&G has been operating well, in particular developing sales of its well-known consumer products through digital channels.

**eBay**

Enforced time at home and out of shops has been a boon for firms like eBay who facilitate people's desire to continue (and maybe even enhance) their shopping in-house. Whilst there may be a permanently higher demand for this mode of getting the things that we want delivered to our door, there seems likely to be a cooling as more traditional retail venues reopen and our estimate of the value of the company has changed only a little. The stock's total return of over 100% over the last year comes from a depressed level, but clearly the valuation is not as attractive as it once was, and we have reduced the position by 1.6 points in that time.

**Hexagon**

We purchased Swedish technology firm Hexagon during the market downturn of around a year ago, and like eBay the stock has returned over 100% since then. The portfolio's weighting peaked at around 3% as we built the position, but we have since nudged that back to 2.2%. The company's business selling hardware and software in the world of spatial positioning has proven resilient, something the market appears to have appreciated. The long-term opportunity in geospatial positioning, industrial automation and other applications of its products is strong.

Nestle, P&G, eBay and Hexagon exemplify the dispersion in returns that the stocks of different companies have experienced in recent times. Whilst they are differing businesses (even P&G and Nestle address different parts of consumer spending), what they have in common is that they are stable companies with steady growth prospects over the medium to long term. All else equal then it seems sensible to reflect the shifting valuations in our position sizes. Sometimes that leads us to exit positions, as we did with European financial exchange operator Euronext in Autumn of last year. Sometimes we introduce new positions like Hexagon earlier in 2020, but the gradual nudging of the portfolio helps us to manage the risk profile of the portfolio between the positions that are held at any given time.

**Exits**

As mentioned above, we have exited the portfolio's positions in IBM and AB Inbev. In both cases the businesses are usually very steady, but AB Inbev had been hit hard by the closure of bars and restaurants (the 'on trade'). That's not necessarily an issue for a long-term investor but combined with debt and with other options in the consumer space like Nestle and P&G we have decided to leave AB Inbev until the company delivers on its long-promised move towards a less leveraged balance sheet. We similarly decided to exit IBM, taking into account the debt on its balance sheet and the availability of other options in the information technology sector such as French consultancy Capgemini.

**Evolution, on balance**

Whether moving positions for valuation or fundamental reasons, the examples here demonstrate another fact of investing that we at Evenlode believe is important: the weighing up of opportunities (or returns) versus risks. We construct a holistic view of the risks faced by a company in its operations and competitive environment, but these are necessarily qualitative, judgments. As a result, we must be open to changing our mind about the balance. As equity holders we face the additional dimension of valuation, which encapsulates the market's view of those competing factors into one number, the share price.

By evolving the portfolio we aim to tilt the balance of risk and opportunity to our favour. It is taking it too far to compare this endeavour to the biological process of natural selection by evolution, which has certainly been quite successful on planet Earth to date (and maybe a bit too successful for SARS-CoV-2). But as a sensible way of managing risks in the very human world of equity investing we believe it to be a worthwhile endeavour.

**Ben Peters, Chris Elliott and the Evenlode Team**
**28th April 2021**

*Please note, these views represent the opinions of the Evenlode Team as of 28th April 2021 and do not constitute investment advice.*

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