Trojan Global Equity Fund Newsletter

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

Two big disruptive trends[1]

More than a year and a half into the pandemic, now is as good a time as any to take stock of where we stand and the challenges that lie ahead. There are many issues for us to consider in the near term – new COVID-19 variants, Chinese growth, and the prospects for global inflation, all easily come to mind. These are significant subjects and we are thinking carefully about how the Fund may negotiate them. For now, however, they are overwhelmed by two powerful forces that inform everything we are doing as global equity investors. Our response to them is important for the Fund's investors to understand.

The first disruptive force to reckon with is that of technological change. In Appendix I, we show the adoption of e-commerce in the UK and US as a percentage of retail sales. We could have highlighted other manifestations of this wider trend; cloud computing, digital advertising or digital payments, to name a few. What they all reflect is the abundance of cheap computing and the transformative effect that this is having on economies everywhere. Whilst the digitisation of commerce took a giant leap forward due to the effects of pandemic, it is remarkable to us that it remains in its early phases. Amazon Web Services was launched in 2006 and the first iPhone came out the following year. Many years later and the world is still coming to terms with billions of people carrying around high-powered and connected computers in their pockets. Only ~20% of US retail takes place online. The same is true for cloud computing where, according to a recent survey, around a quarter of all enterprise software is consumed in the cloud. Technological change will continue to play out over the next decade and beyond, providing a durable opportunity for growth and defining future investment returns.

"This macro tailwind of digitalisation playing out and globalisation [is] *in full force. If you'd asked me, I'd probably thought that would start levelling off, but my view now is maybe we're looking at another decade or two… I was probably too short-term focused on just thinking, "Well, it's kind of obvious," but then if you think about the overall economy, how much of that is digital, it's still very, very small. It's still very early days."*

Daniel Ek, founder and CEO of Spotify on the *Invest Like the Best* podcast, September 2021

Over the last five years, we have deliberately aligned the portfolio to digital trends in a way that is consistent with Troy's investment process. This consists of investments in companies which we consider to be at the forefront of change, such as Facebook, Intuit, PayPal and Experian – the leaders in digital advertising and e-commerce, business

[1] We recently recorded a webinar which covers some of the same ideas as this Newsletter. The webinar and accompanying slides can be accessed here.

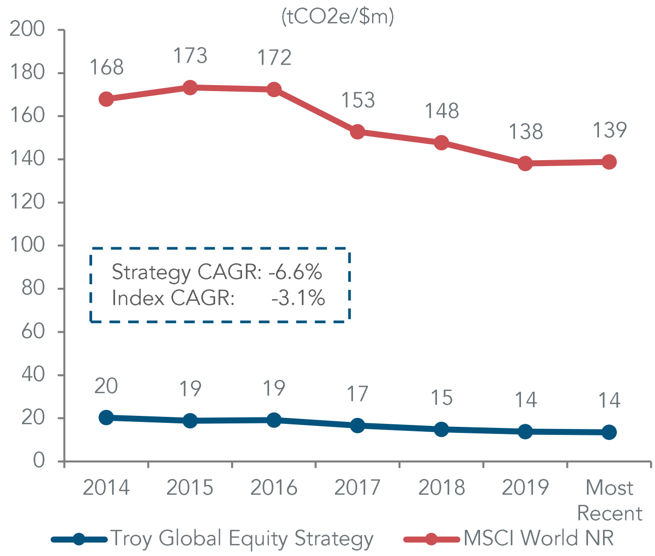
software, digital payments, and data services. These four sectors collectively represent about two-thirds of the Fund's assets. The remaining third are companies in more traditional consumer goods and healthcare sectors which are using technology to transform their organisations. L'Oréal and Roche, both over 100 years old, are two examples from this group. Whether old or young, the degree to which companies align themselves with the broad tailwinds of digitisation will inform our stock selection and portfolio construction for the foreseeable future.

The other major and unstoppable force to align with is the rise of environmental, social and governance ("ESG") considerations. Consumers, regulators and investors are demanding that companies take greater responsibility for their social and environmental impact, changing the nature of business and financial analysis in the process. Like tech change, ESG investing is an inescapable development that brings with it risks to manage and opportunities to explore. Whilst everyone is on a journey together, there are no prizes for being slow. Our approach over the past five years is to integrate ESG analysis deep into what we do as an investment team. That covers research, monitoring, engagements and voting and it continues to evolve.

We believe that meeting changing societal and environmental expectations will be essential for long-term investment success, both for companies and their investors. Businesses with the capacity and willingness to invest behind a greener, fairer future will enjoy a competitive advantage in the years to come and a growing share of global GDP. Employees will want to work for them. Consumers and suppliers will want to do business with them. In exchange, companies will be required to deliver impact with integrity, just as they already are in financial matters. We will continue to see increased and expanded disclosure initiatives by standard-setting bodies. There is now both a professional and personal imperative to do – and be seen to do – the right thing.

We aim to invest in companies that have both the determination and the financial firepower to lead. We are in the early stages of this, where promises are made rather than delivered. There are a broad set of issues to address. It is, however, heartening that a portfolio company as big and as influential as Microsoft has committed to remove all the carbon the company has ever emitted since it was founded in 1975. We have a structural focus on companies, like Microsoft, which make low use of physical assets and which are well-run for the long-term. The carbon intensity of the Fund – measured here as carbon emissions per dollar of sales – is just ~10% of that of the world index. And it is in decline.

<u>Weighted Average Carbon Intensity Trend of Current Holdings</u>



Past performance is not a guide to future performance

Source: MSCI, Troy Asset Management Limited, 30 June 2021.
Asset allocation and holdings subject to change.

This is good to see, but it is not enough. Just because the companies in which we invest are a smaller part of the overall climate problem doesn't mean that they cannot, or will not, play their part. There is a huge amount of work to do and as allocators of capital we must facilitate accelerating change. Troy itself is a recent signatory to the Net Zero Asset Managers Initiative where we commit to aligning our portfolios to the terms of the Paris Agreement. So far, over 80% of our portfolio companies have public targets to meet this goal or explicit commitments to publish targets soon. For the five out of the Fund's 27 holdings that are behind, we are actively engaging for greater disclosure, science-based targets and comprehensive carbon reduction plans.

Redefining sustainable competitive advantage

Our focus on the two forces described above is about making sure that the portfolio is fit for the distant future. One aspect of our response is to own business models aligned with these trends. Another is making sure management are adapting to them quickly and effectively. We never lose sight of the people that stand behind financial results. Companies must manage the often competing interests of their stakeholders if they are to remain relevant. This starts with having a sound understanding of the people that they serve. The financial software company Intuit regularly visits its customers in their own homes or offices to survey their biggest problems. They then methodically create products aimed at solving them.

Second, companies need a culture that continuously invests behind a long-term vision. The sales trajectory of Nestle's *Nespresso* brand has followed the shape of an ice-hockey stick. It took 20 years for the brand to reach CHF1bn in sales and then in the subsequent 14 years, sales leapt from CHF1bn to CHF6bn. That takes significant resources – both financial and managerial – and a culture for building things that are meant to last. At the same time, companies cannot be too dogmatic and must be ready to move their business models to adapt to change. With the launch of their 'Sustainable Living Plan' in 2010, Unilever was one of the first multi-national consumer goods businesses to put sustainability at the heart of its strategy. A decade on, and many of its peers are only beginning to follow suit just as concern for the environment becomes a more mainstream subject.

Finally, companies need to demonstrate that they generate surplus for others. Visa is a great example of this. All the time we've followed the company, fintechs have been cast as a competitive threat – ranging from digital wallets (such as Apple Pay or PayPal), digital currencies (such as Bitcoin or Ethereum) or closed-loop networks (such as buy-now-pay-later providers, Klarna and Afterpay). And yet each of these players has ended up partnering with Visa because the global distribution of its network enhances value for all its participants – consumers, merchants and banks.

Stretching internal benchmarks for self-improvement

Each of these four criteria – serving people, a long-term vision, adaptability, and the sharing of value – can combine to sustain and expand competitive advantage far into the future. The strategic and cultural aspects of this are hard for investors to observe. They only surface in the course of our deep research and long holding periods. The financial results are easier to measure. Appendix II shows that the Fund's weighted average financial characteristics have improved across all measures - cash flow return on invested capital, cash margins, and indebtedness (as captured by net debt to EBITDA). This is not something we have explicitly targeted. Rather, it is an outcome of countless decisions on individual investments where we ask ourselves, will this choice improve the financial health of the portfolio? It also results from using the Fund's weighted average financial characteristics as our own internal benchmark, thereby helping us work towards improving on the very high-quality companies we already have.

The Fund's improving financial metrics reflect steady, underlying change in the portfolio. Portfolio turnover remains low at ~8% p.a. over the last three years, but through a mixture of market movements and more active capital allocation decisions, the Fund's holdings have consolidated. The head of the portfolio is larger as its top holdings outperform and we remain confident that these represent the very best of the companies we favour. Allowing our 'winners to run' is a vital part of capturing the compounding power of some of the world's finest companies. At the same time, the tail of the portfolio is shorter than before because all our companies are held to rising standards. We sold longstanding investments in Sage (exit completed in July 2019), Coca-Cola (January 2020), Procter & Gamble (March 2020), Colgate-Palmolive and Johnson & Johnson (both January 2021). These have improved the focus of the Fund whilst elevating its profile for capital efficiency, growth and ESG. The tail of the portfolio is less a departure lounge for tired ideas, and more an antechamber for newer holdings. Moody's (first purchased in January 2021) and Take-Two Interactive Software (April 2021) are recent examples of the latter.

But what about valuation?

The question about valuation will not go away. It is reasonable to ask it when global equities have performed as well as they have (with big bumps along the way) and for so long. There are lots of very richly valued companies in the market and our framework for risk management is designed to steer clear of the most extreme examples. For the companies in which we have invested, we think valuation re-rating has been less influential than is often assumed. Take Alphabet, the Fund's largest holding and the largest contributor to the Fund's returns so far this year. The Fund has owned shares in the company continuously for almost eight years. It is remarkable that the free cash flow (FCF) yield today is roughly what it was when the Fund first became an investor back in December 2013.[2] Meanwhile, the growth in FCF per share has exactly matched the total return from the shares over that period. Both have grown at a very healthy +23% *per annum*. The clear implication is that it is FCF, not valuation, which has driven outstanding results for Alphabet's shareholders

We see Alphabet as representative of two essential things for the Fund and its investors. First, growth of FCF has driven the majority of the Fund's returns since the strategy's inception. We expect it to remain the driving force of future long-term returns. Second, Alphabet is a prime example of a company that is chronically underestimated. Microsoft, Visa and Facebook exhibit the same phenomenon. They are commonly regarded as above average companies, but to us this is like identifying Lionel Messi as an above average footballer, or Mozart as an above average composer. They are so much better than the average that they hardly compare at all. And it is this popular misconception – where excellence goes underappreciated and undervalued – that creates the persistent inefficiency the strategy is designed to exploit.

Regulating Big Tech

One reason why we think there has been a continuing opportunity in the likes of Alphabet is because of the high-profile risk posed by tougher regulation. This is where the twin forces of tech change and ESG collide. It's also a fine example of why we think ESG considerations are essential and inseparable elements of business analysis. However, tech regulation is not an easy subject. It is also an undoubted negative development for these

[2] Free Cash Flow (FCF) is defined as corporate operating cash flow less capital expenditures. FCF yield – a proxy for value – is FCF expressed as a percentage of enterprise value.

companies, from which they cannot hide, as the costs are counted even before regulation is enacted. These include reputational damage, internal distraction, legal and compliance expense, and restrictions placed over large-scale mergers and acquisitions. Yet there are also mitigating circumstances to consider. There are, for instance, real trade-offs between regulatory objectives. Solutions for anti-trust often run aground on data privacy concerns. Content moderation conflicts with freedoms of speech. It will take time for regulation to implement and the companies can use this time to offer remedies, invest, and adapt. It is in their interests to do so. Ultimately, the impact of any regulation will come down to its enforcement and consumer preference. These services remain wildly popular with billions of consumers all around the world. Even in the most extreme scenarios, it is hard for regulation alone to change this.

Tech regulation is an area of priority for our research. The issues are complex and unpredictable, and we must be prepared to change our minds as the legal and political process unfolds. On balance, and at this point, we believe the risks – whilst real – are manageable and outweighed by the enormous opportunities from digitisation, highlighted earlier. As a result, Alphabet and Facebook remain amongst the Fund's highest conviction holdings.

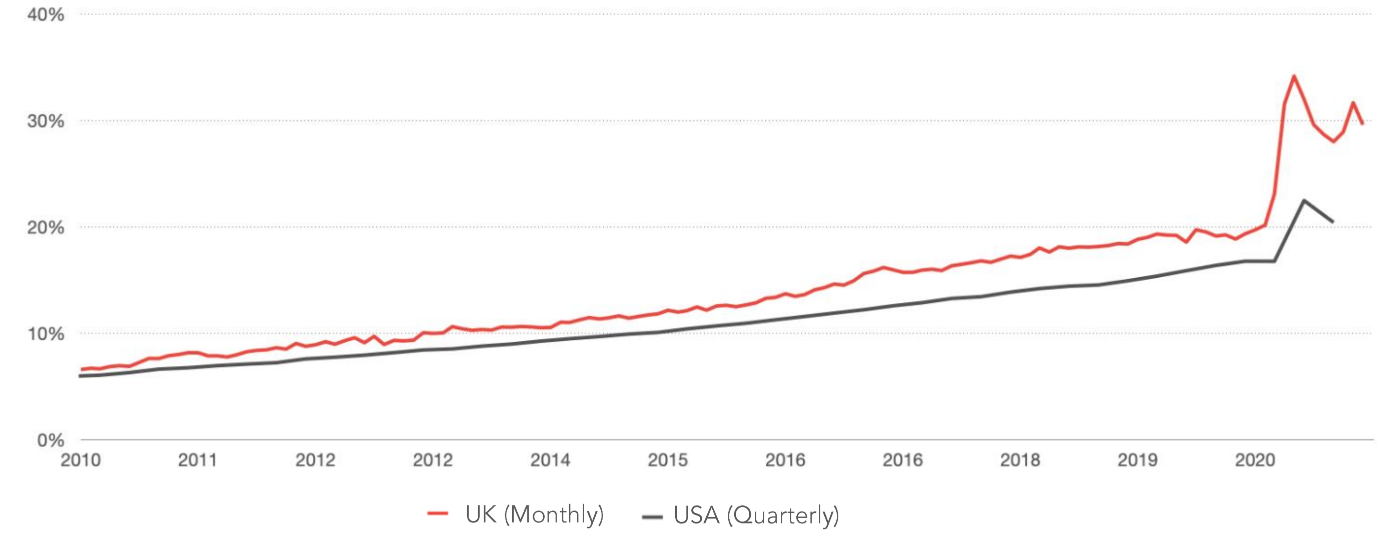
A process of continuous adaptation

It is tempting in investing – and life – to perceive a static world and act according to a cosy routine. The reality is never so accommodating. We separate the principles of our investment approach from their application. Our principles are timeless and as relevant today as they were when Troy was founded over 20 years ago. They are based on the simple idea that superior and well-run companies, reasonably valued, can drive long-term outperformance for their owners. Low turnover and long holding periods then capture the compounding cash flows of these rare businesses. It is, however, the application of our investment process that must be constantly reinterpreted in response to the changes we observe. Indeed, the willingness to adapt is entirely consistent with Troy's natural risk aversion. Those that fail to evolve risk being left behind.

We go about this from a position of strength. The companies in which we invest are asset-light, extremely cash generative and managed in such a way that is alert to disruption. They have the business models and corporate cultures to adapt to a changing regulatory and commercial environment, and they stand to benefit from several powerful digital trends which still have a decade or more to play out. Troy's investment process is also flexible enough to incorporate the deep integration of newer ideas, data and methods, including those related to ESG. We recognise that there is always room for improvement, and by setting ourselves stretching internal benchmarks we aim to improve on the already high standards set by the portfolio. This has resulted in consolidation of the Fund's holdings and greater conviction placed in the portfolio's top investments. We are mindful that equity valuations have generally risen markedly over recent years, which is likely to add to short-term market volatility. We've sought to avoid the market's worst excesses by owning businesses that we believe are reasonably valued in light of their exceptional qualities. As a result, we continue to expect growth in FCF to be the primary driver of the Fund's long-term returns.

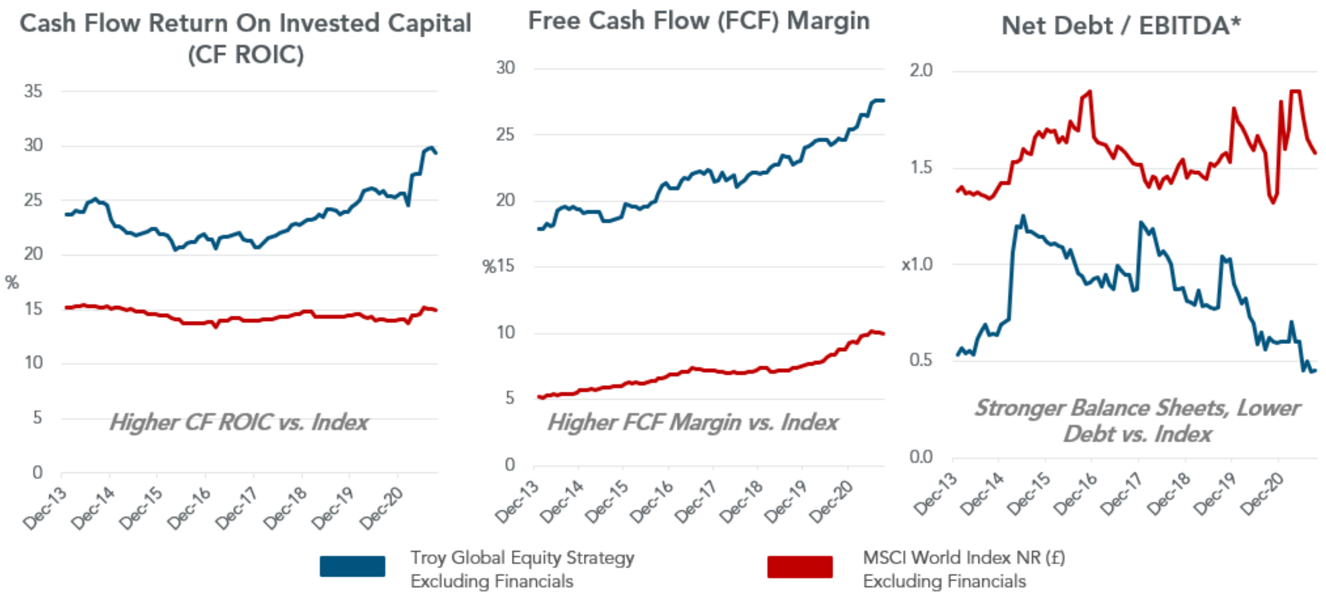
Gabrielle Boyle & George Viney
October 2021

Appendix I – Ecommerce as a share of addressable retail*



* Ex. Cars, car parts, fuel, bars & restaurants. Seasonally adjusted. Source: Benedict Evans, January 2021.

Appendix II - Historic Cash Flow Characteristics



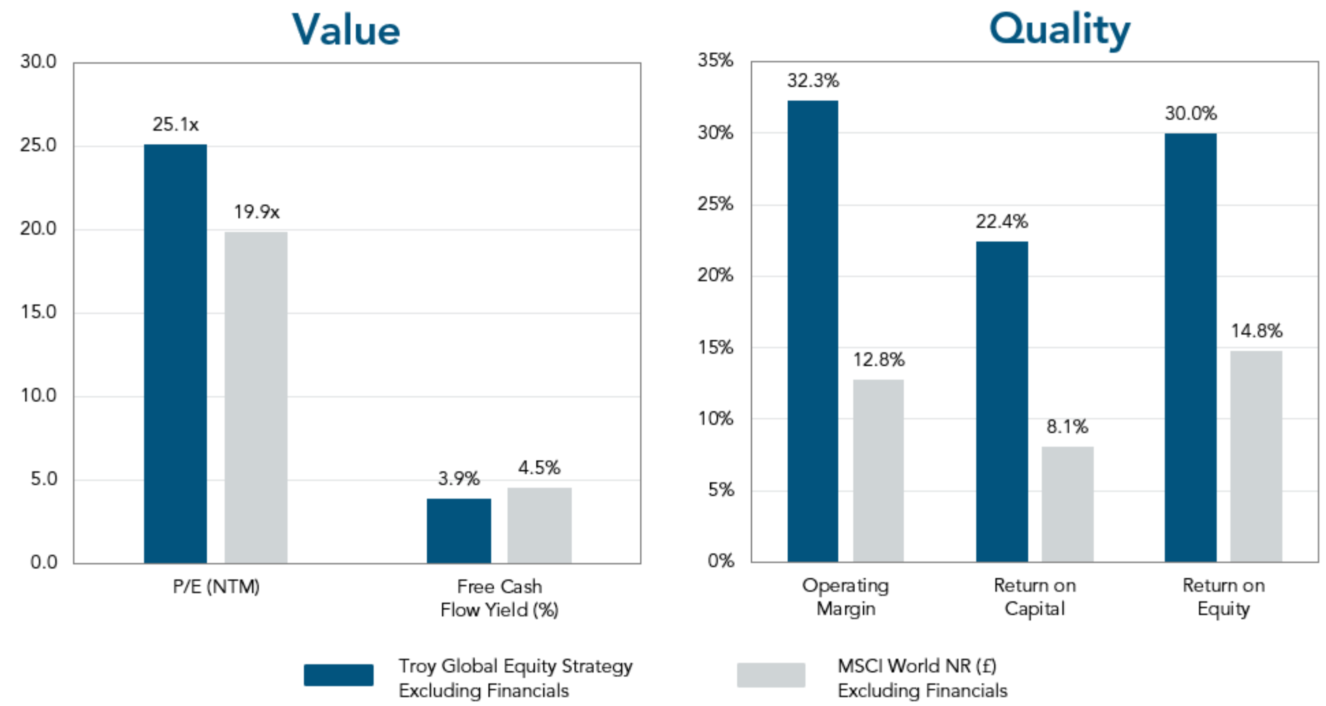
Past performance is not a guide to future performance

Troy Global Equity Strategy vs MSCI World Index (Ex-Financials) NR (£); 31 December 2013 – 30 September 2021
Source: Factset, 30 September 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 III – Valuation and Returns



Source: FactSet, 30 September 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 IV – 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%**	**+17.7%**	**+22.1%**	**+15.4%**	**+14.2%**
MSCI World NR (£)	+11.5%	+4.9%	+28.2%	+11.8%	-3.0%	+22.7%	+12.3%	+14.6%	+23.5%	+11.9%	+12.9%
IA Global TR	+7.5%	+4.1%	+24.4%	+13.8%	-5.6%	+22.1%	+14.8%	+12.7%	+23.3%	+11.8%	+12.4%

Past performance is not a guide to future performance.

*Annualised Return

Source: Lipper – O Accumulation shares total return net of fees since launch to 30 September 2021. 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	27
Total Equity Exposure	99%
Top 10 Holdings	57%
Top 20 Holdings	87%

Sector Breakdown	
Information Technology	32%
Health Care	21%
Consumer Staples	13%
Communications Services	17%
Financials	8%
Consumer Discretionary	5%
Industrials	3%
Cash	1%

Top 5 Contributors Over 1 Year	Contribution to Return*	Total Return
Alphabet	+4.6%	+74.9%
American Express	+2.6%	+61.7%
Microsoft	+2.2%	+29.3%
PayPal	+2.0%	+26.6%
Intuit	+2.0%	+59.2%

Bottom 5 Contributors Over 1 Year	Contribution To Return*	Total Return
Nestlé	-0.1%	-1.0%
Take Two Interactive	-0.1%	-10.6%
Novartis	-0.2%	-6.9%
Reckitt Benckiser	-0.4%	-20.6%
Unilever	-0.4%	-13.1%

AUM	£m
Strategy	613
Fund	437

Top 10 Holdings	
Alphabet	8.7%
Microsoft	8.2%
Facebook	6.5%
PayPal	6.1%
Visa	5.4%
American Express	4.8%
Intuit	4.4%
Medtronic	4.3%
Roche Holding	4.2%
Mastercard	4.0%

Country Breakdown	
North America	72%
Europe	18%
UK	9%
Cash	1%

Liquidity#	
1 Day	94.2%
5 Days	98.5%
30 Days	100.0%

Source: Factset and Troy Asset Management Limited, 30 September 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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