Issue 80

US Equity Fund

Quarterly Newsletter – May 2021

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 from November 2014 and Co-Fund Manager from January 2021

James Dudgeon

- 11 years' investment experience
- Joined Majedie Asset Management in January 2016
- US Equity Fund Analyst since January 2016 and Co-Fund Manager from January 2021

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Overview

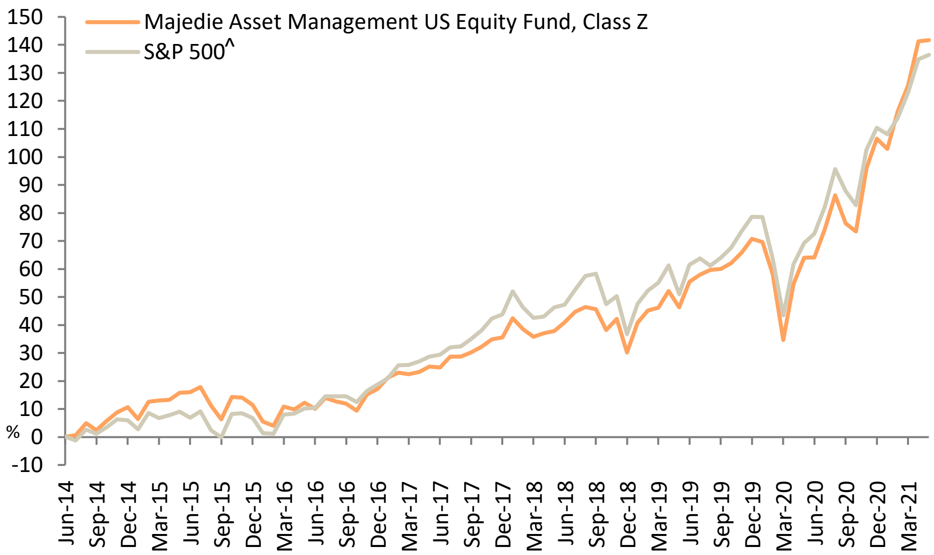
The Fund

- 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.
- Consistent with all Majedie funds, capacity will be limited to ensure that size does not become an impediment to performance.

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 31 May 2021)*



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

FUND PERFORMANCE (%) *(to 31 May 2021)*	1 MONTH	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION
Z Accumulation (USD)	0.1	11.8	47.4	20.6	16.6	141.7
S&P 500 Net^	0.7	10.6	39.6	17.3	16.5	136.5
*Relative (for Z Acc (USD))^*	*-0.5*	*+1.2*	*+7.7*	*+3.2*	*+0.1*	*+5.2*

DISCRETE YEARS (%) 12 MONTHS ENDING:	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	DEC 20	SINCE INCEPTION (P.A.) *(to 31 May 2021)*
Z Accumulation (USD)	0.8	5.1	15.7	-4.0	31.1	21.0	13.6
S&P 500 Net^	0.7	11.2	21.1	-4.9	30.7	17.8	13.2
*Relative (for Z Acc (USD))^*	*0.0*	*-6.1*	*-5.4*	*+0.9*	*+0.4*	*+3.3*	*+0.4*

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 JUNE 2021

"As important for the long-term market direction are the shifting views on the outlook for inflation and interest rates"; so we began our first ***newsletter*** in July 2014 when Adrian Brass brought his process and top-decile track record over to 10 Old Bailey, to launch the Majedie US Equity Fund.

Such a statement was as relevant then as it is today, as inflation minded mandarins contort monetary and fiscal policy in extravagant ways, to deal with the wash out of the great Covid pandemic. Since Fund launch, it has been seven years of largely up, the odd down with the occasional bump and a grind; all to the sound of revved up central bankers singing Abba's 'Take a chance on me'. With '70s style choreography to match.

Asset prices – all asset prices, from traditional stocks to bonds to digital tokens and invisible sculptures – are buoyant, ebullient; but the journey to all-time highs has been one of stiff sherry and sun loungers as markets relentlessly climbed the fabled 'wall of worry'. As we wrote in the inaugural letter, the script has been dominated by central banks and the meanderings of monetary policy. Along the way, Greece went bankrupt followed up by a watch-through-the-fingers 2016 in which the UK decided it was done with free-trade in Europe, Brazilian president Dilma Rousseff was impeached, and Donald Trump stormed the White House all big hair and itchy Twitter finger.

There followed the first mainstream headlines on Bitcoin, an asset that entered 2017 swapping sweaty hands at around $1,000, and later hit $20,000. A price it may soon hit this year. Or month. Markets though were strong, only roiled in 2018 by simmering US-China trade tensions and fears that the Federal Reserve would raise rates. Which it did, four times, sparking a rout in the final quarter which, up until recently, was the worst three-month performance period of the post GFC epoch. Call the Q4 rout, though, a temporary reset. As the Fed turned tail and cut rates in 2019, markets ripped higher with selected technology stocks hitting $trillion-plus market capitalisations before 2020 came round and served up a black swan; a black swan garnished with epic money printing on a scale not ever imagined.

Top-decile performance since June 2014 inception

Across this boisterous period, the US Equity Fund returned 142% (Z share class, net of fees, USD to 31 May 2021), relative to the 136% posting of the S&P 500. This puts it in the top-decile of the Morningstar peer group, demonstrating the value of seasoned, high conviction stock picking and – latterly – the alpha benefits of a process that is diversified across the style, and market cap, spectrum.

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> *Big winners included Take-Two Interactive, the games developer at the vanguard of a new age in media, the now trillion-dollar Microsoft and the teen retailer American Eagle Outfitters.*

Big winners included **Take-Two Interactive**, the games developer at the vanguard of a new age in media, the now trillion-dollar **Microsoft** and the teen retailer **American Eagle Outfitters**; the latter proving real money can be made in sectors long written-off in the digital age. The one stand-out negative was not owning the trillion-dollar **Apple**, a performance negative in the form of a five hundred basis point headwind. As it happened, we made good money in Apple, buying the shares when they were cheap in 2016, and selling when they reached – in our minds – fair value for an ex-growth business in 2018. The market disagreed and re-rated the shares to a multiple that put a lot of hope in the price. Latterly, after making our eyes water for several years, the stock has finally turned into a performance tailwind. We expect this to continue.

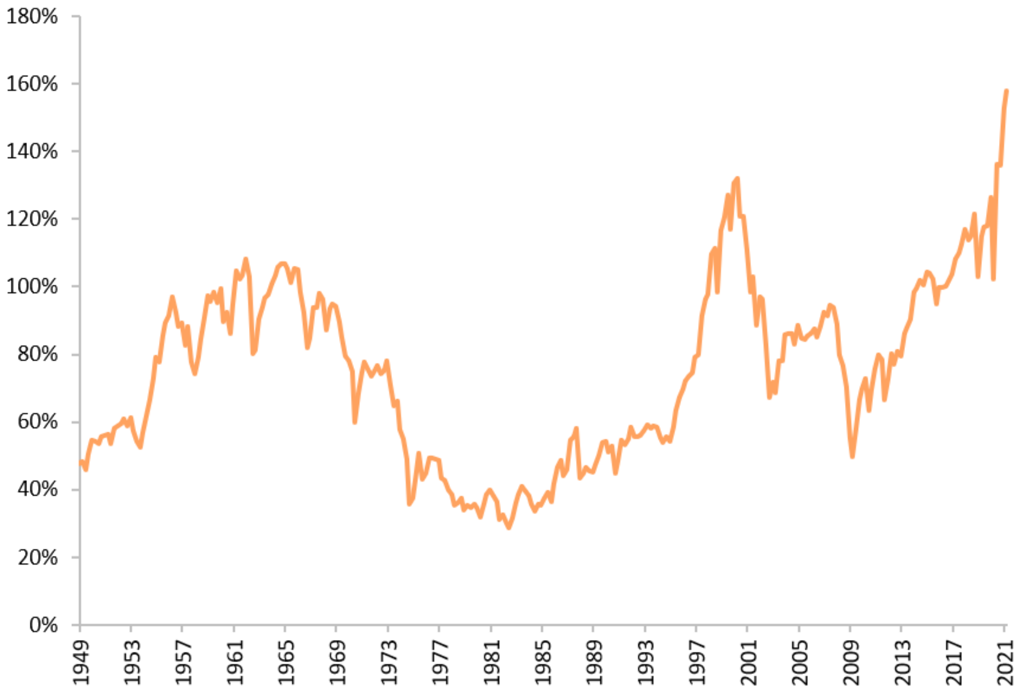
Along the way we have also enjoyed money-making rides in diverse, idiosyncratic stocks such as **New York Times**, as the company transitioned to a digital future, and **Booz Allen Hamilton** the IT consultant embedded into many a government spending programme. Not owning any **Exxon Mobil**, as the iconic company headed for the ignominy of being kicked off the big board, and the error-strewn **General Electric**, also fanned the numbers. We got others off beam. We were wrong footed by the market disgust for anything oil, and despite the attractive production growth profile, took some heat in a holding of **Parsley Energy**. **LKQ** and **Gilead** were other theses that did not play out as expected.

We continue to revaluate our process and to refine our approach to ensure the winners outpace the not-so-winners, and always – in every investment we take – spend considerable time in understanding what could go wrong. What might the downside be. We will not get everything right, but our work has proven to be consistently robust, and, in many instances, big winners have come from buying aggressively into short term share price weakness. No more so than in the depths of the Covid pandemic, when the fur was flying, and the headlines suggested it was time to buy spam and whisky and run for the cabin. See the recent contribution of **US Foods**.

Fizzle, fizzle, pop?

At a time when the US economy is fizzing, the money mandarins keep pump, pump, pumping. The printing presses continue to whirr. It is a stance that perhaps jars with what the equity market has delivered seemingly day in, day out: a record high in stock markets, record highs, too, in many employment surveys. CEO confidence, capex, housing, retail sales – all booming. Price and wage inflation at every turn and a stunning, near-record low, in corporate bankruptcies. GDP forecasts go up, up, up. Taken at face value, it is not an obvious backdrop for a crisis setting on monetary policy; more so given the committee has only just started to think about 'talking about talking about' tightening the taps. Meanwhile Warren Buffett's yardstick (Figure 1), the total market capitalisation of the US market relative to the size of the economy, stands at a pip-squeaking 270%. The context being that the current reading is some 40% more expensive than the dotcom brouhaha, previously the most expensive stock market peak in history. Look at it through a price/sales lens and the S&P 500 Index components are now 75% higher than the tech top. Served alongside these sweaty graphs are some queasy statistics on leveraged ETFs and retail speculation (Figure 2).

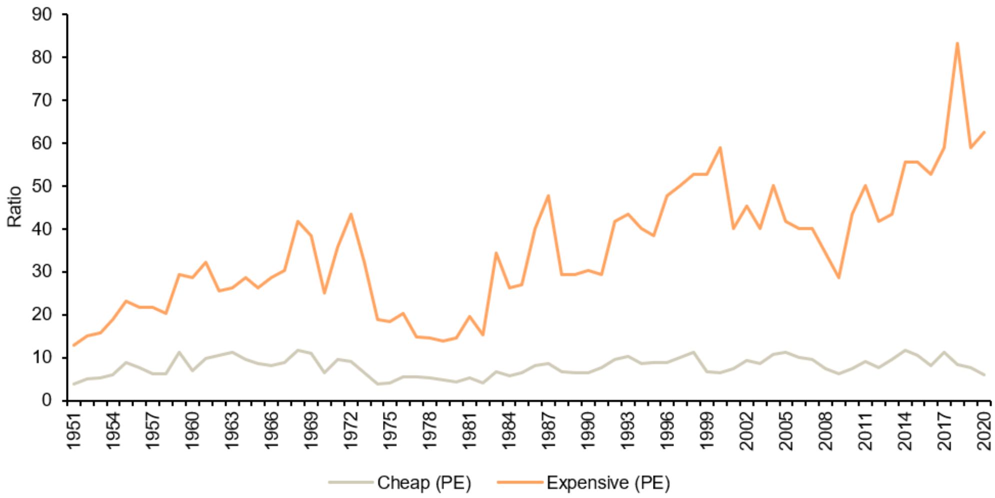
Figure 1: Ratio of S&P500 market cap to GNP



Source: TheFelderReport.com

There may be further upside to broader markets dancing about all-time highs and enjoying the summer sun, or there might not be. A top could be in. Either way, with valuation spreads remaining elevated, we believe it to be the perfect environment for active stock picking; for high conviction, concentrated funds capable of navigating a market where, if current valuations are the starting point, future market returns could be a bit more of a bump and a grind. Allocators who have gone all in on the valuation-blind passive trade, may yet learn a lesson in price discovery. Time will tell.

Figure 2: Valuation spreads in the US are elevated compared to history



Source: Ken French data library, Bernstein analysis. US long run valuation spreads (PE). The historical series is derived from the Ken French data library and it is the market-cap-weighted inverted trailing earnings yield for the most expensive and cheapest quintile of stocks out of the largest 1,200 US stocks.

So where is the opportunity?

Everywhere. The sheer depth of the US market makes it a high-shelved candy store for active management. Yes, there are swathes that are rich, beyond rich, perhaps even, grossly overpriced; but, so too, there are pockets of opportunity, a smorgasbord of idiosyncratic stocks which, when stacked up against history and the broader market, are lick-the-lips attractive. As a concentrated strategy we are only looking for around 40 stocks and with valuation spreads still elevated, our process continues to generate a pipeful of ideas, and the portfolio continues to evolve. We do not stand still.

Post-Covid normalisation and economic cyclicals: taking profits

On a May 5th, 2020, ***earnings call***, the CEO of US Foods Pietro Satriano cautiously said, “While no one knows exactly when or how our industry returns to normal, we can point to some promising signs about the resilience and the ultimate recovery of our industry." US Foods had been a big position for the Fund pre-pandemic. It is, in normal times, a defensive business. People like to eat out. They do not like washing up. Even in the Great Recession of 2009 revenues barely fell. A global pandemic and state-wide stay at home order is, though, not good for business. Revenues were smashed. High leverage, normally not an issue for a steady top line, left investors wide-eyed in fear. After speaking to management, we crunched the model and agreed with the up-beat Satriano. The business would recover. We bought more. And it did. Whilst there remains substantial upside to our share price target, the broader normalisation trade is fading. Valuations have more girth to them, there is more fair value about. We still see decent upside in a spread of 'normalisation' names from **Grand Canyon Education** to **IAA**, the used-vehicle auction house, but it is a theme in the portfolio that is starting to deflate in terms of alpha generation, and we have recently sold out and booked big profits in **Six Flags Entertainment** and **Wyndham Hotels**.

It is a similar set up in the selected cyclicals we bought when we became comfortable that the massive stimulus and rapid vaccine progress would super-charge an economic recovery. We rode, and recently sold out of names like **United Rentals** and **ON Semiconductor**, and have been reducing others, like **Fortinet**, **ADP** and **NXP** into share price strength. There are though still exciting stories playing out, with fantastic upside potential in names like **Interactive Brokers**, **XPO Logistics**, **Vertiv**. To give some colour to the potential share price upside on just one, we wrote this in our recent ***newsletter*** on Interactive Brokers: "Our current bull case is that the Fed will raise rates to more than 1% in 2023. This should increase Interactive Brokers' net interest margin by 30bps. This, together with growth in assets, should mean that interest income will double in 2023 vs 2020. This could drive an 85% increase in earnings per share (EPS)." The cyclical trade is fast maturing. Indeed, in our mind, many go-to large cap cyclicals are now looking plump for a short-minded hedge fund. Again, like economic normalisation, it is a theme playing out quickly. We continue to see it as a good source of capital and will go on selling down profit making positions into rosy economic data, as once mouth-watering risk/reward pay offs begin to lose their shimmer.

'Neglected growth': mid-tier growth compounders offer sensational value

Growth as a fashion has been in vogue. For years. Egged on by a low-rate monetary regime, it was the only trade in town. 'Growth' is, though, something of a catch-all term, lumping in a broad mix of businesses, some super-sexy growth, some not. Some

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> *For a market that has gone all tizzy over a recovery trade, anything that is delivering mid-tier growth has been left behind, shunned, offering neither glitz nor glamour.*

businesses just truck on, steadily compounding year-in, year-out. For the latter, think of a top line that gently ticks up mid-single digit, squeezing out a more than satisfying double digit annual EPS return. For a market that has gone all tizzy over a recovery trade, anything that is delivering mid-tier growth has been left behind, shunned, offering neither glitz nor glamour. Relative valuations in many cases are now trading at trough levels. And yet, the crisis has proved out many business models. These are robust, all-weather companies, often with operations that hum independently to the broader economic beat. Companies like **Frontdoor**, **Anthem**, **Electronic Arts** and **Intercontinental Exchange**. We have been putting more capital to work in such names, adding to existing positions and introducing a few more like **Hasbro**. These stocks offer, in many respects, defensive characteristics as we enter a more subdued period of the post-pandemic economic expansion; but they also offer growth. And growth at a fabulous price.

Hidden Gems: seek and ye shall find

Where active managers add real zeal is in the sifting of the market for stocks that offer something different. Something else, something more than just cyclical juice or tech driven growth. Stocks that are misunderstood, where there is a hidden angle, not obvious to those who are more macro, more top-down, or style minded, or full-blown ETF evangelist. Active managers with the time and patience to unpack the annual report or listen to what management talk about on the frequent earnings calls and investor days, can find businesses within businesses that offer such potential the numbers need to be checked by a colleague. They can be that good. Take **Fiserv**. Within Fiserv there is a business called Clover. Clover is a leading small business payments solutions provider like the marquee names of Square and Adyen, both chilli-hot stories that trade on valuations coated in hundreds and thousands. And yet Fiserv’s Clover, is as big and growing just as fast. Were you to attribute a similar multiple to Clover, you would get the rest of Fiserv, all 90% of the revenue, on a very low multiple. Other hidden gems within the portfolio include **Equifax**, **Crown Holdings** and **eBay**.

Turnarounds: underappreciated transformation

Yes, there is an economic recovery underway. A full throttled, get-me-back-out-there recovery. But without the printing presses or fiscal largesse, it is an economy that has an ungainly gait, an economy that faces a catalogue of longer-term challenges whether it be demographic, a muscular and up-for-it China, inequality, decaying infrastructure, or debt metrics that would, in ordinary times, spark a fit in many a conservative minded money man. We are not macro-specialists. We have a view, but we are stock pickers. Bottom up. Pure and simple. And given the skittish, moody long term economic outlook, we take comfort in a broad bevy of holdings that offer powerful internal improvement stories. Companies with margin upside, or growth potential, that are a long way from being baked into consensus. What we like is that the success of these stories is not on whether GDP has a long term ‘2’, ‘3’ or ‘4’ handle, or whether the Fed’s ‘transitory’ inflation view bucks previous calls and turns out to be right, but on whether individual management teams can execute. Whether they can get it done. Like **Vertiv**, a company recharged by new management, **Willscot Mobile Mini**, a company with a long duration pricing and cross-sell opportunity or **Altice** a cable operator with an underappreciated benefit from a proven fibre-to-the-home strategy. Turnarounds offer a delicious, idiosyncratic edge to the portfolio; more so when they are underappreciated and hidden from view.

> “ *And given the skittish, moody long term economic outlook, we take comfort in a broad bevy of holdings that offer powerful internal improvement stories.*

Summary

Whilst the recent shift in tone from the Federal Reserve indicates some wide eyes around the table at the need to get with the data, nothing much has changed, at least not yet. In the same week, the Fed’s balance sheet smashed through $8 trillion. That said, thinking about talking about tapering, is significant. A rate hike might be some way off, but it is coming. And it may come sooner than expected. And that is what matters: expectations. The market may begin to fray, but we run a conviction fund. And our starting point is fundamentals: company accounts, transcripts, face-to-face meetings. Not macro. And across many different sectors we continue to see tremendous opportunities; opportunities from a diverse and idiosyncratic collection of companies exposed to a myriad of powerful long-term forces that will power earnings in years to come. In the short term, as growth slows into 2022, there is likely to be a delicate balancing act of tapering talk, but not too much tapering talk as to schemozzle the growth outlook. Yes, asset prices are rich. And big gains do not tend to happen when rich is the starting point. That said, we own selected companies, each with fantastic upside potential. Big gains can still happen. You just need to know where to look.

Important Information

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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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Issue 80

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Quarterly Newsletter – May 2021

MAJEDIE Asset Management

Fund Overview (as at 31 May 2021)

Top 10 Holdings (Absolute) %

Microsoft	5.7
Alphabet	5.6
Facebook	4.6
Amazon.com	4.3
Anthem	4.1
Fiserv	3.8
US Foods	3.8
XPO Logistics	3.5
Aon	3.4
Crown Holdings	3.2

Top 10 Sub-Industries (Absolute) %

Interactive Media & Services	10.2
Internet & Direct Marketing Retail	6.9
Systems Software	6.8
Semiconductors	6.7
Data Processing & Outsourced Services	5.5
Investment Banking & Brokerage	5.4
Financial Exchanges & Data	5.1
Managed Health Care	4.1
Food Distributors	3.8
Health Care Equipment	3.6

Top/bottom 5 Positions (Relative) %

Anthem	+3.8
US Foods	+3.8
Fiserv	+3.6
XPO Logistics	+3.5
Aon	+3.2
Johnson & Johnson	-1.2
Tesla	-1.3
JPMorgan Chase	-1.4
Berkshire Hathaway	-1.6
Apple	-5.5

Market Cap Allocation (USD) %

> 100bn	26.6
50-100bn	21.9
25-50bn	13.5
10-25bn	13.7
5-10bn	19.3
2-5bn	4.9
<2bn	0.0
Cash	0.2

Fund Information

Launch Date	26/06/14
Fund Size	$348m
Strategy Size	$348m
Number of Holdings	37
Active Share	80.4%
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

**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

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