Trojan Global Equity Fund Newsletter

The investment objective of the Trojan Global Equity Fund (the "Fund") is to achieve capital growth over the long term (at least 5 years).

Our strategy seeks to exploit a persistent market inefficiency that misprices rare businesses that can grow at sustainably high returns on their capital. We invest for the long term in a concentrated collection of companies that have the resilience to withstand unexpected shocks and the adaptability to thrive in a dynamic global economy.

The fallacy of picking sides

The British summer has finally arrived and the cricket fans among us – Gabrielle not included! – can look forward to the rest of a tense and thrilling Ashes series. Our colleague James Harries is the envy of many in Troy's office because he has dual British and Australian citizenship – he's a winner in all scenarios.

Over the last few years investors have been asked to pick sides in various big debates – permanent vs. transitory inflation, hard landing vs. soft, globalisation vs. de-globalisation, growth vs. value etc. Whilst it is simpler and more consistent to choose a side and stick with it, the reality is messier, and the timing of outcomes are uncertain. Inflation may moderate from its peak but persist at higher levels for some elements of consumer spending. A recession may be mild for some corners of the economy and severe for others. The internet remains a powerful globalising force whilst being increasingly balkanised by regulation. Tech stocks can straddle value and growth. We welcome this confusing picture because it is a source of uncertainty and volatility in markets, creating conditions for prices to diverge far from business fundamentals. The gyrations of the past three years reaffirm our confidence that the 'persistent inefficiency that misprices rare businesses' – cited, as usual, at the start of these Newsletters – is alive and well. Despite the growing influence of passive and algorithmic trading strategies, human impulses of fear and greed continue to mean that stock markets can be ill-suited to the pricing of long-term corporate cashflows.

Room for multiple winners

At a corporate level, investment debates sometimes boil down to what resembles a winner-takes-all sporting final played between two companies.[1] This makes for excitement, but again, the reality is often less clean cut. For sure, competition is inevitable in all but the most regulated industries. Our preferred companies naturally attract competitors because they are highly profitable and operate in dynamic, growing industries. The Fund's strategy is predicated on a belief that certain 'rare businesses' enjoy competitive advantages and management foresight that are sufficient to resist competitive forces – allowing them to remain relevant for their customers whilst growing at high returns on their invested capital. Our companies are also chosen for their proven

[1] Perhaps because investors are naturally competitive and spent too much time playing competitive sports at school!

business models and their participation in large and expansive global industries. The vast scale of these industries supports the participation of multiple players. They are not winner takes all, even though they can be perceived as such – a mistake that regularly creates investment opportunities. The Fund owns several payments companies, for example, that operate with varying degrees of overlap in an industry estimated to be worth $3 trillion within the next few years.[2] From time to time, each of the Fund's investments in this area has been cast as a 'loser' only to go on to demonstrate their ongoing success. Most memorably, a couple of years ago well-known venture capitalists loudly predicted that 'Buy Now, Pay Later' ('BNPL') providers such as Affirm and Klarna would disintermediate the card networks, Visa and Mastercard.[3] A few years on and the card networks are thriving whilst Affirm's share price is -90% from its highs and the company has yet to generate positive annual free cash flows since its IPO. BNPL providers are among the many fintechs that have chosen to partner with the card networks rather than compete with them. Much more prosaically, Visa and Mastercard have competed vigorously with one another for many decades and both companies are wildly successful by any measure. We continue to believe that the card networks have plenty of room for future growth without damaging each other's prospects. Both companies are large holdings for the Fund.

Something similar exists for large, global technology companies. Microsoft Azure co-exists with Amazon Web Services; Google Shopping competes with the product search and discovery functions embedded within Amazon's retail arm; YouTube has grown up alongside Instagram. This reflects the way that users, merchants, corporates and advertisers use these various platforms. It also speaks to the enormous scale of cloud computing, global retail, advertising and media when conducted online. The beauty of the internet is that it creates a global audience for these companies' services, and user's participation with any one service does not preclude engagement with another. This is worth remembering when the value of large tech businesses is so freely compared to the overall value of the U.S. stock market.[4] The growth of many of the world's largest companies are unbounded by geography (outside of China) in a way that makes comparisons to the value of any domestic stock market less appropriate than in the past.[5]

Alert to change

Well-managed companies continually adjust and reinvest under the threat of competitive forces. This is why we attach such great importance to corporate leadership and culture. It also requires investors to remain open-minded in an ever-changing business environment. The emergence of generative AI, for example, is a test case for adaptability which we approach with a mixture of patience and paranoia. The Fund has benefitted from strong returns from large investments in Alphabet and Adobe so far this year in part because investors have quickly reappraised whether generative AI will be a tailwind for their businesses rather than a disruptor.[6] It is too early to be confident of the

[2] McKinsey, October 2022.
[3] This subject was addressed at the time in a Special Paper by our colleague Marc de Vos – see here
[4] Usually accompanied with dire warnings of impending doom.
[5] As ever, China's *de facto* exclusion of Alphabet, Meta and Amazon makes it an exception, although the point is reinforced by Apple, the world's largest company, having a big business in China.
[6] The way that Microsoft has set the pace with its partnership with OpenAI is little short of breath-taking, providing further evidence – if any were needed – for the strength of CEO Satya Nadella's leadership.

long-term implications of this technology, and our investment case for these companies goes well beyond this narrow question. We are optimistic at this stage because the businesses have terrific brands, sticky products, rich datasets, and far-reaching distribution. They have also invested substantially in their AI capabilities over many years. After an uncertain start, we are encouraged by the way they have accelerated their plans. Generative AI has the potential to enhance the value of their services, increasing existing customers' loyalty and spending, whilst making them more accessible to new users. We are also aware that investors tend to overestimate change in the short term and underestimate it in the longer term. Generative AI has the potential to dramatically accelerate the pace of software development, with disruptive consequences for a wide range of industries. This is an area we are monitoring very closely across all our companies.

Don't just do something, stand there

The Fund's strategy is a simple one. The challenge is in its execution in volatile and dynamic conditions. In moments of stress, the urge to act is powerful and has cathartic appeal. It also risks compounding problems when often the best and hardest policy is to wait. Investor sentiment reached dismal levels for many of the Fund's holdings last year – particularly those that had grown strongly during the pandemic (e.g. internet and software companies) and those exposed to a potentially severe European recession (e.g. Booking Holdings and Heineken). We added to some of these holdings last year and held onto large investments in others. This is not to deny that the affected companies face real and lasting problems. Our analysis simply suggested that the scale of their issues was overstated and the possibilities for a better outcome were mispriced. Many of the companies that experienced sharp share-price declines last year have since rebounded in the first half of 2023. Meta's +134% gain this year is by far the most eye-catching, but there are several others – Adobe +44%, Microsoft +40% Take-Two Interactive Software +40%, Alphabet +35% and Booking Holdings +32%.[7] In some cases, these moves have provided opportunity to adjust their positions to maintain a balance of companies in the portfolio.

We take some pride from holding our nerve in the difficult moments of last year, trusting our analysis and each other. We benefit enormously from the strength, depth and stability of Troy's investment team and its wider business. Troy deliberately creates an environment for decision-making that allows us to remain focussed on the long-term drivers of wealth creation. We are also grateful for the ongoing support of our investors and the trust they place in us.

There are surely more challenges to come as economies, companies and consumers wrestle with higher inflation, higher interest rates and the risk of recession. As outlined in past Newsletters, we remain confident in the resilience of the Fund's companies and their ability to adapt to changing circumstances.[8] Markets are likely to stay volatile and we expect this to continue to provide opportunities to make further improvements to the Fund.

We wish all our readers a happy summer.

Gabrielle Boyle & George Viney
June 2023

[7] In USD, Bloomberg, 29 June 2023.

[8] See here, for example.

APPENDIX I - RESILIENCE AND ADAPTABILITY

	Resilience				Adaptability		
	FCF Margin (%)	Net Debt/ EBITDA (x)	ROIC (%)	FCF Yield (%)	R&D / Sales (%)	Capex / Sales (%)	Est. Sales Growth (3y fwd, %)
Troy Global Equity Strategy	23.6	0.7	20.2	4.6	14.9	10.0	8.7
MSCI World Index NR	8.6	1.3	9.4	4.4	5.1	6.1	1.7

High returns — Low leverage — Reasonable valuation → **Greater resilience**

Higher reinvestment rate → **High revenue growth and adaptability**

Neither past performance or forecasts are guides to future performance.

Source: FactSet and Troy Asset Management Limited, 31 May 2023. Free Cash Flow measures are based on trailing figures over the last 12 months. Asset allocation and holdings are subject to change. Estimates may not be achieved. Characteristics are shown excluding Financials.. All references to benchmarks are for comparative purposes only. ROIC is the Return on Invested Capital. EBITDA refers to the earnings before interest, taxes, depreciation and amortisation. The information presented shows the performance of a representative mandate, the assets of which are, and have been managed in accordance with Troy Asset Management Limited's Global Equity Strategy. Please refer to Troy's glossary of terms.

APPENDIX II – PERFORMANCE STATISTICS

Calendar returns	Trojan Global Equity Strategy	MSCI World Index NR	IA Global TR
2014	+15.0%	+11.5%	+7.5%
2015	+12.3%	+4.9%	+4.1%
2016	+19.2%	+28.2%	+24.4%
2017	+13.2%	+11.8%	+13.8%
2018	+1.1%	-3.0%	-5.6%
2019	+24.6%	+22.7%	+22.1%
2020	+13.5%	+12.3%	+14.8%
2021	+21.7%	+22.9%	+18.0%
2022	-15.7%	-7.8%	-11.1%
2023 YTD	+12.1%	+5.3%	+4.0%

Track record (annualised)	Trojan Global Equity Strategy	MSCI World Index NR	IA Global TR
1 year	+7.3%	+3.8%	+2.1%
3 years	+6.9%	+10.9%	+8.4%
5 years	+10.3%	+9.3%	+7.1%
Since Strategy Inception	+11.8%	+11.0%	+9.2%

Past performance is not a guide to future performance.

Source: Lipper – O Accumulation shares total return net of fees since inception (31 December 2013) to 31 May 2023. All references to benchmarks are for comparative purposes only. The information presented shows the performance of a representative mandate, the assets of which are, and have been managed in accordance with Troy Asset Management Limited's Global Equity Strategy. The fund is a constituent of the IA Global Sector.

PORTFOLIO SUMMARY

No. of Holdings	27
Total Equity Exposure	96%
Top 10 Holdings	54%

SECTOR BREAKDOWN

Information Technology	32%
Health Care	19%
Consumer Staples	14%
Communication Services	13%
Financials	9%
Consumer Discretionary	5%
Industrials	4%
Cash	4%

COUNTRY BREAKDOWN

United States	63%
Switzerland	13%
United Kingdom	10%
Netherlands	6%
France	4%
Cash	4%

AUM

Strategy	£593m
Fund	£433m

TOP 10 HOLDINGS

Alphabet	7.2
Microsoft	6.4
Visa	6.1
Roche Holding	6.1
Heineken	5.8
Mastercard	5.1
Fiserv	4.4
Meta Platforms	4.4
Adobe	4.3
Experian	4.0
Total Top 10	53.9%
17 other holdings	42.6%
Cash	3.5%

LIQUIDITY*

1 Day	92%
5 Days	97%
30 Days	100%

Past performance is not a guide to future performance

Source: Factset and Troy Asset Management Limited, 31 May 2023. Asset Allocation and holdings subject to change.
*Liquidity is monitored by calculating what proportion of the equity portfolio can be sold, assuming trading at 20% of the previous 90 days' average daily volume. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities.

TROY
ASSET MANAGEMENT

Disclaimer

The Fund was originally launched as the Trojan Capital Fund, which focused on investing in UK equities with the flexibility to invest in overseas equities and other asset classes. The strategy was changed to a global equity strategy in December 2013. The Fund has been a constituent of the IA Global sector since April 2012. Prior to this, the Fund was in the IA Flexible Investment sector.

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