



# Troy Global Equity Strategy Newsletter

January 2024

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## Happy new decade!

The start of any new year is an opportunity to reflect on the present and make resolutions for the future. This year the opportunity is made all the greater by the passage (at the end of 2023) of the Troy Global Equity Strategy's 10-year anniversary. We are pleased to have added value for the Strategy's investors over this time. The compound annual return since inception is +12.2% (net of fees) which compares to the benchmark MSCI World Index return of +11.5%. This results in a cumulative gain of +217.0% for the Strategy compared to +196.5% for the Index.

It is both humbling and insightful to look back over a decade of managing the Strategy. Despite all the daily toil, it is startling how only a few decisions have made the difference. It is also telling that those main drivers of value creation over the last decade were predictable and did not require complex thinking or heroic macro-economic assumptions. The overriding feature over this time has been the unceasing and astonishing growth of digital commerce. We knew this was an unstoppable force in 2013 and we are highly confident that we will be navigating its influence 10 years from now. It's a reminder, if one were needed, that successful investment is 'simple but not easy'.<sup>1</sup>

## An online report card

With the exception of Visa (first purchased in 2016), the largest positive contributors to the Strategy's outperformance over the 10-year period were stocks held for the entire decade.

	Contribution to outperformance	Total return since inception	Annualised return since inception
Microsoft	6.8%	1,372%	30%
Alphabet	3.3%	547%	19%
Intuit	3.3%	1,031%	26%
Fiserv	2.5%	485%	17%
Visa	2.2%	538%	18%

Past performance is not a guide to future performance

Source: FactSet and Troy Asset Management Limited, 31 December 2013 to 31 December 2023. Attribution is provided as gross absolute returns in base currency and does not include the charges and fees. The impact of fees will have the effect of reducing performance.

All five are beneficiaries of digitisation in one form or another – via the internet's expanding share of economic output, the growth of digital payments, and the increased importance of software and automation. Each company has grown revenues, profits and cashflows at double-digit annualised rates during the period, with [high free cash flow margins](#) and above average incremental returns on capital. These companies, in our opinion, are managed for the long term by management teams that strongly align with their other stakeholders (customers, employees, suppliers, and communities). Happily, their shares never reached extreme valuations and hence they have been core holdings for the Strategy throughout, and remain so. Looking further down the 10-year investment report card, it's no surprise that the winning holdings follow a similar thread – companies such as Experian, Booking Holdings and L'Oréal, for example, delivered above average annual growth in revenues and cashflows with strong free cash flow margins. They invested in digital trends to stay at the vanguard of their industries and all the while their valuations were manageable. Again, oh so simple in retrospect, not so easy in practice.

<sup>1</sup>The phrase was popularised by its use as a title of a book by UK investor Richard Oldfield, but as far as we can tell – like many investment ideas – it traces its origins back to Warren Buffett.



## Raising the bar

Perhaps unsurprisingly, the ownership of these exceptional companies has profoundly impacted our thinking about the rest of the portfolio. Longstanding investors in Troy funds will know the efforts to which we go to invest in resilient companies – those with strong financial profiles, consistent and predictable revenues and cashflows, strong balance sheets, and those managed by trusted stewards of capital. Valuation has always been an important consideration for us. But witnessing at first hand the magic that happens when a company grows at above average rates, whilst generating prodigious amounts of cash that can be reinvested at very high rates of incremental profitability, has had a major influence on the evolving shape of the Strategy. We demand an even deeper understanding of competitive advantage and the reinvestment that sustains growth. Our companies must adapt. The result is a portfolio with superior average cash margins, higher rates of reinvestment and returns on invested capital.

	2023	Average since inception
<b>RESILIENCE</b>		
FCF Margin (%)	26.0	22.4
Net Debt/ EBITDA (x)	0.9	0.7
ROIC (%)	20.0	16.8
FCF Yield (%)	4.0	4.9
<b>ADAPTABILITY</b>		
R&D/Sales	14.4	11.2
Capex/Sales	9.7	7.5
Sales Growth (3Y fwd Est)	9.6	8.2

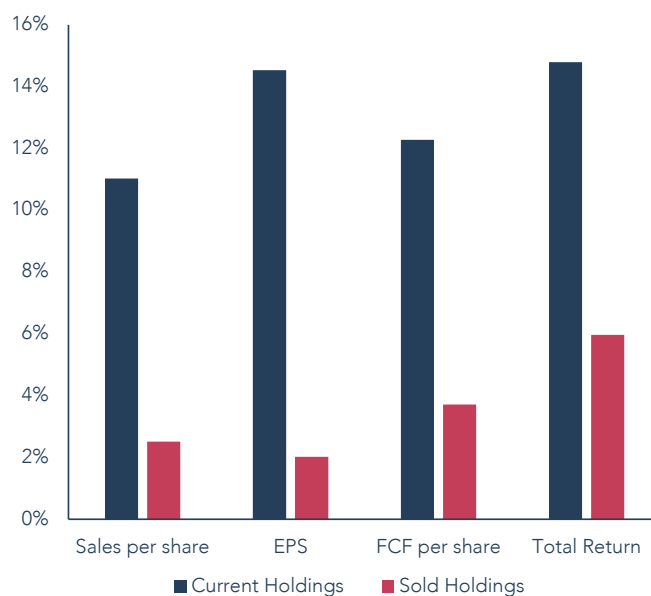
Past performance is not a guide to future performance

Source: FactSet and Troy Asset Management Limited, 31 December 2013 to 31 December 2023. Characteristics are shown excluding banks. FCF measures are based on trailing figures over the last 12 months. Asset allocation subject to change. Please refer to [Troy's glossary of terms](#).

## Value investing in value creators

A review of portfolio changes over the past 10 years highlights that the holdings we own today have materially higher rates of growth in revenue, earnings and free cash flow than the companies that we have sold during the decade.

## 10 YEAR CAGRS FOR CURRENT HOLDINGS VS STOCKS SOLD

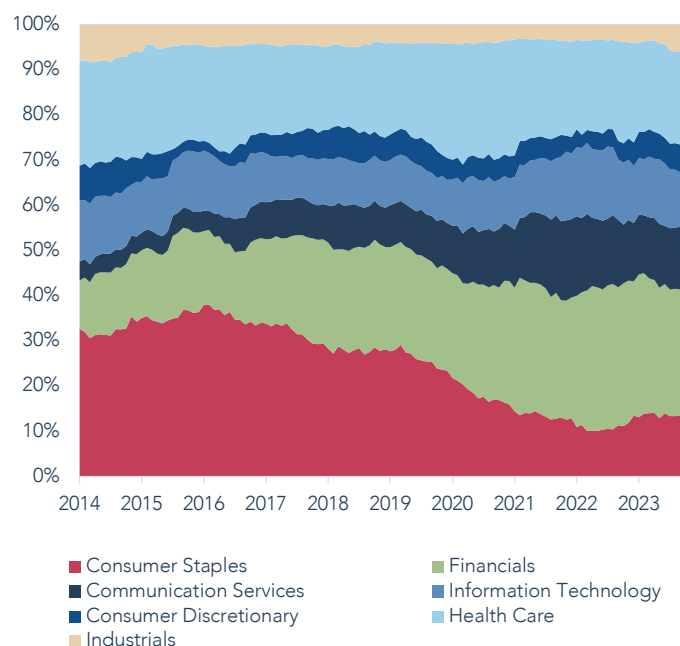


Past performance is not a guide to future performance

CAGR stands for Compound Annual Growth Rate. EPS stands for [Earnings Per Share](#). Source: FactSet and Troy Asset Management Limited, 31 December 2013 to 31 December 2023. FCF measures are based on trailing figures over the last 12 months. Asset allocation and holdings subject to change.

The Strategy in 2024 has more allocated to companies in payments (counted under 'Financials') and consumer internet companies ('Communication Services') and has significantly less invested in the slower-growing consumer staples sector.

## HISTORIC SECTOR ALLOCATION



Source: FactSet and Troy Asset Management Limited, 31 December 2023. Asset allocation and holdings subject to change.



Critically though, the uptick in growth and financial productivity has not been matched by a dramatic increase in valuation. The average free [cash flow yield](#) of the Strategy is somewhat lower than it was 10 years ago, but not excessively so, and it is acceptable considering the improving financial profile. The core premise of the Strategy – that equity markets persistently underestimate the compounding power of rare and special businesses – appears to be alive and well. We are very happy to exploit it.

### Increased accountability

The changes to the Strategy over the last decade go beyond the easily quantifiable. The growing importance of sustainability has informed our decision making. Our research has encompassed analysis of supply chains, energy intensity, plastics, water intensity, child labour and the driving influence of corporate culture. Companies are increasingly navigating complex and challenging regulatory environments where accountability to a wider set of stakeholders poses greater risk. We now hold our companies to a higher account on a range of material social and environmental issues. Not, to be clear, to force any moral agenda, but because we firmly believe that successfully negotiating trade-offs between stakeholders is an essential part of adapting to the world in which we live. The significance of these also grows with an investment horizon that is measured in decades rather than months or years. Our ESG work is therefore directly linked to our understanding of competitive advantage and the sustainability of long-term shareholder returns.

### The power of the team

We are very fortunate that Troy Asset Management has grown and thrived over the past decade, and we are proud of the global investment team that we have created. Back at the end of 2013 there were six of us and now we are an investment team of fourteen people. They have been carefully assembled for cognitive diversity, levels of experience, and complementary academic backgrounds. Our investment processes and tools

have advanced as has the depth and quality of our research. The Troy Global Equity Strategy has benefitted from valuable work by our colleagues on portfolio holdings including Agilent, RELX, LSEG, LVMH and Visa. Just as we have sought to raise the bar on the companies in which we invest for the Strategy, the team consistently looks to learn from mistakes and improve decision making.<sup>2</sup> The increased capacity of the team has allowed us to look at more companies and, more importantly, go deeper in our analysis. This gives us the confidence to invest with greater conviction and over time the Strategy has become more concentrated. There is, of course, a balance to be struck. We carefully guard our team culture, limit bureaucracy and the dangers of group think, and always seek to align with our investors' best interests.<sup>3</sup>

### The next 10 years

It is an enormous privilege to have managed the Strategy for the past 10 years. We have been on an incredible journey, and compared to when it started, the Strategy enjoys significantly stronger underlying financial characteristics, competitive advantages, and growth opportunities. As the Strategy evolves, we have maintained a keen focus on valuations and continue to see a compelling balance between the quality of the portfolio's companies and their prospective returns. Our team has grown and has raised the volume and quality of its analysis. All this leaves us excited about the next 10 years and eager to continue finding ways to improve all aspects of what we do.

We thank you for your continued support, trust, and interest in the Troy Global Equity Strategy.

Gabrielle Boyle & George Viney

January 2024

<sup>2</sup>Some of the most important lessons learnt in managing the Strategy are reviewed [here](#).

<sup>3</sup>For more detail on how we do this, see [here](#).



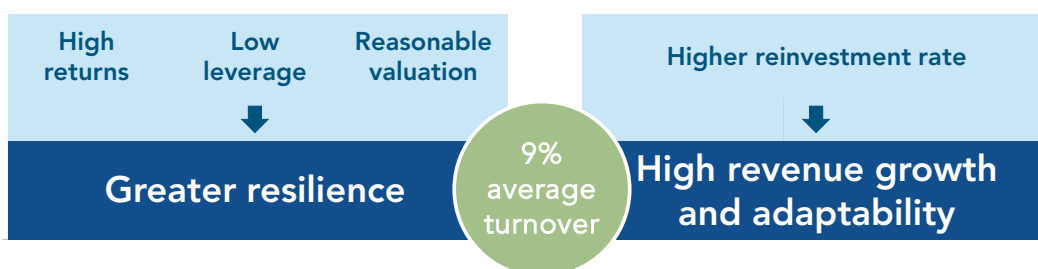
## APPENDIX I - RESILIENCE AND ADAPTABILITY

### Resilience

	FCF Margin (%)	Net Debt/ EBITDA (x)	ROIC (%)	FCF Yield (%)
Troy Global Equity Strategy	26.0	0.9	20.0	4.0
MSCI World Index NR	8.8	1.4	8.5	4.2

### Adaptability

R&D / Sales (%)	Capex / Sales (%)	Est. Sales Growth (3y fwd, %)
14.4	9.7	9.6
5.2	5.9	3.1



### Neither past performance nor projected performance are guides to future performance

Source: FactSet and Troy Asset Management Limited, 31 December 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. FCF Margin is a profitability ratio that measures a business' cash from operating activities, less capital expenditure, as a percentage of its revenue over a given period. Free Cash Flow Yield is a financial valuation ratio that divides the free cash flow a company earns against its market value. All references to benchmarks are for comparative purposes only. ROIC is a measure of financial performance that calculates how efficiently a company's management is utilising all forms of capital available. EBITDA is a ratio measuring the amount of income generated and available to pay down debt before covering interest, taxes, depreciation, and amortisation expenses. 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	+23.9%	+16.8%	+12.4%
Track record (annualised)	Trojan Global Equity Strategy	MSCI World Index NR	IA Global TR
1 year	+23.9%	+16.8%	+12.4%
3 years	+8.3%	+9.8%	+5.7%
5 years	+12.5%	+12.8%	+10.6%
Since Strategy Inception	+12.2%	+11.5%	+9.5%

### 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 December 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.



## Portfolio summary

No. of Holdings	28
Total Equity Exposure	97%
Top 10 Holdings	52%

## Sector breakdown

Financials	28%
Health Care	19%
Communication Services	13%
Consumer Staples	13%
Information Technology	11%
Consumer Discretionary	6%
Industrials	7%
Cash	3%

## Country breakdown

United States	61%
Switzerland	11%
United Kingdom	14%
Netherlands	6%
France	5%
Cash	3%

## AUM

Strategy	£653m
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## Top 10 Holdings

Alphabet	6.7%
Visa	6.3%
Heineken	5.6%
Roche Holding	5.4%
Microsoft	5.3%
Mastercard	5.2%
Fiserv	4.7%
Meta Platforms	4.6%
Experian	4.4%
Agilent Technologies	4.0%
Total Top 10	52.1%
18 Other holdings	45.0%
Cash	2.9%

## Liquidity\*

1 Day	91%
5 Days	96%
30 Days	100%

### Past performance is not a guide to future performance

Source: Factset and Troy Asset Management Limited, 31 December 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.



#### Disclaimer

Please refer to Troy's Glossary of investment terms [here](#). 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.

The information shown relates to a mandate which is representative of, and has been managed in accordance with, Troy Asset Management Limited's Global Equity Strategy. This information is not intended as an invitation or an inducement to invest in the shares of the relevant fund.

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