Issue 81

US Equity Fund

Quarterly Newsletter – September 2021

MAJEDIE
Asset Management

Fund Manager

Adrian Brass

- 26 years' investment experience
- Joined Majedie Asset Management in June 2014
- Managed the US Equity Fund since inception
- Co-managed the Global Equity Fund and the Global Focus Fund since inception

Co-Fund Managers

Hong Yi Chen

- 11 years' investment experience
- Joined Majedie Asset Management in September 2010
- US Equity Fund Analyst since November 2014 and Co-Fund Manager from January 2021

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- US Equity Fund Analyst since January 2016 and Co-Fund Manager from January 2021

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Overview

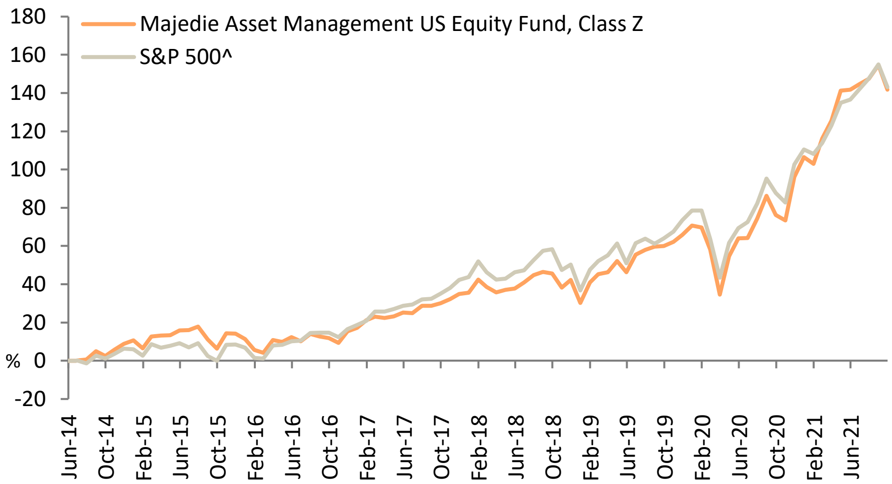
The Fund

- The US Equity Fund is a high conviction portfolio, which invests at least 80% of net asset value in US equities.
- The US Equity Fund is an Ireland domiciled OEIC.

Objective

- The Fund aims to produce capital growth over the long term through investment in a diversified portfolio of primarily US equities.

Fund Performance *(to 30 September 2021)*



Source: Majedie, USD, net of fees. Inception 26 June 2014.

FUND PERFORMANCE (%) *(to 30 September 2021)*	1 MONTH	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION
Z Accumulation (USD)	-5.1	-1.2	37.2	18.4	16.7	141.7
S&P 500 Net^	-4.7	0.5	29.4	15.4	16.2	143.1
*Relative (for Z Acc (USD))^*	*-0.4*	*-1.7*	*+7.7*	*+3.0*	*+0.4*	*-1.4*

DISCRETE YEARS (%) 12 MONTHS ENDING:	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	DEC 20	SINCE INCEPTION (P.A.) *(to 30 September 2021)*
Z Accumulation (USD)	0.8	5.1	15.7	-4.0	31.1	21.0	12.9
S&P 500 Net^	0.7	11.2	21.1	-4.9	30.7	17.8	13.0
*Relative (for Z Acc (USD))^*	*0.0*	*-6.1*	*-5.4*	*+0.9*	*+0.4*	*+3.3*	*-0.1*

Source: Majedie, USD, net of fees. Inception 26 June 2014. GBP share classes are also available.
^For reference only

Majedie US Equity Fund
QUARTERLY NEWSLETTER
FOR THE QUARTER ENDING 30 SEPTEMBER 2021

When a dollar is no longer a dollar

In a sign of the times, Dollar Tree, the discount retailer, with sixteen thousand stores across North America, in September announced its intention to rebrand stores to Dollar Tree "Plus". Having been known to their customers since 1993 for offering all goods below $1, from hereon they will offer goods at higher price points. Clearly the retailer took the view that the highest producer price inflation in decades is potentially here to stay, forcing them to break the symbolic $1[1].

Clearly they are not alone in their view. The Federal Reserve Chairman Jerome Powell's nuanced dropping of the word 'temporary' from his recent assessment of inflation has added fuel to the raging debate over whether the inflation rate will soon return to the Fed's 2% goal. Should the Fed fear that inflation is more permanent, then they may be forced to move to bring an end the economic rebound party, through speeding up tightening faster than expected.

The quarter certainly presented many surprises with 10-year Treasuries yields recording one of their biggest jumps of the year, natural gas prices spiking over 30% in a month, and some measures of inflation showing the highest readings in decades. Supply chain disruption is clearly a big issue putting pressure across the breadth of the economy. Figure 2 below shows the huge spike in mentions of the words "inflation"," supply chain" or "shortage" in recent earnings calls. This is a crucial issue to navigate as investors, since it is having a multi-faceted impact. In some cases from not being able to meet sales demand through labour or component shortages, through to cost pressures from shipping, component or labour tightness. Most companies appear to be warning that the issues will last into 2022, however, anecdotally, to the extent they have a crystal ball, many management teams express hope of imminent improvement. This is both a risk we consider for our companies, as well as having provided an opportunity with many that have seen their share prices already impacted by their supply chain issues (**Hasbro**, **Vertiv** through to **US Foods**).

This mismatch in supply and demand is being caused not just by the aftershocks of the periodic production closures during Covid, but also by the generous fiscal giveaways, which unlike any recession in the past, 'made consumers good' during the downturn.

This led to a dramatic spike in spending on durables from cars, through to homes, furniture, and household goods such as fridges and computers likely to a level that has brought forward demand. On the flipside, spending on services, and in particular leisure, is still either depressed or below trend versus 2019, offering substantial recovery potential as normalised life returns, and consumers shift their spending from goods to experiences. Incidentally, the Fund is well positioned for this, with many of our holdings likely to benefit from post-Covid normalisation.

Performance commentary

The Fund declined 1.2% in value during the quarter (Z share class, net of fees, USD), compared to the 0.5% rise in the S&P 500 Net Index. This underperformance was due in particular to the strong positive contributions from **Gartner** and **Aon** being more than offset by weakness in **Altice** and **Frontdoor**.

To begin with the positives, Gartner, the research services provider, reported significantly higher margins than expected, as recovering revenues post-Covid drove high incremental margins. The company has executed impressively over the past year, as their research has been highly valuable to clients during a period of elevated business disruption. In particular their GBS division, which provides research on functions from finance through to marketing, has performed well. This is important since it had until recently been a disappointment since being acquired a few years ago. Whilst Gartner's valuation has re-rated due to the above, we are impressed by the seemingly long duration runway for revenue growth in the mid-teens, as they extend their research and consulting services deeper into their existing and new clients.

Aon, the business services group, benefited from both walking away from the unpopular deal to buy Willis Towers, as well as reporting significantly higher than expected organic revenue growth of 11%. Without the distraction of the Willis deal, sentiment seems to be hardening that Aon's scale and investment in big data will become an increasingly important contributor to growth. On both Aon and Gartner, whilst we are delighted with the operational performance, their strong share prices have led to a more balanced risk/reward and hence we have recently been reducing the positions.

On the negative side, Altice, the US cable company, disappointed on two fronts which led to a significant de-rating of the stock. Firstly, management cautioned that their subscriber base will contract very marginally this quarter (by 0.1%). They blamed short-term issues including difficult compares to the work-from-home boost they saw last year, through to competition. Second, they fired their COO. This was as a result of being disappointed by the slow roll-out of their fiber-to-the-home product, which had been a key plank of their strategy to improve growth. The CEO, who has now assumed operational responsibility, expressed his intention to accelerate capital expenditure to facilitate this roll-out. Whilst the above led to only a marginal downtick in consensus profit expectations, the management uncertainty, fears of increased competition, and lack of clarity over what return they will get on a potentially higher capex, all conspired to weaken the share price. We believe it was a cheap stock when we bought it several months ago, but is now in the deep-value camp. Financial leverage is high meaning that the stock still clearly has risks, however, if they prove their ability to stabilise growth the upside could be many multiples of the current share price. We expect to have to be patient, but if the strategy works, then the shares would see a powerful catalyst in the next 12-24 months.

Frontdoor, the home warranty provider, weakened due to a modest disappointment (1%) in revenue. This was due to their 'real-estate' distribution channel, where they acquire clients at the time homes are sold. Perversely, in spite of the strong existing homes market, the fact it is a sellers' market means that home warranties are being used less than normal as a sales incentive. If we take a step back, we are confident in the overall performance and execution of the business. The combination of their new growth platform, Proconnect, and the core warranty business (aside from the aforementioned real-estate channel) are benefiting from sales and marketing initiatives, to drive around 8% top line organic growth. With the shares having de-rated significantly on this disappointment, we believe the risk-reward is highly attractive versus the long-term growth opportunity.

Fund changes during the quarter

During the quarter we introduced **Aramark**, **Bright Horizons** and **Netflix** to the portfolio and sold Automatic Data Processing (ADP) and Fortinet.

To start with the buys, Aramark is a catering services leader which we believe offers an exciting long-term risk/reward based both on the potential for powerful post-Covid volume recovery and also the execution of their strategy to become a better company. They are currently running at around 85% of pre-Covid levels, as it takes a while in particular for large events and hotel catering volumes to return to normal levels. We believe this is only a matter of time. Perhaps more interesting is their strategic pivot over the past years. The relatively new management team here we believe is a positive. The CEO has an impressive track record in several industries including catering services. He is joined by a CFO who helped make peer Compass Group the catering services industry leader when he was running its US operations. They are refocusing on customer service and support to improve retention and growth with the early signs looking highly encouraging. We believe the shares substantially undervalue this potential.

Also playing to the post-Covid recovery theme, Bright Horizons, the child-care provider to enterprises, has the opportunity to gain share in an industry that has reportedly seen 10-20% of competitor capacity shutdown in the recent crisis, as well as corporates increasingly seeing child-care provision as a way of reducing employee disruption. This should ensure the company reverts back to old activity levels from the current 75%, and moreover recovers its historic double-digit top line growth profile. This is a high-quality company where we believe the recovery potential is not reflected in the valuation.

Lastly, Netflix, the video subscription leader which de-rated to a very attractive valuation entry point earlier in the year when growth slowed due to people spending less time at home, and Netflix releasing less new content due to Covid production issues. We think Netflix is in a fantastic competitive position with long-term benefits of scale on content spending, and Artificial Intelligence giving them a superior understanding of subscriber content preferences. Moreover, they are currently ramping the frequency of new content releases back to levels which will likely support both retention and new subscriber growth. The valuation if we look out to our normal two-to-three-year timeframe, we calculate looks attractive for a subscription business which has substantial scale virtuous cycle benefits versus peers.

On the sales side we sold out of ADP and Fortinet, both on the back of very strong share price performance, which took their valuations to an unattractive level. ADP, the HR services provider had benefited from the strong employment recovery, and Fortinet, the security software player, from a rebound in small enterprise spending and an increased focus on security investment. Good businesses, but with valuation no longer attractive we, as always, were disciplined about selling.

Outlook

We are likely in the later innings of the post-Covid recovery phase. The US economy has more than recovered the lost ground of the Covid recession, leading to S&P 500 consensus sales and earnings for 2021 being comfortably ahead of 2019 levels by 11% and 36% respectively[2]. Earnings growth during the recent period has understandably been sensational, with the S&P 500 Index seeing EPS growth of 50% in Q2 and an expected 31% for Q3 2021. This will likely slow dramatically by the time we hit 2022, as can be seen in Figure 1 below, where earnings growth is expected to be a more normal 8% according to Bloomberg consensus.

Not only is earnings growth normalising, but we believe that supply chain disruption will likely present a continued minefield for companies well into 2022. Figure 2 illustrates this through showing the sharp increase in frequency of the mention of 'supply chain', 'inflation' or 'shortages' by management teams on earnings calls. Amazingly, thus far, even with these challenges, S&P 500 earnings have continued to make new highs this quarter, as can be seen in Figure 3, but we feel there is significant risk to this trend into 2022.

So, with earnings for the market slowing to normalised levels, and with the increased risk of supply chain earnings minefields, we think the market regime could change over the coming year. Lower market growth tends to reward higher or more consistent growth companies. The problem with this view is that much of the market action, and re-rating has clearly happened in growth land already. Figure 4 shows the huge jump in multiples for growth stocks that took place during the Covid crisis, and which has remained since (as measured by the P/E for the Russell 1000 Growth Index).

Of interest to us, however, is that as one moves down the growth scale, for instance to the still respectable 5-10% top line secular growth camp where we often hunt, the valuations get significantly more attractive. This is where we get excited. We have a broad range of secular growth compounders which have been delivering on earnings, but at a rate lower than the sensational growth seen by the S&P 500 in recent quarters. Their lower growth relative to the recovering market has penalised their performance and led to a derating. Holdings that fit this profile span a range of sectors that includes Hasbro the toy company, **Electronic Arts** the gaming company, through to **Anthem** in health insurance, and Frontdoor in home warranties. All have de-rated to near trough valuations due to their earnings growth being less sizzling than the market, but these are strong franchises, dependable and we think these characteristics will start to increasingly shine in the coming quarters as market growth slows. We call these the neglected growth compounders.

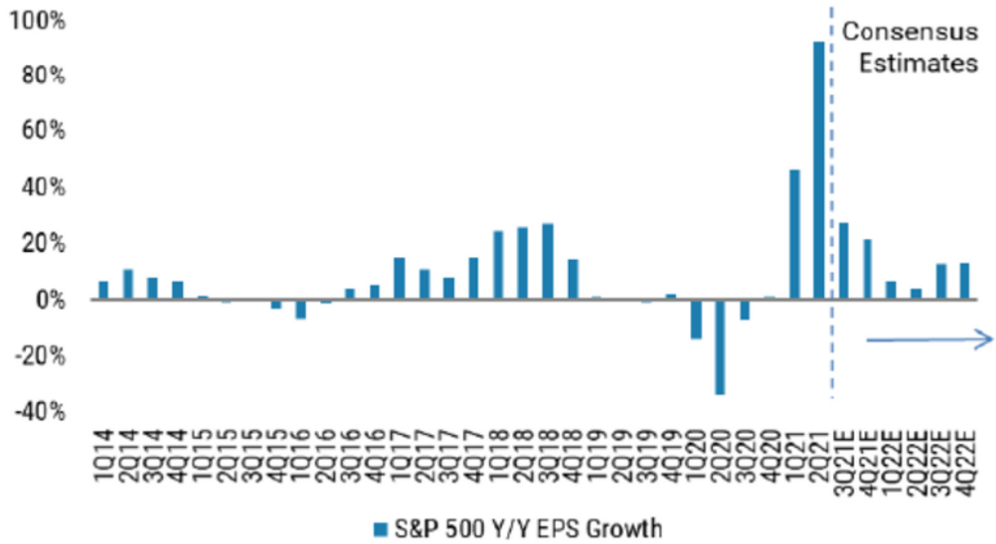
Fund positioning

Set against a market which is trading at high multiples and fundamentals that may get more challenging, we continue to find new investments that meet our investment criteria of: highly attractive upside/downside and multiple catalysts to release the value. We continue to be disciplined on valuation both with new ideas, but also on the sell side as shown with the recent sales of ADP and Fortinet. As a result, we have a high conviction portfolio with holdings spread across the style spectrum, and where there are four themes we would highlight:

The first is the neglected growth compounders discussed above. The second are a select group of post-Covid recovery names. Having sold down much of our exposure earlier this year, we believe the market the Delta variant fears gave us a second opportunity to increase our exposure either through adding to existing holdings such as US Foods in restaurant distribution and Zimmer Biomet in orthopaedic products, but also to introduce Aramark and Bright Horizons. As detailed above we believe these are strong franchises, complemented by internal improvement dynamics trading at a discount to their substantial post-Covid recovery potential. Third, as the market cycle progresses and we expect to rely less on the macro backdrop, we are delighted to have many holdings with powerful stock-specific catalysts. This includes a range of undervalued transformation stories such as Vertiv and **Willscot Mobile Mini**. Lastly, we have many holdings where a key plank of the investment thesis is the beautiful hidden gem within them that strongly underpins the value of the parent, or that could act as a catalyst for future performance. This includes **American Eagle Outfitters** the retailer, Hasbro the toy company, and **XPO Logistics** the transport conglomerate. Four themes that we believe should contribute to generating alpha in the coming period.

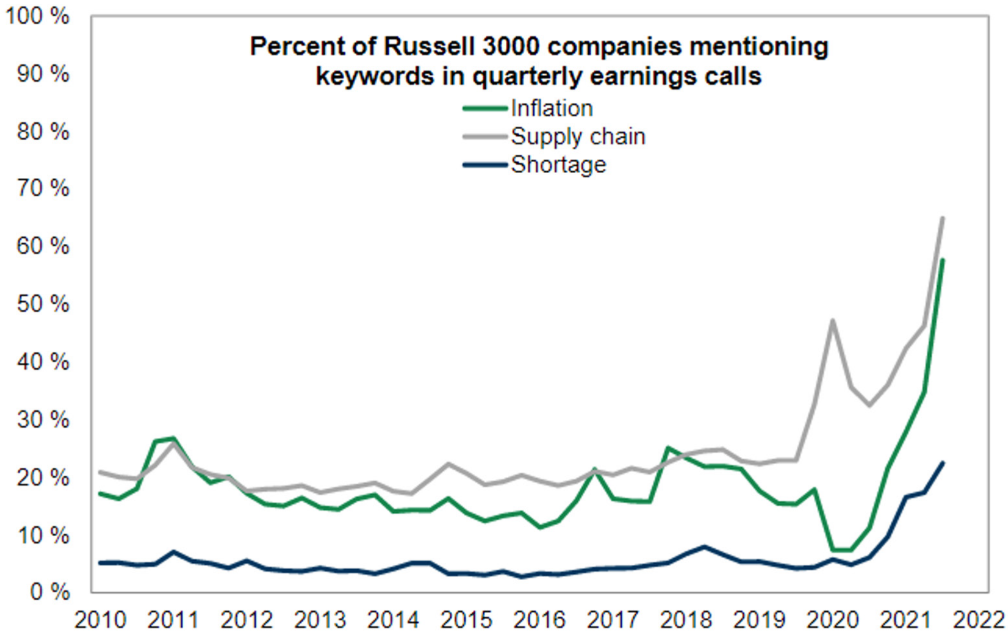
We hope you appreciate this Fund update and look forward to finally meeting with many of you face-to-face over the coming period.

Figure 1: S&P 500 Y/Y EPS Growth



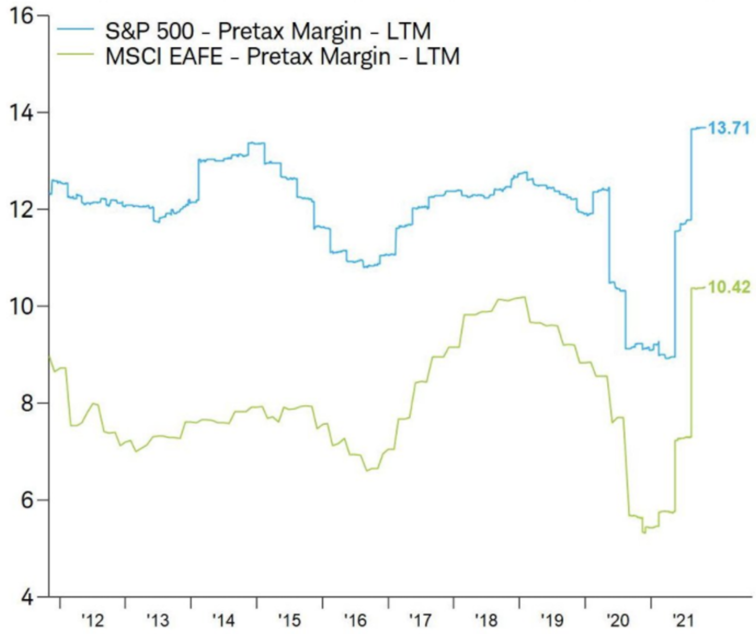
Source: Michael Wilson – Morgan Stanley

Figure 2: Record amount of Russell 3000 companies are discussing inflation, supply chains, and shortages during earnings calls



Source: Goldman Sachs Global Investment Research, Goldman Sachs Data Works

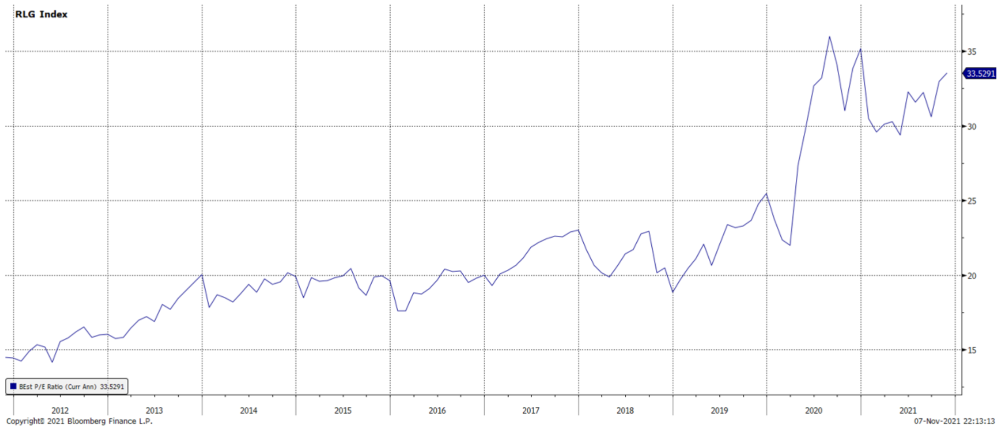
Figure 3: Despite rising costs, corporate profit margins at 10 year highs



Past performance is no guarantee of future performance. The S&P 500 includes 500 leading companies and captures approximately 80% coverage of available U.S. market capitalization. The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 845 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

Source: Charles Schwab, Factset data as of 10/29/2021

Figure 4: Russell 1000 Growth Index P/E has held onto substantial rerate of the Covid crisis



Source: Bloomberg

Endnotes

1 https://www.dollartreeinfo.com/news-releases/news-release-details/building-success-its-combo-store-and-dollar-tree-plus
2 Bloomberg

Important Information

Majedie Asset Management, established in 2002, is an independent, employee-owned investment boutique that actively manages equities for institutional investors, wealth managers and endowments across a range of UK, US, Global and International strategies.

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MAJEDIE Asset Management

Fund Overview (as at 30 September 2021)

Top 10 Holdings (Absolute) %

Microsoft	6.6
Alphabet	6.5
Amazon.com	5.4
Facebook	5.1
Fiserv	3.9
Anthem	3.8
US Foods	3.7
Electronic Arts	3.5
Crown Holdings	3.4
Intercontinental Exchange	3.4

Top 10 Sub-Industries (Absolute) %

Interactive Media & Services	11.6
Systems Software	6.6
Financial Exchanges & Data	6.3
Internet & Direct Marketing Retail	6.0
Semiconductors	5.2
Investment Banking & Brokerage	4.5
Data Processing & Outsourced Services	3.9
Leisure Products	3.9
Health Care Equipment	3.8
Managed Health Care	3.8

Top/bottom 5 Positions (Relative) %

US Foods	+3.7
Fiserv	+3.7
Anthem	+3.6
Electronic Arts	+3.4
Crown Holdings	+3.4
Johnson & Johnson	-1.2
JPMorgan Chase	-1.3
Berkshire Hathaway	-1.4
Tesla	-1.7
Apple	-6.1

Market Cap Allocation (USD) %

> 100bn	32.3
50-100bn	17.5
25-50bn	13.3
10-25bn	10.2
5-10bn	20.5
2-5bn	5.2
Cash	1.0

Fund Information

Launch Date	26/06/2014
Fund Size	$346m
Strategy Size	$346m
Number of Holdings	39
Active Share (%)	79.0
Fund Type	UCITS
Pricing Frequency	Daily at US close
Swing rates	-0.05 / +0.05

Fund Distribution Information

The Class A (GBP), Class A (USD), Class P (USD), Class Z (GBP) and Class Z (USD) share classes are registered for distribution in the following jurisdictions; Austria, Finland, France, Germany, Italy (professional investors only), Spain, Sweden, UK.

Prospective investors should obtain appropriate independent professional advice and have read the current Key Investor Information Document and Prospectus prior to making a decision to invest. A copy of the Prospectus and Key Investor Information can be obtained by visiting www.majedie.com or in hard copy free of charge by contacting Majedie Asset Management Limited.

Share Class Information

SHARE CLASS	ISIN CODE	SEDOL CODE	BLOOMBERG CODE	INITIAL CHARGE	ONGOING CHARGE*	MIN INITIAL INVESTMENT	MIN ADDITIONAL INVESTMENT
A Accumulation (USD)	IE00BNGWXX42	BNGWXX4	MAJAUSD ID	0.00%	1.64%	$16,000	$8,000
Z Accumulation (USD)	IE00BNGWY190	BNGWY19	MAJZUSD ID	0.00%	0.89%	$160,000	$8,000
Z Accumulation (GBP)	IE00BNGWY083	BNGWY08	MAJZGBP ID	0.00%	0.89%	£100,000	£5,000
Z Accumulation (EUR)	IE00BLH1X584	BLH1X58	MAJZEUR ID	0.00%	0.89%	€160,000	€8,000

**Ongoing Charge Figure (OCF) includes Annual Management Charge and Admin Cost Charge. Please see www.majedie.com/fund/us-equity/for further details.*

Source: Majedie

Important Information

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