EVENLODE GLOBAL EQUITY FUND WEBINAR TRANSCRIPT

Monday 6th November 2023

Please note: this has been edited for clarity and ease of reading, and webinar housekeeping related content has been removed If you would like to watch the webinar replay, please ***click here*** *See time mark 24:40 for the start of the Q&A section which is not included in the written transcript.*

Chris Elliot: Welcome everyone to the first Evenlode Global Equity Webinar. I can see a significant number of our existing investors have joined and would like to take the opportunity to thank you once again for your support. There are also some people who may be new to the fund and even Evenlode itself, so I'll start off with a brief recap on the company and our` investment philosophy. After that, I will hand over to James, who will give an update on how the fund stands today, and take a look back at the drivers of our performance since launch. He'll also discuss the current investment environment and then we'll take questions at the end.

FOCUS ON QUALITY COMPOUNDERS

PRESERVING AND GROWING INVESTOR CAPITAL

RESILIENT TO MACRO UNCERTAINTY

So, for most of you hopefully, Evenlode Investment needs no introduction. We are an independent, employee-owned company, based in Chipping Norton on the edge of the Cotswolds. We were founded in 2009, by Hugh Yarrow and Ben Peters, and have grown to a combined assets under management of over £5bn. As a company, we take a long-term view to equity investment, both in terms of the company analysis that we do and also in the way that we ourselves operate as a business. We have recruited and trained a diverse investment team and invested significantly in our technology, system and processes - to ensure that we can offer our co-investors an excellent service long into the future.

An independent, employee-owned company

Based in Chipping Norton, Oxfordshire

Long-term focus on quality compounders

Evenlode funds - A natural evolution

Evenlode Income	Evenlode Global Income	Evenlode Global Equity
EVENLODE INCOME FUND	EVENLODE GLOBAL INCOME FUND	EVENLODE GLOBAL EQUITY FUND
Launched 2009	Launched 2017	Launched 2020

All Evenlode funds share a single investment philosophy and process

We operate 3 strategies – Evenlode Income, Evenlode Global Income, and our latest fund strategy – which we are discussing today, Evenlode Global Equity. This has been a natural evolution, We started with Evenlode Income, focusing on high quality UK based companies that pay a good dividend today, but as importantly, are able to grow that dividend into the future. That fund has always invested up to 20% in overseas companies.

That gave us the confidence to launch the Global Income strategy in 2017, using the same investment philosophy and approach, but simply relaxing the geographic requirement and allowing us to consider many more high quality, dividend-paying businesses.

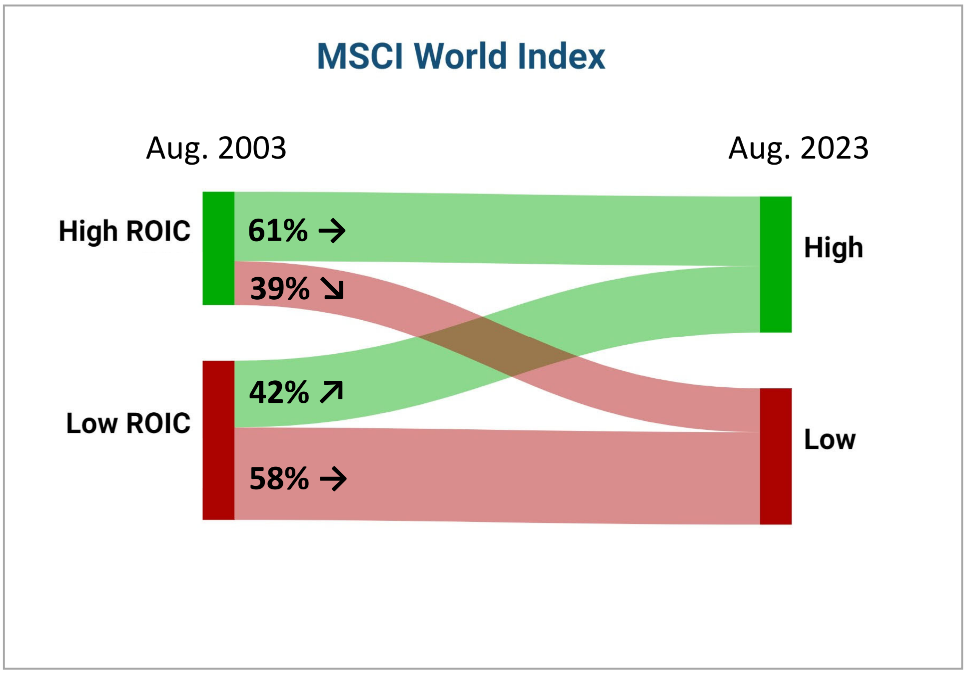
Once that strategy was at scale, we were joined by James and were able to launch the Evenlode Global Equity strategy in July 2020. In doing so we relaxed our final constraint, removing the requirement for a dividend today. This has enabled us to consider even more, high-quality businesses able to self-fund investment and compound their cash flows at an attractive rate.

Since launch, all three funds are top quartile and we attribute that to the shared investment philosophy and process that is common to all three of our strategies.

At Evenlode we invest in high quality, cash generative businesses at sensible valuations. We believe that these businesses can compound cash flows and, over time, that this will drive returns to investors.

Invest in high quality, cash generative companies at sensible valuations

Why own "Quality" businesses?



2023 ROIC	Annualised shareholder return[1]
High	+12%
Low	+7%

[1]Performance from 31 August 2003 to 31 August 2023.
Source: FactSet, MSCI. Historic ROIC as of 31 August 2003. Historic total shareholder return of August 2003. MSCI World Index constituents from 31 August 2003 to 31 August 2023. Excludes the returns of companies that exited the index over the measured timeframe. High ROIC = >7%; Low ROIC = <7%. Past Performance is not a guide to future performance.

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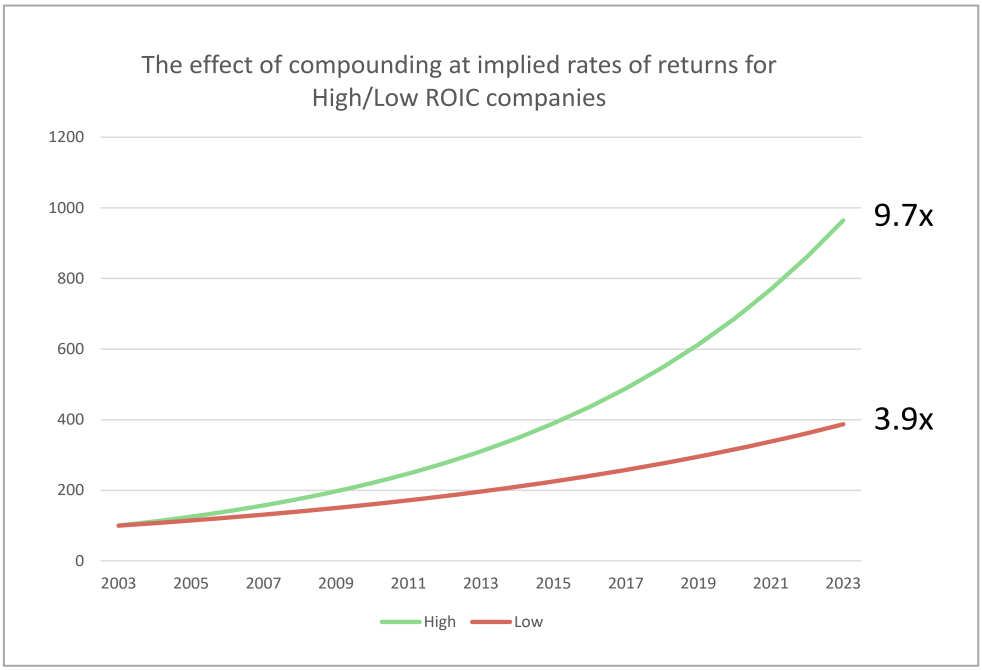
Underlying this, is the principle that these quality businesses will be able to maintain high returns on invested capital over an extended duration. And here you can see why that is so important...

This Sankey diagram shows the MSCI world constituents from 20 years ago. Those businesses in the green segments, that ended the period with returns on invested capital above the average weighted cost of capital, were able to post a materially higher return to investors. They returned an average annual return of 12%, verses a return of only 7% for those businesses in the red segments that ended with lower returns.

While that 5% is a significant difference, even on a single year basis, this is the result over a period of 20 years...

FOR PROFESSIONAL INVESTORS ONLY

Why own "Quality" businesses?



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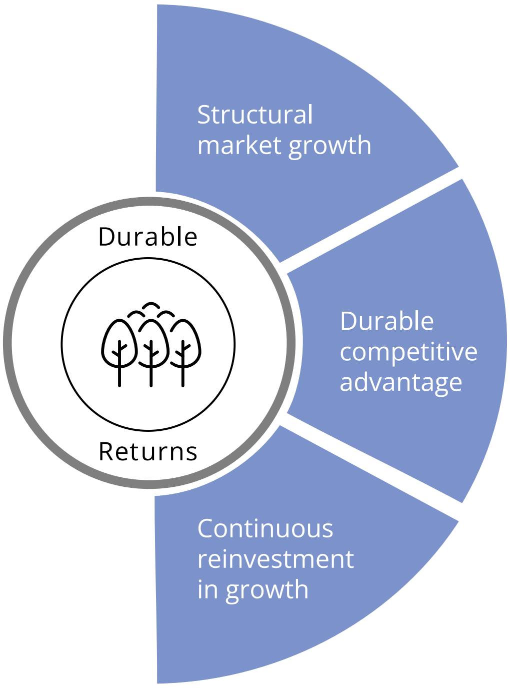
When you consider the compounding effect of that difference over a full 20 years – the resulting difference in returns to investors is stunning. The cumulative shareholder return for the high return business was 2.5x greater than that for low return companies. As Einstein said - Compounding really is the 8th wonder of the world.

Which characteristics determine quality?

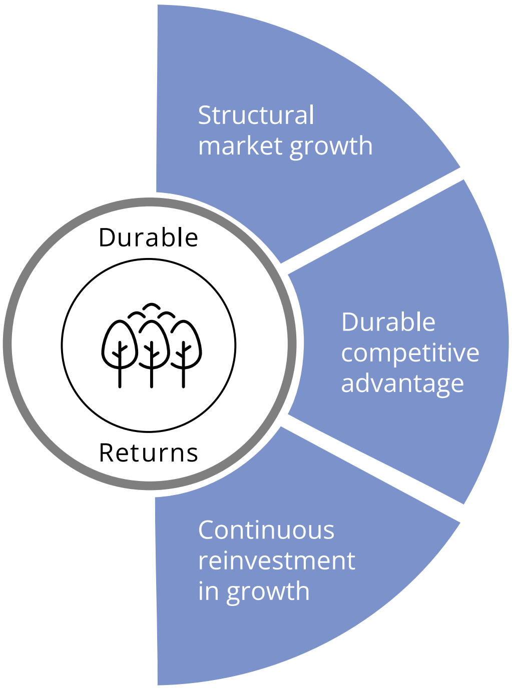


Certain characteristics increase the probability that a company will generate higher future returns

So to put it simply, our job as fund managers, is to identify those businesses that are going to end up in the high return category over the next 20 years.

We do this through focusing on 3 qualitive characteristics – structural market growth, a durable competitive advantage and continuous reinvestment behind that growth. To bring these to life let's consider a couple of examples from the portfolio.

Which characteristics determine quality?



Microsoft

- Migration to cloud
- Enterprise relationships and switching costs
- Datacentre & Silicon investment

Q3 Re-acceleration in Azure revenues

+12.0% Group organic revenue growth

Source: Microsoft Results Call, October 2023.

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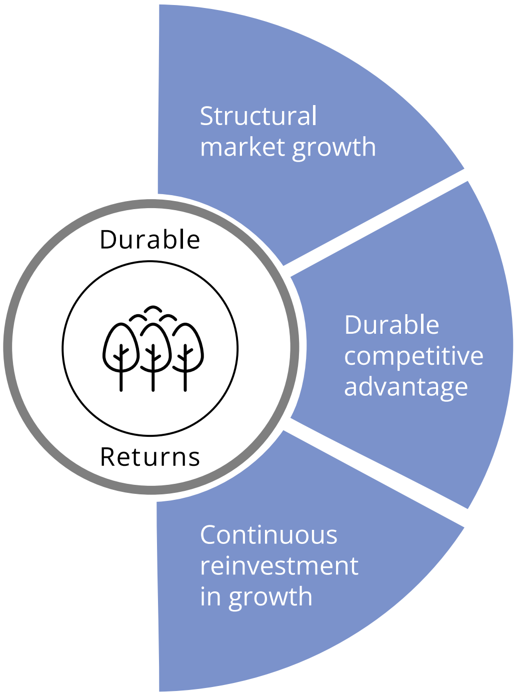
Firstly, the fund's second largest position, Microsoft. For structural market growth, we have the ongoing transition from on-premise computing to the public cloud. This is a trend that has been turbocharged by the recent discussions in Generative AI, as whether the technology creates products or not, you can only find out if your data has been consolidated into one place – and the best way to do that is to migrate to the cloud. In recent results Accenture reported that only 40% of workloads have been transitioned to the cloud, and Amazon stated that 90% of IT spend remains on premise. Both stats illustrate the long runway for further growth in cloud spend.

But why should a customer choose Microsoft for this transition, when there are other service providers available? Well, they probably already use Microsoft products, such as office, which has been the backbone of business productivity tools for the last 30 years. Their IT department has staff trained to support MSFT products and they have developers experienced in building applications using the wide variety of open source libraries available and which were developed for MSFT Azure. These switching costs and network effects provide the competitive advantage for MSFT.

Finally, Microsoft continues to reinvests behind these advantages, both through improving the productivity tools, training thousands of developers worldwide, and investing in the their datacentres and proprietary silicon chip, to support the increased demand. While this has lowered short term free cash flow, we see this as a sensible sacrifice to capture further long term growth. The results of these investments are apparent in the latest results, as Microsoft has reaccelerated in cloud, ahead of peers – and continues to drive double digit revenue growth.

Which characteristics determine quality?



Beiersdorf

Added June 2023

- Global skincare spend projected to increase 6% p.a. to 2027[1]
- Nivea brand is the market leader in skincare and commands loyalty
- Investing in emerging markets, e.g. increased Mexico production capacity +60%[2]

+9.0% Organic revenue growth in Q3[3]

Source: [1]Euromonitor, McKinsey 2022, Feb. 2023. [2]Euromonitor, Skincare market 2022, [3]Beiersdorf results Q3 FY23.

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Similarly, we can do the same exercise for Beiersdorf, a German provider of skincare products that we added to the fund in June.

Again, the company has strong structural market growth drivers, with McKinsey projecting that the global spend on skincare will increase by 6% per year until 2027. Beiersdorf has over 15% of the portfolio in Dermatology brands, a subcategory which is growing in the double digits – and Beierdorf is investing in new product formulations to support this growth.

The company has an excellent portfolio of consumer brands, led by Nivea, one of the most trusted skincare brands globally. This trust leads to higher consumer retention versus peers and a growing market share in a fragmented global skincare market.

Beiersdorf has been investing in its products, as mentioned, but also has an advertising and promotion to sales ratio significantly ahead of its peers – driving a higher rate of consumer acquisition and building on its brand strength. The company is also building out capacity in emerging markets where penetration is low, and this has led to healthy growth, even in a time when some skincare companies have come under significant pressure in developed markets.

What about the downside risk?

Risk factors	L'Oréal	Experian
Moat strength	A	A
Pricing power	A	A
Long-term industry outlook	A	A
Economic/Op. sensitivity	A	B
Diversification	A	C
Balance sheet	A	C
Cash generation	A	B
Mgmt. & cultural quality	B	B
ESG	B	B
Liquidity	A	B
Maximum position	8.5%	4.0%

Ongoing and careful risk management is vital to avoiding a decline in ROIC

Source: Evenlode, 31 October 2023.

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So two positive examples, but equally as important to maintaining returns is managing risk. At Evenlode, we operate a risk framework that focuses on 10 key risk factors, listed on the left. This framework allows us to frame and discuss all the of risks that a business faces, and also allows us as fund managers to adjust our risk budget or maximum position size for each company in response to new information. The more risk we see associated with a stock the less we should be willing to hold, even at an attractive valuation.

What determines durability of ROIC?

Risk factors	L'Oréal	Experian
Moat strength	A	A
Pricing power	A	A
Long-term industry outlook	A	A
Economic/Op. sensitivity	A	B
Diversification	A	C
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C.H. ROBINSON

Sold September 2023

- CEO change while trucking industry in turmoil
- Research calls with former employees, sell-side analysts, new CEO
- Risk of market transition to drop-trailer model (LTIO, Cash Generation risks)

Increased risk of ROIC decline, decision to exit

Source: Evenlode, 31 October 2023.

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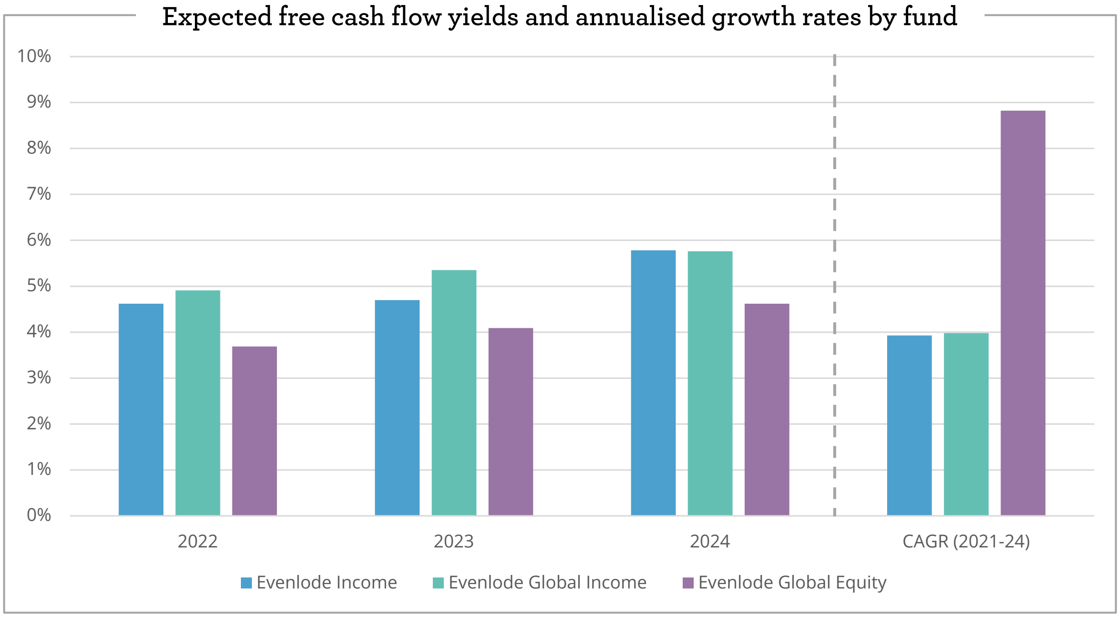
Again, lets take a recent example to bring this to life. CH Robinson is an American transportation company, primarily providing brokerage and 3rd party logistics in the US trucking market.

In January the previous CEO, Bob Biesterfeld, left the company while the market was in a cyclical downturn (*turmoil a bit strong!). With little explanation for the sudden change, and no new CEO lined up, this prompted us to do further research to understand what had prompted the change. We held calls with a number of industry experts, sell side analysts and the incoming CEO, Dave Boseman. It emerged that the US truck logistics industry was entering a period of transition, switching to a more asset intensive business model, the "drop trailer model", which required a significant period of higher investment and lower returns for the company in the medium term.

While we do see CH Robinson as well positioned to manage the transition, growth will likely be lower and the increased risk profile was sufficient for us to make the decision to exit and reinvest our investors' capital elsewhere.

Differences from the Income Funds



Source: Evenlode. Forecast data is based on current portfolio and market conditions and is not guaranteed.
Past Performance is not a guide to future performance.

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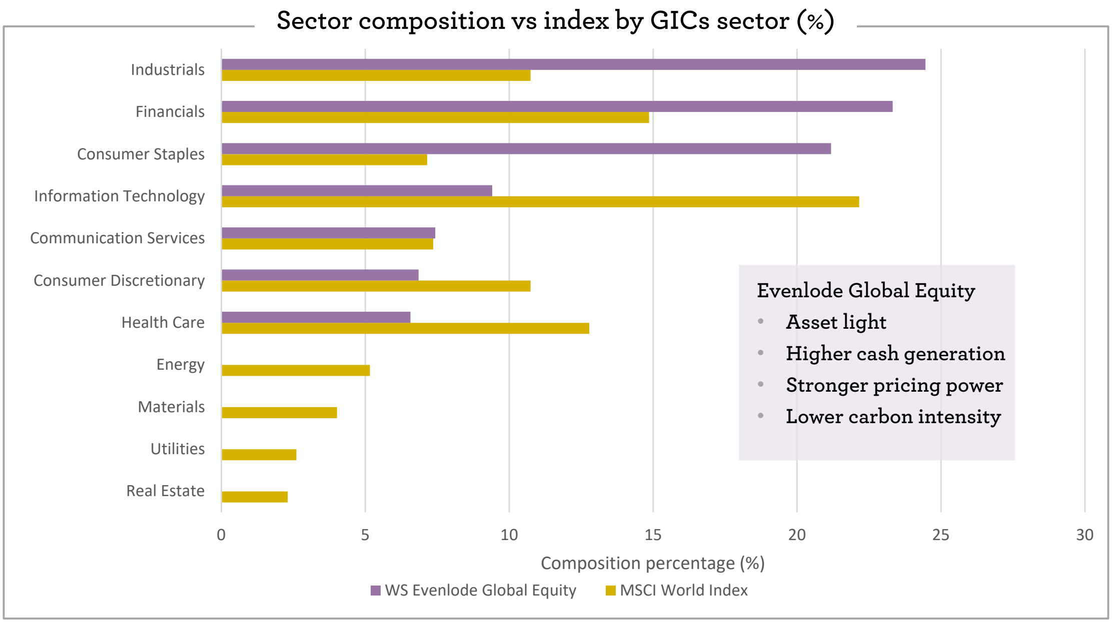
This brings us to our final point on philosophy and process, the likely differences that you can expect investing in this fund in comparison to Evenlode's other funds. As Evenlode Global Equity has no yield requirement, we expect our businesses to reinvest more capital at attractive rates of return. This should lead to greater compounding of cash flows, which is indeed has been the case so far. The market does appreciate the value of companies with faster cash flow growth, and therefore we expect that Evenlode Global Equity will run with a slightly lower free cash flow yield than the income funds. However over time, we expect these to begin to converge.

Evenlode Global Equity
Investment process leads to specific sector biases



Source: FactSet, Evenlode, 31 October 2023.

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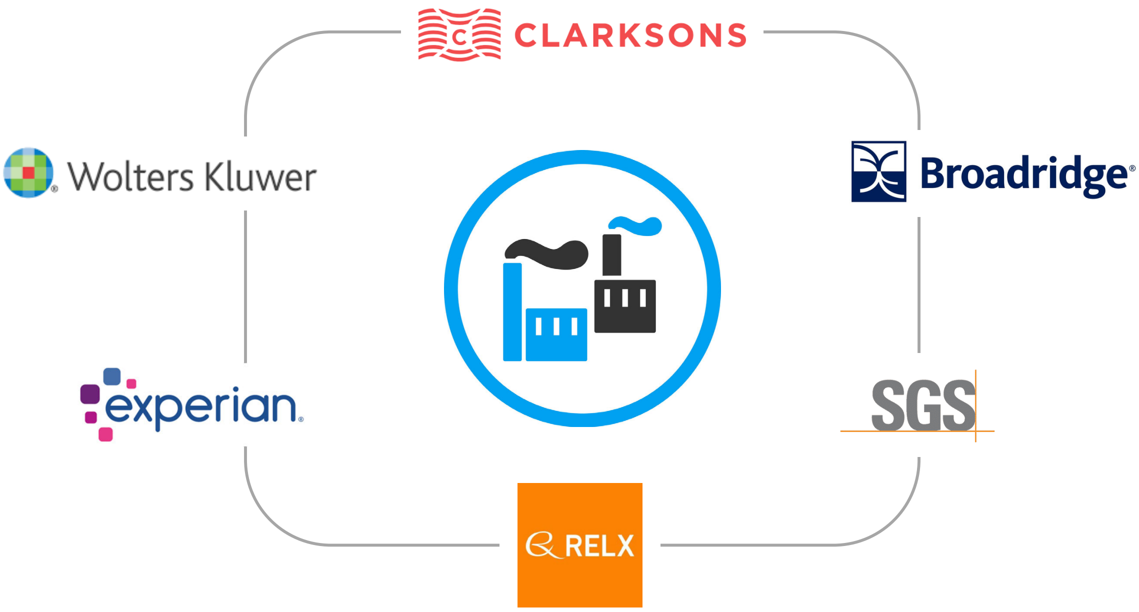
James Knoedler: Thanks Chris. This philosophy we've outlined, as you can see, has meaningful consequences for how our portfolio looks versus the index. You can see how we are systematically biased towards sectors where you find companies which can differentiate their products and consequently enjoy pricing power. This rules out a lot of the index, as you can see. You'll see our two largest sectors are industrials and financials; as our exposure within these sectors looks really different to the average industrial and financial, it's worth exploring this a bit further.

Industrials



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Industrials, our largest sector, that's about a quarter of the Fund. As you can see, these are not companies with factories and assembly lines. They generally sell information which is critical to the everyday businesses of their clients, who are mostly large enterprises. And their clients are critical to the everyday functioning of the economy – renewing auto insurance policies, organising company AGMs, shipping wheat and oil, preparing annual accounts. Many of them enjoy switching costs as their superior systems drive greater productivity for their clients; others (Broadridge, Experian, Clarkson) have network effects based on their consolidation of information and transactions from widely fragmented supply and demand sides.

As technology further penetrates enterprise processes, these companies have a growing opportunity to upsell their clients – for instance, Experian can sell banks credit decisioning solutions, while Relx can sell solutions to help clinical researchers design trials and help lawyers find case law precedents.

Financials

Similar theme here with our number two sector, financials. Just under a quarter of the fund. Same deal here – no banks, no insurers, no one who retains risk on a big balance sheet and uses leverage to drive returns. Again, there are a lot of niche businesses here which support bigger and more visible parts of the economy, as well as the big two of Mastercard and Visa, who as you know run the networks which bind together millions of merchants and billions of consumers. They are classic network effect businesses, clipping a tenth of a percent from every transaction authorised on their credentials, without taking any principal risk. That essential principle carriers over to ICE, CME, and LSE, who operate the exchanges and clearinghouses where people trade risk in assets critical to the world economy like Brent, WTI, Treasure futures, and interest rate swaps – they take no trading risk and retain a small percentage of the economics of every transaction.

And same deal, different market for Aon and Marsh McLennan – they bring together very fragmented buyers and sellers of property and casualty insurance policies for corporations, take a percentage of premium value while keeping their balance sheets pristine. S&P has a number of units which typically enjoy major switching costs, as in the case of its bond rating arm and its stock index business. And Jack Henry operates core banking solutions which are critical to the daily operations and productivity of its bank customers.

Evenlode Global Equity
Performance vs sector and index since launch

	2020*	2021	2022	2023 YTD	CAGR
Excess return over peers (%)	-4.30	8.29	2.40	6.98	3.96
Excess return over MSCI World Index (%)	-1.46	3.03	-0.83	1.77	0.60

Upside capture: 97.6% — **Downside capture: 90.7%**

Source: Financial Express, Evenlode; Since launch performance 15 July 2020 to 31 October 2023. Upside/Downside capture from Morningstar based on Monthly volatility and GBP prices, 1 August 2020 to 31 October 2023.
*Data from 15 July 2020 to 31 December 2020. Past Performance is not a guide to future performance.

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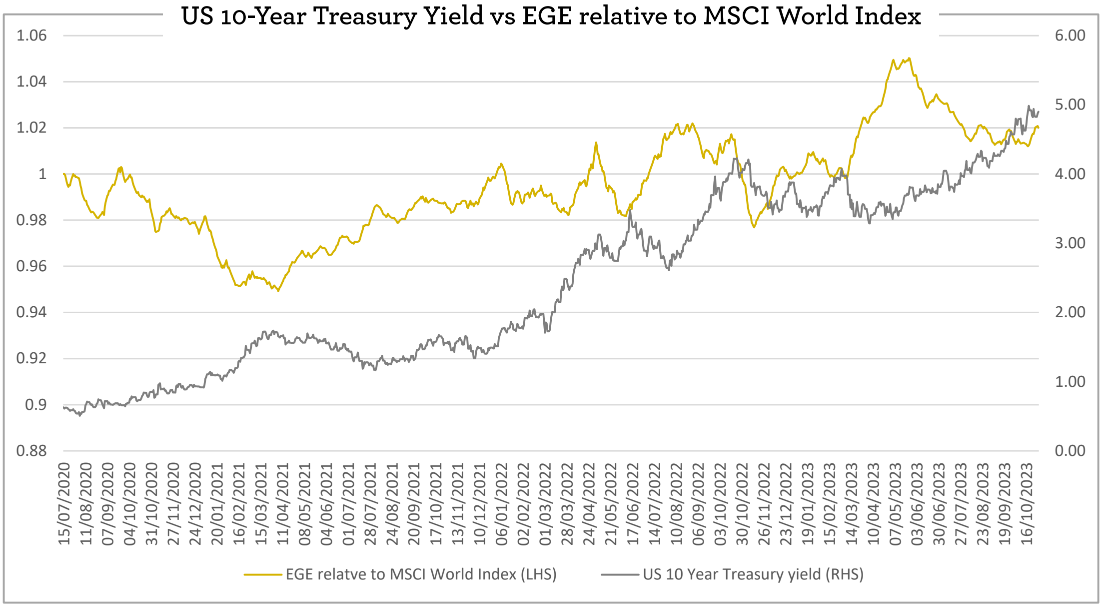
This is performance since launch. We launched with friends and family capital, and got our worst performance out of the way before we opened the fund to third parties in May 2021.

There are three aspects of performance we think are particularly important to stress:

1) Our downside capture compared favourably to the index, which has historically been a typical Evenlode hallmark.

Resilient absolute and relative performance despite rates



Evenlode Global Equity performance relative to MSCI World Index has been smoothed for clarity.
Source: FactSet, Evenlode, 15 July 2020 to 31 October 2023.

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2) We outperformed, and were up 38% in absolute terms in a period when rates moved from 0.5% to 5%, which many had feared would be toxic for equities in general and quote-unquote quality equities in particular.

Evenlode Global Equity
Performance relative to benchmark, since launch

Attribution of relative performance (before fees)

	Allocation Effect	Selection Effect	Total Effect
Consumer Discretionary	0.5	4.1	4.6
Industrials	-0.2	3.7	3.4
Communication Services	-0.3	2.4	2.1
Financials	-0.3	2.0	1.7
Real Estate	1.0	--	1.0
Information Technology	-1.0	1.7	0.7
Utilities	0.7	--	0.7
Materials	0.1	--	0.1
Health Care	1.3	-3.1	-1.8
Energy	-2.9	--	-2.9
Consumer Staples	-2.3	-1.6	-3.8
Total	-3.2	8.5	5.3

Selection drove outperformance

Allocation headwind

Source: FactSet, Evenlode, 15 July 2020 to 30 October 2023.
Past Performance is not a guide to future performance.

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3) We had an unusual headwind from our sector allocation which was completely out of line with historic trends, and which we think is unlikely to be repeated. While our GICS exposure is somewhat different to Evenlode Income's, the underlying philosophy is exactly the same, and we'd note that over its history Evenlode Income has derived about a third of its excess return vs its benchmark from allocation effect, the remaining two-thirds from selection effect. Given our weight to financials in particular, we think our allocation effect is unlikely to be as significant as that, but at the very least we don't see this headwind recurring over the long term.

MSCI World Sector annualised returns

	Since Launch (%)	Past 20 Years (%)	Difference (%)
Energy	30.4	1.1	29.4
Financials	10.0	6.7	3.3
Information Technology	14.8	14.0	0.8
Industrials	9.6	9.8	-0.1
Materials	8.9	9.2	-0.4
Health Care	5.6	10.8	-5.2
Consumer Staples	4.9	10.2	-5.4
Utilities	3.4	8.9	-5.5
Consumer Discretionary	5.5	11.4	-5.9
Communication Services	4.1	10.3	-6.2
Real Estate	0.2	8.7	-8.5

Source: FactSet, Evenlode; Since launch data from 15 July 2020 to 30 October 2023.
20-Year data from 30 October 2003 to 30 October 2023.
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Now nothing is impossible. But this slide gives you some helpful detail on how recent sector performance has been quite different to the past couple of decades.

WS Evenlode Global Equity
Recent position changes

September 2023	C.H. ROBINSON	Sale	Sold on valuation and upcoming market transition
September 2023	CLARKSONS	Purchase	New idea. Network effect and attractive valuation
August 2023	ESTĒE LAUDER	Sale	Sold on valuation and concerns over reinvestment
June 2023	SYNOPSYS	Sale	Sold on valuation
June 2023	Beiersdorf	Purchase	Well invested franchise, leader in mass skincare
June 2023	LVMH	Sale	Sold on valuation
June 2023	Johnson & Johnson	Purchase	Improved economics following the demerger of consumer

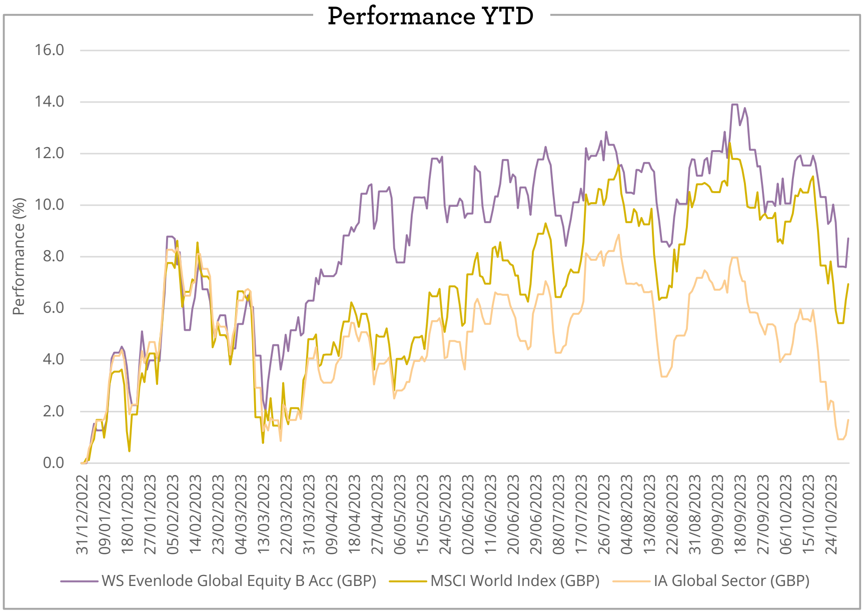
Source: Evenlode, June 2023 to October 2023.

On this slide you can see some sales and purchases we have made in the last six months.

Just a couple to call out, generally speaking, these have been sales made on valuation, particularly LVMH and Synopsys. We sold them in the summer when they had run very hard. Estee Lauder was somewhat different, it had obviously not been performing very well and we had been updating our risk scores as the numbers came in. Similar situation with C.H. Robinson, we arrived at the conclusion that their investment levels are not enough to support the level of compounding we thought their brands should get and as such, the investment thesis no longer worked.

And then a couple of purchases. J&J which is a very well invested industry market leader both in pharmaceuticals and several areas of medical technology, we purchased at an attractive price. Finally, Clarkson, which is a less well known name is a very interesting UK company, essentially the leading broker for cargo ship chartering, which is a vertically integrated industry, so primarily bulks and tankers. Again, it enjoys very powerful network effects and has had very robust pricing power for a long time. It's a very interesting and somewhat an overlooked company and falls very much into our interest in specialty brokers.

Recent performance



- 78% of portfolio reported
- Revenue +8.2%
- Margin +2.2%
- Operating Profit +14.8%

Market response has been highly volatile

Source: Morningstar, 1 January 2023 to 31 October 2023.
Past Performance is not a guide to future performance.

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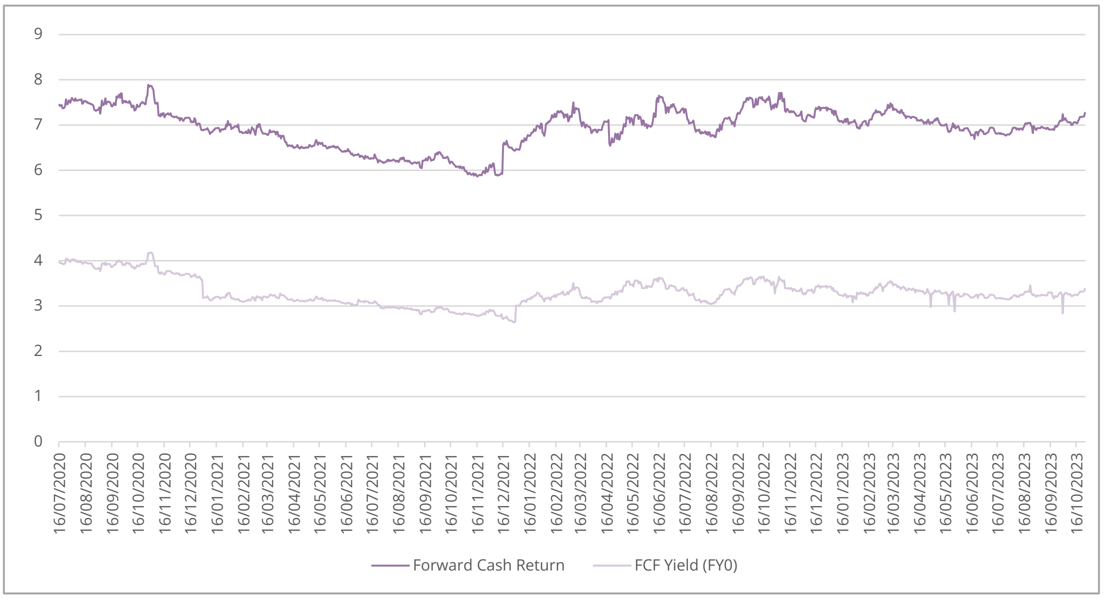
A little bit on recent performance, you'll see that this year has been relatively good. We have been ahead of the index and our peer group throughout the period.

I just want to touch briefly on the recent Q3 earnings season. We're still not totally out of the woods, but most of the dust has settled. Generally speaking, we're pretty pleased. The earnings, the organic revenue growth and underlying EBIT growth were attractive, which is very important to us.

We saw some very violent stock moves. And essentially market consensus is that they're down to positioning. This is one of those things where it's important to keep our eyes on the prize and the big picture and also remember another useful nostrum that the markets are a weighing machine in the long term, even if they're a voting machine in the short term. If we look at for example, the difference between the market reaction to Visa and Mastercard results, they're quite different. However the results were similar and the guidance ahead was very similar. I think positioning and sentiment were very important to the results.

This is the kind of market inefficiency that we're pretty happy to continue existing because it gives us our livelihood. A similar situation took place with the results of alphabet versus Microsoft, the underlying strength positioning explains a lot of the different stock moves on the day.

Current fund valuation in line with average since launch



Source: Evenlode, 15 July 2020 to 30 October 2023.

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And then finally looking ahead, I think valuations are a very important forward indicator to us. And as we stand today we used our own proprietary forward cash return metric plus also a free cash flow yield because that's more easily comparable to what's out there in the market. As you can see, we're not tremendously out of whack with the past.

Please note, these views represent the opinions of Chris Elliot and James Knoedler as of 6th November 2023 and do not constitute investment advice. Where opinions are expressed they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities.