



Trojan Global Equity Fund Newsletter

The objective of the Trojan Global Equity Fund ("The Fund") is to deliver capital growth over the long term (at least 5 years) without taking excessive risks. We aim to do this by investing in exceptional companies with high returns on their invested capital, run by sensible management teams and sustained by durable competitive advantages and strong balance sheets. We intend to buy them at fair prices or better.

A test of character

Not knowing a pandemic was around the corner, Cambridgeshire resident Chris Kaye had the great misfortune to take over The White Horse, George's local village pub, in the winter of 2019. Visiting him at the start of lockdown a year ago, the sun shone brightly outside and Chris was glum behind the darkened bar. 'This was supposed to be the time I'd begin to make some dough'. Locals feared he would quit, but instead Chris adapted and invested. He sold takeaway fish and chips to keep the cash coming in when the pub closed its doors, and in preparation for their reopening on 12 April, he has expanded the pub's offering. He hired an Italian chef, bought good quality garden furniture, and installed a fancy outdoor pizza oven. Chris is optimistic about the future.

There is nothing like a crisis to reveal character, in both individuals and the businesses they run. We deliberately prefer companies managed for the long term. This preference sounds like an obvious one (who says they want to invest in companies run for the short term?), but it is hard to satisfy when so many companies are under tremendous pressure to optimise for the next year or two. Priorities become clearer when the year in question is as disturbing as

the one we've just had. The result is a rich seam of information about the depth of corporate strategy and purpose. We are encouraged by how our companies have behaved. Agilent Technologies, a specialist manufacturer of instruments for the global life sciences industry, took early measures to guarantee the jobs and incomes of its employees as their customers' research labs closed and competitors made cutbacks. It scaled up investment in research and development (R&D), even as sales slipped, and stayed close to customers and prospects via digital channels. These actions kept the company on the front foot and led to significant market share gains across its core product offerings when labs reopened and demand recovered. In its latest set of quarterly results, Agilent recorded its fastest rate of quarterly revenue growth in more than five years.

Facebook also sought to invest aggressively at the start of the pandemic despite the sharp slowdown in advertising revenues. It continued to hire thousands of engineers and accelerated its development of products that help small businesses transition to selling online. In April 2020, with the world in lockdown, Facebook invested \$5.7bn in Jio Platforms Limited, the Indian mobile service provider. The investment is part of a strategic partnership to integrate Facebook's properties, including WhatsApp and Instagram, into a hub of services aimed at bringing India's more than 60m small businesses online.

"I've always believed that in times of economic downturn, the right thing to do is to keep investing and building for the future."

Mark Zuckerberg, Facebook CEO & Chairman
Q1 2020 Earnings call



In taking these decisions, Facebook's management could not be sure whether the pandemic would have a lasting impact on its financial performance. As it turned out, Facebook's business came back with a bang as usage surged and small businesses flocked online. Compared to 2019, ad revenues recovered from down in March and flat in April, to up over +30% in the final quarter, the fastest rate of quarterly revenue growth in two years.

Strength in adversity

An intent to invest is one thing; capacity to do so is another. Our research process is designed to uncover companies that combine far-sighted management with resilient and exceptional financial productivity. They were free to invest through the crisis because the vast majority of them remained highly cash generative and maintained strong balance sheets. The weighted average cash flow characteristics for the portfolio have never been so good (see **Appendix I**).

In only a few instances have our companies suffered greatly because of the pandemic. Crucially, in each case we see them widening their competitive advantage. For Heineken, bars and restaurants closed around the world leading to substantial declines in revenues and profits. However, volumes of its strategically important namesake beer brand, which accounts for ~19% of the group's total, were approximately the same in 2020 as they were 2019. Heineken grew its overall share of the beer market in most of its major markets. Booking Holdings, the owner of online travel agent booking.com, experienced a sharp and sustained drop-off in business because of global travel restrictions. For the year as a whole, however, the company still generated positive operating cash flows and it has minimal net debt on its balance sheet. This compares to Expedia, its closest rival, which burnt through \$3.8bn in negative operating

cash in 2020 and has \$5.5bn in net debt. We believe that the comparative strength of Booking's position should result in substantial market share gains when travel restrictions are lifted.

"I am more confident than ever in our long-term future. And we will, at some point, see a strong recovery in travel demand. I firmly believe that our company is very well positioned to capture this demand as it comes back. In the meantime, we will focus on what we can control. Namely, investing in our business and executing against our strategic priorities to ensure we exit this crisis on a strong footing, which will enable us to build a larger and faster-growing business over the long run."

Glenn Fogel, Booking Holdings CEO,
Q4 2020 Earnings call

It would have been easy to abandon the likes of Booking and Heineken in favour of companies less impacted by the pandemic. We have instead added to the Fund's holdings because we see them focussed on building their competitive strengths. It is vital for us, as long-term investors in their shares, to keep the same perspective.

The power to innovate

We have written many times in these newsletters about how technological disruption is a defining feature of our times. The portfolio is aligned to companies that are beneficiaries of this change whilst seeking to avoid those at its mercy. These choices go beyond an understanding of technological forces. They are also informed by a deepening appreciation of companies' own capacity for innovation. We firmly believe that the companies best placed to create lasting value for all stakeholders are those that are willing and able to solve their customers' problems



and meet customers' changing expectations. This is an abiding lesson from having invested in Microsoft for more than a decade. Even in its darkest days, Microsoft retained its engineering talent and the commercial muscle to sell new products to a growing base of customers. The astonishing pace and depth of Microsoft's innovation is essential in replacing legacy lines of business as well as creating new opportunities. Whilst the Windows franchise conspicuously failed to extend its dominance into mobile devices, Microsoft redesigned the Office suite for the cloud era and developed the Azure platform from the ground up. We cannot predict all the ways Microsoft's markets will change over the next decade, yet the company's scope for self-renewal and expansion gives us confidence that change will be to its advantage.

Our growing appreciation for internal innovation has driven investment decisions across the portfolio. It partly explains the Fund's final sales of Sage (in July 2019) and Johnson & Johnson (J&J, in February 2021) since both companies have relied heavily on acquisitions for innovation. One reason why Troy has always reserved scepticism for highly acquisitive companies is that it is hard to do well for long by purchasing creativity rather than nurturing it natively. Our bias towards home-grown innovation also explains our continued investment in Medtronic and Roche, even though neither have delivered spectacular returns to shareholders over the past five years. Medtronic places product engineering at the heart of its business culture and strategy. Medallions are issued to its more than 11,000 scientists and engineers as a symbol of their mission to create medical devices that 'alleviate pain, restore health and extend life'. The good news for patients is that after several years of reinvestment Medtronic's diverse product pipeline is one of the most exciting and innovative in the company's history. Its new CEO, Geoff Martha, has also

reorganised and reinvigorated its commercial practices to ensure that Medtronic's technical advances reach their fair share of patients. We expect Medtronic's growth trajectory to sustainably improve after elective surgical procedures fully recover from the pandemic.



Source: Google Images

Roche is another company undeterred by short-term impacts on its business. Over the last few years, Roche lost billions in sales to generic competitors as the patents for its three largest drugs expired. Remarkably, however, the company has offset this competitive pressure through the development of new drugs that have redefined the treatment of multiple sclerosis, haemophilia and oncology. The pandemic reduced the flow of patient visits to doctors and hospitals in 2020, and this, combined with severe currency headwinds, has dented Roche's sales. Nevertheless, the company grew its Pharma R&D spending by CHF800m, or +8%, funding an industry-leading late-stage pipeline of new drugs that has 19 new molecular entities, almost double the number three years ago. Meanwhile, Roche's diagnostics division plays a major role in the battle against covid-19. Roche has invested more than CHF600m to expand production capacity for the 15 new covid-19 tests it has developed in record time. Once current pressures on its business ease, we expect the enduring strength of Roche's internal innovation to be visible in improving revenue trends.



Focus on the few

This has been an extraordinary twelve months with extreme divergence between economic realities and stock market performance. Companies have had to cope with an unprecedented array of operational challenges and all the while share prices have climbed higher. The positive stock market backdrop has given us the opportunity to focus our investments even further on those companies that combine the rare set of qualities we seek - sustainably strong financial characteristics, structural growth, long-term thinking, resilience and a culture of innovation. Exits from the Fund have included the residual tobacco holdings as well as long-held investments in J&J and Colgate. All have struggled to grow and innovate from within. The Fund acquired a holding in financial information services company S&P Global in April last year, and its peer Moody's was added in January 2021. The net effect of this activity is to reduce the Fund's number of holdings, which currently stands at 26. We believe this strikes the right balance between maintaining a diversified portfolio of companies drawn from different industries and ensuring the

Fund's investments carry the full weight of our conviction.

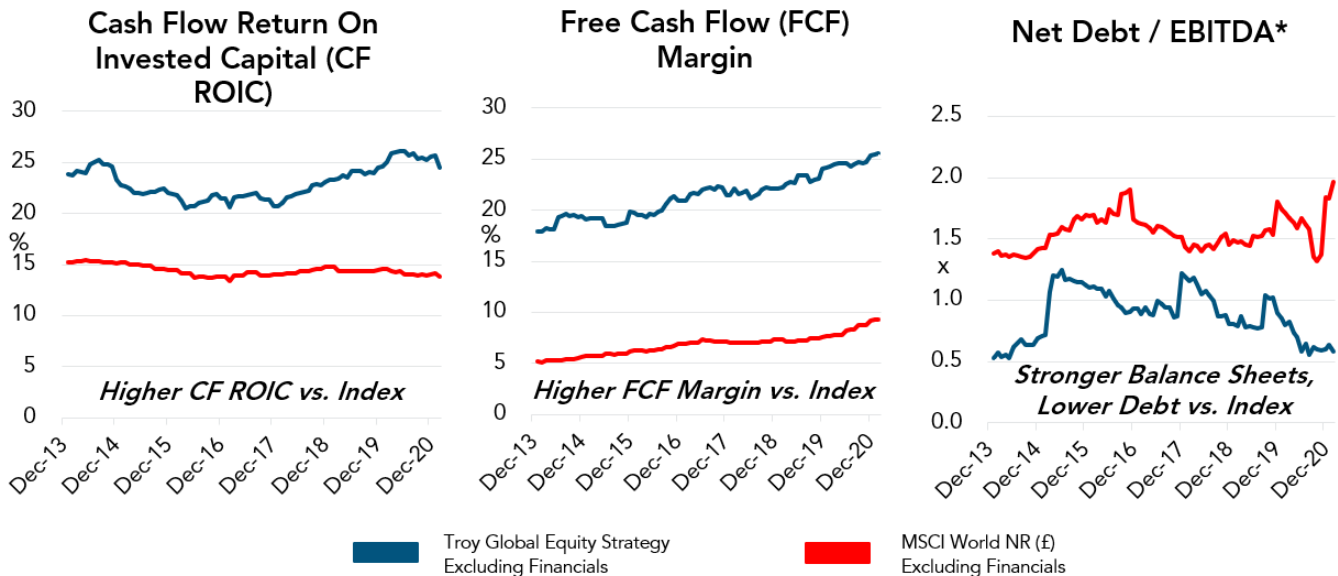
Looking to the future

As we move on from the worst ravages of the pandemic, the stock market outlook is as fascinating and as challenging as we have seen in many years. The cacophony surrounding 'value versus growth' and many fashionable macro-economic debates does little to inform our stock analysis. Instead, we concentrate our research efforts on a small subset of highly profitable companies. They enjoy durable competitive advantages and large opportunities for growth, led by stable management teams that are facilitating and adapting to the digital change that surrounds us all. We remain sensitive to valuations, and if the stock market's rotation towards more cyclical companies continues, we would expect to have the opportunity to pay attractive prices for companies we have long studied and coveted.

Gabrielle Boyle & George Viney
March 2021



Appendix I – Historic Cash Flow Characteristics



Past performance is not a guide to future performance.

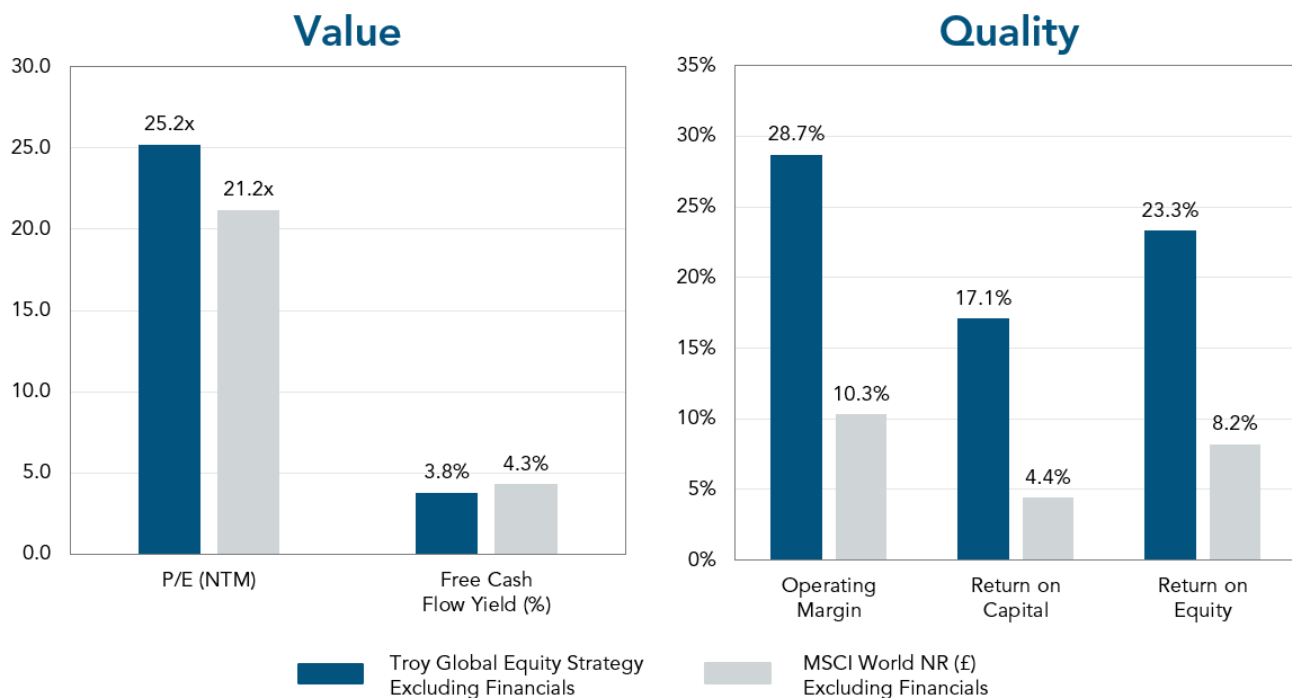
Troy Global Equity Strategy vs MSCI World Index (Ex-Financials) NR (£); 31 December 2013 – 28 February 2021

Source: Factset, 28 February 2021. All references to benchmarks are for comparative purposes only. The information presented shows the performance of a UK UCITS, the assets of which are, and have been managed in accordance with Troy Asset Management Limited's Global Equity Strategy.

Definitions:

- Cash flow Return on Invested Capital is defined as corporate operating cash flow as a percentage of average invested capital, where average invested capital is the summed average of total shareholder equity and long-term debt.
- Free Cash Flow Margin is defined as corporate operating cash flow less capital expenditures, expressed as a percentage of sales.
- Net debt / EBITDA is a commonly used ratio to express corporate financial leverage. Net debt is total debt less total cash. EBITDA is earnings before interest, tax, depreciation and amortisation.

Appendix II – Valuation and Returns



Source: FactSet, 28 February 2021. Characteristics are shown excluding Financials. 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.



Appendix III – Performance Statistics

| Performance | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 YTD | 1 Year | 3 Year Ann.* | 5 Year Ann.* |
|-----------------------------|--------|--------|--------|--------|-------|--------|--------|----------|--------|--------------|--------------|
| Troy Global Equity Strategy | +15.0% | +12.3% | +19.2% | +13.2% | +1.1% | +24.6% | +13.5% | -1.1% | +16.4% | +12.8% | +13.4% |
| MSCI World NR (£) | +11.5% | +4.9% | +28.2% | +11.8% | -3.0% | +22.7% | +12.3% | -0.7% | +18.2% | +10.2% | +14.0% |
| IA Global TR | +7.5% | +4.1% | +24.4% | +13.8% | -5.6% | +22.1% | +14.8% | +0.4% | +22.8% | +10.2% | +13.9% |

Past performance is not a guide to future performance.

*Annualised Return

Source: Lipper – O Accumulation shares total return net of fees since launch to 28 February 2021. All references to benchmarks are for comparative purposes only. The Trojan Global Equity Fund became a constituent of the IA Global Sector from April 2012. Previously, the Fund was in the IA Flexible Investment Sector from launch.



| Portfolio Summary | |
|-----------------------|-----|
| No. of Holdings | 26 |
| Total Equity Exposure | 98% |
| Top 10 Holdings | 57% |
| Top 20 Holdings | 88% |

| Sector Breakdown | |
|-------------------------|-----|
| Information Technology | 33% |
| Health Care | 23% |
| Consumer Staples | 13% |
| Communications Services | 13% |
| Financials | 8% |
| Consumer Discretionary | 5% |
| Industrials | 3% |
| Cash | 2% |

| Top 5 Contributors Over 1 Year | Contribution to Return* | Total Return |
|--------------------------------|-------------------------|--------------|
| PayPal | +5.5% | +119.8% |
| Microsoft | +2.7% | +32.0% |
| Alphabet | +2.3% | +37.9% |
| Facebook | +1.2% | +22.3% |
| Agilent Technologies | +1.1% | +45.5% |

| Bottom 5 Contributors Over 1 Year | Contribution To Return* | Total Return |
|-----------------------------------|-------------------------|--------------|
| Fiserv | -0.2% | -3.6% |
| Unilever | -0.3% | -7.3% |
| Heineken | -0.4% | -8.8% |
| Experian | -0.4% | -11.1% |
| Wells Fargo | -0.7% | -17.3% |

| AUM | £m |
|----------|-----|
| Strategy | 476 |
| Fund | 371 |

| Top 10 Holdings | |
|------------------|------|
| PayPal | 7.9% |
| Microsoft | 7.7% |
| Alphabet | 7.5% |
| Visa | 5.9% |
| Facebook | 5.6% |
| American Express | 5.2% |
| Medtronic | 4.5% |
| Roche Holding | 4.3% |
| Novartis | 4.1% |
| Mastercard | 3.9% |

| Country Breakdown | |
|-------------------|-----|
| North America | 70% |
| Europe | 19% |
| UK | 9% |
| Cash | 2% |

| Liquidity [#] | |
|------------------------|--------|
| 1 Day | 96.6% |
| 5 Days | 98.9% |
| 30 Days | 100.0% |

Source: Factset and Troy Asset Management Limited, 28 February 2021. 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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