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 companies that have the resilience to withstand unexpected shocks and the adaptability to thrive in a dynamic global economy.

The long road less travelled

We hope that our investors and readers have had an enjoyable summer. George's summer holiday got off to a decidedly dodgy start when his car broke down one hour into a four-hour journey. A long wait for breakdown recovery during a heatwave provided ample (and unwelcome!) opportunity to ponder the subject of risk. A British seaside holiday with two small kids was made to feel foolhardy. Thankfully, such events are very rare, and in retrospect, the disruption was limited. Grandparents came to the rescue, a hire car was found, and everyone enjoyed a week of ice cream and sandcastles.

The episode shows that no matter how much precaution we might take, misfortune can arrive in one form or another. Long-term investors, including ourselves, take some comfort from the receding impact of setbacks and the potentially rewarding cumulative returns available to those willing to stay the distance. That doesn't mean, however, that we can bypass the difficult and disorientating short run altogether. The opposite is arguably true. Being a long-term investor in equities means that we are likely to experience more ups and downs than investors in less volatile asset classes. In the ten years we have worked at Troy, we have invested through the Eurozone debt crisis, the noisy rise of populist politics in many Western democracies, Brexit, and a global pandemic. Today, we are faced with raging inflation and a widely predicted recession. Going back further in our careers, and showing our age, we have invested through the Global Financial Crisis, both Gulf wars, 9/11, the dot com bust, the Asian debt crisis, Britain's departure from the ERM, and the reunification of Europe after the fall of the Berlin Wall. Each were scary at the time, and there have been many other shocks and surprises along the way.

Rather than dwell on the past, the more interesting question is how to survive what can sometimes seem like a never-ending parade of bad news. Our answer to this is based on one very simple observation: there is a small group of special companies that have navigated successive crises and emerged stronger each time. Our investment in them presumes that what has sustained them in the past will get them through the present and into the future. We may be wrong about any one of them, and our approach must be flexible rather than fixed. In aggregate, however, we have high conviction in a concentrated portfolio of companies that we believe can build wealth over the very long run.

Resilience in adversity

We don't know the exact form that problems may take. Even if we did, getting the timing and stock selection consistently right is fraught with

difficulty. Instead, we prefer companies that are generally resilient through adversity, allowing us to hold onto them in good times and in bad. The Oxford English Dictionary's definition of resilience is 'the capacity to recover quickly from difficulties'. The Fund is not immune to misfortune, but we believe it has what the retired footballer Ian Dowie once called 'bouncebackability'.

Resilience has several layers. It begins with the longevity bestowed on companies that control hard-to-replicate intangible assets. These can offer protection from ordinary competitive forces, allowing companies to earn sustainably high returns on their capital. They range from Alphabet's global network effects uniting consumers, content providers and advertisers; L'Oréal's ~35 beauty brands, eight of which have over €1bn in annual sales; and the high switching costs associated with Microsoft's software productivity tools.[1] The power of these intangible assets gives the portfolio's companies time to withstand problems without experiencing permanent erosion to their competitive positions.

Resilience also comes from the essential nature of these companies' products and services. Visa's payments network processes ~1700 transactions every second. Together with Mastercard, they are the umpires and scoreboard for modern consumer payments. Novartis is the ultimate purveyor of nondiscretionary items - their medicines are often literally the difference between life and death for their patients. Intuit's software and ancillary services form the operating system for small businesses and a surrogate online agent for government tax records and rebates. Collectively, the portfolio's companies are very broadly diversified industrially and geographically within sectors that exhibit repeat-purchase characteristics. We expect they will durably generate sales even in dire macro-economic conditions and in doing so, they are fabulously cash generative. The Fund's companies are large and require little incremental capital to finance their growth. For the Fund as a whole, weighted average free cash flow (FCF) margins are ~28% - i.e. for every £1 of sales they produce 28p of excess cash flows. The equivalent number for the MSCI World is just ~9p, making the Fund over three times more cash generative on this measure. In addition, the portfolio's companies have sound balance sheets. There are a few, including Meta Platforms and Alphabet, which have substantial net cash. On average, net debt/EBITDA for the portfolio is 0.7x, which compares to 1.4x for the MSCI World.[2] High cash generation and little financial borrowing means that the companies owned in the portfolio are not particularly vulnerable to rising interest rates. They can also survive mishaps without suffering lasting financial damage, allowing them to continue to invest through difficult periods, even as others retrench.

The final and critical aspect of resilience is valuation. We recognise that for any asset, no matter its quality, valuation impacts future returns. We strive to pay fair or attractive prices for the Fund's investments so that growth in underlying cash flows, not valuation, is the primary driver for shareholder returns. This has been our experience with Alphabet. Since first purchased for the Fund in 2013, the shares have generated a +18% annualised return in US dollars (+23% in sterling), which compares to +24% compound annual growth in FCF per share. The valuation of the shares has recently

[1] Data as at April 2022.

[2] Earnings before interest, taxes, depreciation, and amortization.
Please refer to Troy's Glossary of Investment terms.

declined, but they have still provided a handsome return on the Fund's original investment. The Fund as a whole has a trailing 4.7% FCF yield, which is approximately the same as the MSCI World's.[3] We think that the quality of FCF generation for the Fund's underlying companies is far superior to the global average. The companies in the portfolio invest substantially into capex and research and development (R&D) investments, deducted from their FCF, to produce attractive rates of revenue growth. They do so whilst generating more than twice the return on invested capital (ROIC, see Appendix). It makes little sense to us that the portfolio in aggregate should be valued similarly to the MSCI World's averages.

Adaptability to uncertainty

In moments of crisis, time can appear to slow down and investment horizons inevitably contract under stress. We believe the qualities described above – hard-to-replicate intangible assets, recurring demand, fortified finances, and reasonable valuations – have a timeless quality. Over time, however, companies need to adjust to their circumstances to grow and successfully navigate the next crisis. Stasis brings its own problems and vulnerabilities. Resilience alone is not enough.

Similar to resilience, adaptability has several strands. We deliberately choose to prioritise diversified companies that operate in large and dynamic addressable markets – global leaders of global industries. From PayPal in payments to Medtronic in medical devices, the opportunities to grow are unbounded by the size of their markets or geographical presence. Demand is met in a diversified way – across multiple product categories, price points and parts of the world. Heineken, for instance, has over 300 beer and non-beer brands sold in more than 190 countries. Their largest markets – Vietnam, Mexico, and Brazil – have warm climates and young populations, conducive to growing beer consumption. Furthermore, over 40% of Heineken's beer volumes are from premium brands, led by its eponymous brand and backed up by others including *Tiger*, *Birra Moretti* and *Amstel*. Premium beer volumes grow at twice the rate of mainstream beer because consumers turn to better brands as they grow older and wealthier. Heineken's geographic footprint and diverse premium branded portfolio provides a very broad canvas over which to operate and outperform its peers.

Our companies can also adapt their products and services to create growth opportunities for themselves. Eyecare specialist Alcon, for instance, has developed new intraocular lenses used in the treatment of cataracts that produce fewer halos and glares than non-monofocal artificial lenses. This has further secured its 50%+ global market share of advanced lenses, and accelerated the company's growth. This is not an isolated case for Alcon, which continues to grow its relevance with eyecare professionals and patients by innovating across its broad portfolio of surgical equipment, contact lenses and eye drops.

Our research shows that certain companies retain and nurture a capacity for internal product development, whilst rivals are often unwilling or unable to do the same. Life science tools provider Agilent has spent proportionately more on R&D than its main competitors to create a unified portfolio of products, software and consumables. Rivals rely more on M&A for growth or reward their shareholders by aggressively returning capital. To our minds, outgrowing its industry by satisfying customers,

[3] FCF yield is on a trailing 12 month basis.

as Agilent has, is a more durable way to generate value for investors.

Consistent with this willingness to reinvest for long-term growth, are actions taken to reinforce relationships with other stakeholders – employees, suppliers, and local communities. We believe companies that invest to produce improving outcomes for all their constituents will be more resilient and adaptable in the future. Roche is a good example. The company has a remarkable track-record for innovation across multiple diseases, making it a destination for top scientists and other industry talent. Unlike many of its peers, Roche has taken a responsible approach to pricing its new medicines and it has never had a US subpoena. The company has also had a carbon emissions reduction strategy for over 25 years. This approach to sustainability reflects the company's family ownership and is a direct result of a corporate culture that acts in the long-term interests of the company, its owners and other constituents.

Stability and flexibility

The strategy's framework for resilience and adaptability is arranged to remain fully invested throughout all market conditions. It is reinforced by the stability of Troy's own business. Troy is independent, owner-managed, and well-invested in its people and infrastructure. We believe we are aligned with our investors because we, your managers, invest substantially and regularly in our own funds on the same terms as everyone else. We also work hard to remain flexible. The future has perils we cannot foresee and we will make errors of commission and omission. The long term is a long time! Things change. Whilst having a clear sense of where we want to be invested, there is plenty of scope for our own adaptation and improvement. Our ideas and preferences are continually tested and refined.[4]

The long road ahead

Investors' perception is usually determined by current circumstances. Widespread pessimism may be warranted today as central banks belatedly raise interest rates to bring down the rate of inflation. Recession looms large. There is high risk of error on all sides – among policymakers, corporates and investors. We take confidence from the resilience and adaptability of the Fund's companies. The shorter term appears worrying for the average company, and yet the mainstay of the portfolio is far above the average. The longer-term outlook for superior businesses remains as bright as ever and this is where our focus remains. We expect the Fund's companies to be resilient in adversity and to continue to invest and grow their businesses. Share prices have been volatile as markets adjust to higher rates of interest. This dynamic is likely to persist for the time being. Meanwhile, it is anomalous to us that the Fund's companies are now valued approximately in-line with the global averages. This gives us optimism that their prospective returns can continue to outperform in the long run.

In these highly uncertain and testing times, we are especially grateful for your continued interest in the Fund. We will discuss the Fund's recent activity and performance at a webinar at 10am on 7 September. If you would like to join us you can register here.

Gabrielle Boyle & George Viney
September 2022

[4] See Newsletter No.11 for a summary of ten lessons from the last decade.

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	27.6	0.7	24.7	4.7	13.6	10.0	11.4
MSCI World Index NR	9.2	1.4	10.2	4.6	4.9	5.8	5.1

High returns Low leverage Reasonable Valuation
↓
Greater resilience

Higher reinvestment rate
↓
High revenue growth and adaptability

Past performance is not a guide to future performance.

Source: FactSet and Troy Asset Management Limited, 31 August 2022. FCF measures are based on trailing figures over the last 12 months. Asset allocation subject to change. Estimates may not be achieved. Characteristics are shown excluding Financials. Asset allocation subject to change. Estimates may not be achieved. All references to benchmarks are for comparative purposes only. Holdings subject to change. The information presented shows a UK UCITS, 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	Troy 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 YTD	-10.3%	-4.3%	-7.8%

Track record (annualised)	Troy Global Equity Strategy	MSCI World Index NR	IA Global TR
1 year	-9.7%	+0.4%	-5.4%
3 years	+6.4%	+10.4%	+8.5%
5 years	+9.8%	+10.1%	+8.3%
Since Strategy Inception	+12.2%	+11.8%	+10.0%

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 August 2022. All references to benchmarks are for comparative purposes only. The information presented shows a UK UCITS, the assets of which are, and have been managed in accordance with Troy Asset Management Limited's Global Equity Strategy. The UK UCITS is a constituent of the IA Global Sector.

PORTFOLIO SUMMARY

No. of Holdings	26
Total Equity Exposure	98%
Top 10 Holdings	55%

AUM

Strategy	£580m
Fund	£425m

SECTOR BREAKDOWN

Information Technology	37%
Health Care	19%
Consumer Staples	10%
Communication Services	15%
Financials	9%
Consumer Discretionary	4%
Industrials	3%
Cash	2%

TOP 10 HOLDINGS

Visa	7.9%
Alphabet	7.9%
Microsoft	7.9%
Mastercard	6.6%
Meta Platforms	5.1%
Fiserv	4.6%
Intuit	4.1%
Alcon	3.7%
PayPal	3.6%
American Express	3.6%
Total Top 10	54.9
16 other holdings	43.1%
Cash	2.0%

COUNTRY BREAKDOWN

United States	72%
Switzerland	11%
United Kingdom	8%
France	4%
Netherlands	3%
Cash	2%

LIQUIDITY

1 Day	94%
5 Days	95%
30 Days	100%

TOP 5 CONTRIBUTORS

1 Year to 31 August 2022	Contribution to return*	Total return
Master Card	+0.6%	+11.2%
Visa	+0.6%	+3.1%
Becton Dickinson	+0.5%	+22.5%
Microsoft	+0.4%	+3.1%
American Express	+0.4%	+9.2%

BOTTOM 5 CONTRIBUTORS

1 Year to 31 August 2022	Contribution to return*	Total return
Meta	-3.9%	-49.2%
PayPal	-3.8%	-61.7%
Alphabet	-0.9%	-11.5%
Medtronic	-0.8%	-20.6%
Experian	-0.6%	-16.8%

Past performance is not a guide to future performance.

Source: Factset and Troy Asset Management Limited, 31 August 2022. Asset Allocation and holdings subject to change.
*Stock contribution to return is provided as gross absolute returns and does not include the Fund's charges and fees. The reference to specific securities is not intended as a recommendation to purchase or sell any investment. #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.

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