

# Evenlode Global Investment View

January 2020 – Performance in Review



In last month's global investment view we took a look at some of the Evenlode Global Income fund's biggest portfolio moves of 2019. As we sit at the start of 2020 it is a natural point to look at what went well and less well during the year just gone from a performance point of view. As the fund celebrated its second birthday during the year, we have a slightly longer-term context into which to sit the performance history, although we hasten to add that two years is still a short time in the world of equity investing.

Thinking about equity investing as a long-term endeavour is central to the Evenlode investment approach, and we nudge the portfolio incrementally to reflect the evolving risk environment. Most often we are reflecting the changing long-term value that the market presents us with, but sometimes fundamental changes are made. For example, at the current time AB Inbev's large debt position (following its acquisition of SAB Miller) is limiting its maximum position size, but it is now on an improving trajectory. Should the company come near to its more moderately leveraged target then we will reassess the risk picture.

We have had requests from clients to delve into the drivers of performance on a regular basis and so we will include a review in our investment views as each quarter passes, alongside our usual thoughts on happenings at our investee companies and in the market.

## The Headlines

The Evenlode Global Income fund's performance during 2019 is summarised as follows (all data from FE Analytics in sterling):

2019	Total Return
TB Evenlode Global Income B Acc GBP	24.3%
MSCI World	22.7%
IA Global Equity Income Sector	18.6%

So the fund outperformed both its official benchmark, the MSCI World and its peer group. However, it was a game of two halves (or two thirds/one third), as outperformance to the end of August reversed somewhat in the remainder of the year. We'll look at the final quarter of the year in more detail below.

## Which companies contributed in 2019?

The table below shows the top five and bottom five contributors to total return (again all data from Factset in sterling)

2019 (%)	Total Return	Contribution to Fund Return
Western Union Company	56.6	1.5
PepsiCo, Inc.	22.5	1.3
Thomson Reuters Corporation	44.3	1.2
Euronext NV	39.6	1.2
Procter & Gamble Company	34.3	1.2

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2019 (%)	Total Return	Contribution to Fund Return
Reckitt Benckiser Group plc	0.8	0.0
C.H. Robinson Worldwide, Inc.	-8.4	-0.1
Henkel AG & Co. KGaA	-5.5	-0.1
HUGO BOSS AG	-20.6	-0.4
Publicis Groupe SA	-20.4	-0.4

Western Union tops the bill of contributors as the money transfer firm enjoyed a rebound from its lacklustre performance in previous years. The company has shown that its traditional consumer-to-consumer business is not dead but can in fact be evolved into the new digital era. It is using its core platform of compliance and settlement capabilities and store network (all of which are hard to replicate) as a basis for its digital customer-facing solutions, and as a business-to-business proposition, allowing banks to outsource to them or acting as the network for business transactions themselves. Western Union are the largest non-bank cross border payments provider for businesses.

We discussed PepsiCo in the last investment view, where we responded to the price increase by reducing the position size. Thomson Reuters was exited from the portfolio during the year, as the very strong price performance left the valuation at a place that more than recognised the qualities of the business. The catalyst was the Refinitiv financial data services business being first separated out into a joint venture with Blackstone, and then sold on to the London Stock Exchange.

Euronext is a multi-country financial exchanges operator in western Europe. It has been successfully executing a strategy of diversifying organically and by acquisition, activity that appears to have been applauded by the market itself. It has taken on debt to finance its latest acquisition, and whilst there is an intention to pay this down out of its strong cash flows, we have limited the maximum position size to reflect the higher financial risk. Our maximum position size framework is a fundamental risk control mechanism, which sets an upper limit to the exposure to any one company based on the business risks that we perceive in that firm.

Negatively, bottom of the pile is French advertising business Publicis. The advertising world has been grappling with the twin challenges of a structural shift in advertising to online, and the cyclical oscillations of client marketing budgets. In the case of Publicis and WPP they have also been losing North American business to their rivals from across the pond, Interpublic and Omnicom. This trend is showing some signs of stabilising. We think the sector has the capacity to move onwards into the new digital age, but so far the market has not agreed. The valuations look compelling whilst we wait, but we do reflect the apparent risks in limited maximum position sizes.

Hugo Boss has not had a disastrous time, but sales growth has been anaemic due partly to geopolitical matters such as the situation in Hong Kong, and partly due to a strategic retreat from the wholesale market in the US. The firm is also investing capital expenditure in store refits, which is constraining free cash flow in the near term. We think the firm has a good heritage and appeal to older and younger consumers alike through its different offerings but is clearly cyclical, and with free cash flow constrained again we limit the maximum position size to reflect the risks.

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German industrial-consumer conglomerate Henkel saw a modest price decline. This is not disastrous in absolute terms, but in the context of market performance in the 20s and the firm being amongst the largest positions in the portfolio, the position has not done much for the fund's relative performance. Cyclical pressures at Henkel have weighted on the share price, but we believe that there is long term quality available for an attractive valuation.

## 2019 Sector View

There are many ways to look at the performance of sectors within the portfolio. At its most basic we can look at the contribution of the sector to the overall performance of the portfolio, but we can also look at the performance against the fund's benchmark to get an insight into what's driving relative performance. Both are summarised in the table below which extracts sectors of interest and is ordered by contribution to portfolio return (the full table can be found in the end notes\*). All data is from Factset and please note that the figures are before any charges and underlying trading costs are accounted for, which is why the total figures are different from those above.

2019 (%)	Portfolio Average Weight	Total Return	Portfolio Contribution to Return	Contribution Relative to MSCI World
Total	100.0	25.2	25.2	1.8
Selected sectors:				
Consumer Non-Durables	26.4	14.5	4.8	-1.7
Technology Services	14.6	27.8	4.4	-0.2
Health Technology	16.6	24.5	3.7	0.4
Finance	6.4	54.1	3.2	1.8
Energy Minerals	0.0	0.0	0.0	0.7
Transportation	1.6	-8.4	-0.1	-0.4

At the top of the list of contributors to absolute performance is consumer non-durables, also known as the fast-moving consumer goods sector. However, when comparing to the MSCI World index it was also the top detractor from relative performance as the holdings in the fund underperformed those in the broader index for that sector.

Next up is technology services, which largely translates as software. Some companies in the technology sector have performed very strongly, and again the sector detracted from relative performance, albeit only slightly.

Health technology is third on the list of contributors, which includes pharmaceuticals and medical devices. Here the portfolio companies outperformed the benchmark in the healthcare sector and so there was a positive contribution relative to the MSCI World.

The only 'sector' to negatively contribute was transportation, where we use the inverted commas because it is only one firm, C H Robinson, in the portfolio which declined in value.

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The biggest sector contributor to relative performance was finance, which is interesting as it is not a big sector for us at Evenlode. Despite the sector as a whole performing quite well in the year, our three holdings were standout performers.

Perhaps also interesting, the next largest contributor to relative performance was one to which the fund has no exposure, the energy minerals sector. Comprising the oil majors which didn't have a very good time in 2019 at least from a market price perspective, it goes to show relative performance is also about 'the notes you don't play' (to misuse the words of jazz great Miles Davis).

## 2019 - Fourth Quarter

The fourth quarter of 2019 was a period of weaker performance, as the fund's price declined versus a moderate increase for the broader market.

2019 – Quarterly total return	Q1	Q2	Q3	Q4	Full Year
TB Evenlode Global Income B Acc GBP	8.8%	10.6%	4.7%	-1.2%	24.3%
MSCI World	9.9%	6.5%	3.8%	1.0%	22.7%
IA Global Equity Income Sector	8.0%	5.7%	2.7%	1.2%	18.6%

Underperformance was driven by the consumer goods sector, with beer giant AB Inbev and diversified consumer firm Unilever the biggest detractors. In both cases we remain confident in the long-term investment proposition, although in the short term both businesses are experiencing slowing growth, particularly in developing markets. Both companies have excellent exposure to fast growing emerging markets, which should contribute to faster growth over time. In our view, the share price declines have led to the businesses trading at attractive valuations, and so we maintain the positions within the portfolio.

## Looking Ahead

Underperformance of some holdings gives us an opportunity to nudge up the positions at more attractive valuations, and outperformance can lead to nudging down to manage valuation risk, all other things being equal. How long the recent trends from the fourth quarter will continue we don't know, but by managing the portfolio in this way we hope to balance taking opportunities with long term fundamental risk management, and we look forward to applying the process in 2020.

**Ben Peters and Chris Elliott**

**Fund Managers**

**7<sup>th</sup> January 2020**

*Please note, these views represent the opinions of Ben Peters and Chris Elliott as at 7<sup>th</sup> January 2020 and do not constitute investment advice.*

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## \*Full list of sector contributors

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Technology Services	14.6	27.8	4.4	-0.2
Health Technology	16.6	24.5	3.7	0.4
Finance	6.4	54.1	3.2	1.8
Commercial Services	11.0	25.8	2.9	0.3
Electronic Technology	7.6	37.3	2.8	-0.5
Health Services	5.3	28.0	1.3	0.4
Consumer Services	5.3	24.5	1.3	0.1
Process Industries	0.8	20.4	0.5	0.6
Consumer Durables	1.0	19.2	0.2	0.2
Producer Manufacturing	0.4	15.0	0.2	-0.1
[Cash]	3.0	0.8	0.0	-0.6
Energy Minerals	0.0	0.0	0.0	0.7
Communications	0.0	0.0	0.0	0.3
Retail Trade	0.0	0.0	0.0	0.2
Utilities	0.0	0.0	0.0	0.2
Distribution Services	0.0	0.0	0.0	0.1
Industrial Services	0.0	0.0	0.0	0.0
Non-Energy Minerals	0.0	0.0	0.0	0.0
Transportation	1.6	-8.4	-0.1	-0.4