



Fund Managers

Tom Record

- 19 years' investment experience
- Joined Majedie Asset Management in January 2014
- Co-managed the Global Equity Fund and the Global Focus Fund since inception
- Managed the International Equity Fund since inception

Adrian Brass

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

Tom Morris

- 12 years' investment experience
- Joined Majedie Asset Management in September 2009
- Co-managed the Global Equity Fund and the Global Focus Fund since inception
- Co-managed the Tortoise Fund since October 2013

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Overview

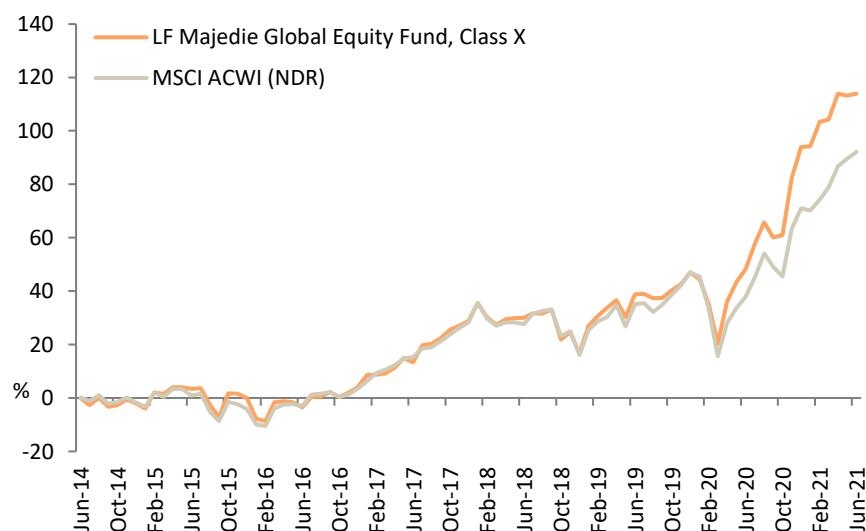
The Fund

- The Global Equity Fund is our flagship global fund.
- The Global Equity Fund is a UK domiciled OEIC.
- It is managed by Tom Record, Adrian Brass and Tom Morris.
- Consistent with all Majedie funds, capacity will be limited to ensure that size does not become an impediment to performance.

Objective

- To deliver a total return (the combination of income and capital growth) in excess of the MSCI All Country World Net Total Return Index, after all costs and charges have been taken, over any five year period.

Fund Performance (to 30 June 2021)



Source: Majedie, USD, net of fees. Inception 30 June 2014.

FUND PERFORMANCE (%) (to 30 June 2021)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION
X Accumulation (USD)	0.3	4.8	44.3	18.0	17.3	113.9
MSCI ACWI (NDR)	1.3	7.4	39.3	14.6	14.6	92.1
<i>Relative</i>	<i>-1.0</i>	<i>-2.6</i>	<i>+5.0</i>	<i>+3.5</i>	<i>+2.7</i>	<i>+21.8</i>

DISCRETE YEARS (%) 12 MONTHS ENDING:	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	DEC 20	SINCE INCEPTION (P.A.) (to 30 June 2021)
X Accumulation (USD)	2.0	4.1	23.7	-9.4	25.9	31.9	11.5
MSCI ACWI (NDR)	-2.4	7.9	24.0	-9.4	26.6	16.3	9.8
<i>Relative</i>	<i>+4.4</i>	<i>-3.8</i>	<i>-0.2</i>	<i>+0.1</i>	<i>-0.7</i>	<i>+15.6</i>	<i>+1.7</i>

Source: Majedie, USD, net of fees. Inception 30 June 2014. GBP share classes are also available.



Over recent years the team has frequently discussed the rise of outsourcing and its impacts as both an enabler of disruption and an accelerator of technology. At its simplest it is the rise of outsourcing individual functions; at its most complex it is the evolution of platforms to enable outsourcing of complete value chains.

A traditional vertically integrated business model has many advantages. These include complete control of the design, manufacture, advertising, and customer information aspects of a business. There are substantial benefits of scale as a large portion of costs are typically fixed and so incremental revenues at relatively high gross margins can lead to dramatic increases in profitability. The high level of fixed costs also leads to relatively high barriers to entry as a business needs to build out its manufacturing capacity etc. and achieve scale before it can become profitable. This used to enable incumbents to maintain a relatively high level of profitability with little threat of competitors growing sufficient scale to challenge them without many years of warning.

Typically, if a company outsources aspects of its value / supply chain then it reduces the capital (and fixed) cost aspects of its business model and replaces them with variable costs. This decreases the scale that is needed to break even as it leverages off the outsourcing provider's scale (across many customers) and so those benefits of scale can be shared more easily.

We are particularly interested in this theme for a number of reasons:

1. By segmenting a value chain, multiple companies can concentrate in one part of it, encouraging competition and advancing the technology involved beyond what would be possible if all the companies were fully integrated along the chain and had to replicate the whole chain in order to compete in one area.
2. Outsourcing aspects or modules of a value chain can lower a company's fixed costs, and so decrease the barriers to innovation and competition and so enable disruption.
3. Companies that can control a pinch point in a modularised value chain can be very profitable for a long period of time.

Let's start with a relatively well-understood value chain – that of semiconductor design and manufacturing. Until Morris Chang set up Taiwan Semiconductor Manufacturing



Company (TSMC) (held in the Fund) in 1987, semiconductor chips were designed and manufactured within the same company in a traditional, vertically-integrated way. Chang's insight was to split the capital-intensive element of manufacturing chips (fabs) from the capital-light aspect of designing the chips. This enabled a new industry of chip designers (TSMC's customers), which didn't need the capital to both design the chips and build the manufacturing capacity to make them. It also lowered the cost of experimentation for these chip designers – if a new chip wasn't popular then they could cancel orders without being left with their own fab running on low capacity utilisation, and if it worked then it could scale up rapidly on TSMC's fabs without spending years building more of their own.

One result is that TSMC and its rivals have been able to coalesce much of the capital spending of hundreds of chip design companies into just a handful of fab companies, and so accelerate the pace of development of the manufacturing technology. Its success has meant that TSMC has moved from being one to two years behind Intel in process technology to a year or so ahead of Intel, in just the last five years. The scale of R&D and capex is immense with TSMC intending to spend \$100bn over three years, which gives an indication of the demand from its customers and the company's scale and willingness to invest as an agglomerator of its customers' capex.

A second result of this industry change has been an acceleration in the innovation of chip design. In part, this has stemmed from the split between fabs and design, but a key aspect has been the outsourcing of key aspects of a chip's architecture to companies such as ARM (held through SoftBank). Furthermore, a number of companies have created tools that work in the ARM ecosystem and so these elements can be added to a design relatively cheaply and easily. The lowering in chip design costs (and the sharing of development costs for new tools within outsourced providers) has led to more and more companies being able to afford to design a chip that can be tailored to fulfil a specific purpose. This in turn has led to more rapid innovation from sharing development costs for multiple customers across common tools and architecture, as well as allowing designers to create more complex chips from standardised sub-components. Importantly, faster chips with lower power requirements enabled by this shared R&D also expand potential end markets.

No industry is static and while the modularisation of the semiconductor industry has enabled the success of a huge number of chip designers, we feel that we are nearing a point where the industry is likely to evolve again. The new, smaller line width chips are becoming increasingly expensive to design and produce. Designs are becoming



more complicated and larger – especially for applications such as artificial intelligence and machine learning. As chip complexity soars, we expect the chip designers to consolidate around a handful of truly exceptional companies that have the ability and culture to invest to further their prowess. This structural change is in part behind our holdings in chip designers Nvidia and Marvell.

TSMC is likely to remain a pinch point in the industry – indeed, as die (chip) sizes increase with more complexity, then the value of market leadership and low error rates increases concurrently. This is most simply explained by the observation that for any given error rate it is more likely that a chip will have an error (and so have to be discarded) if that chip covers a larger area of the silicon wafer. TSMC continues to lead research, development and capex for a critical part of the semiconductor value chain.

Closer to home, we have seen the impact of outsourcing on gin production in the UK – it is a good allegory for other consumer goods. Within the Global Team we have long held that consumer tastes are evolving to shift towards more local, artisanal, authentic brands and away from large mass market brands. The gin market is no different.

From 2016 to 2020 the number of gin distilleries in England has almost tripled. This is a perfect example of competition and disruption stemming from outsourcing.

The majority of new gin distilleries purchase tankers of raw spirit, distil it with their own blend of botanicals and herbs and then tank up the resultant gin and send it off to a bottler. The upfront capital expenditure required is limited, particularly when compared to the traditional route of vertical integration. In the UK, gin production has been commoditised and the differentiation between brands is now set primarily by marketing. This is a topic we recently touched upon in our Global Infusions podcast.

The concept of renting capacity from a large supplier so that some of the benefits of scale can accrue even as a business starts up can be applied not just to the supply chain, but also to other aspects of the businesses we look at. These would include customer acquisition – where businesses effectively rent access to customers from the likes of Facebook – to relationship management, where costs can scale with the number of customers when using solutions like Salesforce, and where more modules can be rented when new capabilities are needed.

Amazon Web Services (AWS) is another great example of how businesses can outsource their IT spending to the Cloud and so get the efficiencies that come with scale. Using AWS or Microsoft's Azure service allows businesses to get capacity for peak workloads that they can rent for a short period rather than own continuously.



Access to capacity at peak times and near-unlimited scalability are one advantage of deploying to AWS, but a second advantage is the ecosystem that has built up around its cloud offering. In a similar way to how tools and the ARM architecture have pooled R&D capabilities, there is an ecosystem around AWS. For example, if a customer wants to add a security module or payment capability there is an approved supplier that can offer that cheaply, effectively and with minimal disruption. It is the pooling of R&D and proliferation of competitors providing these services that helps drive innovation.

The evolution of AWS demonstrates a well-trodden, highly successful path that we have seen in many innovative companies from Amazon to Samsung. AWS started life as part of a vertical value chain – providing services internally to Amazon. As AWS developed, the quality of its services improved and unit costs fell. Amazon then started offering AWS externally as a standalone service. This is analogous to what we have seen in recent years at Samsung SDI (held in the Fund), where the company started with small lithium ion batteries that went into Samsung handsets. Over time, Samsung SDI improved its quality and started selling to external customers and made large batteries for companies such as BMW and VW.

The ability to outsource production and so scale up rapidly has helped Sartorius Stedim grow in recent years. The company's offering has expanded to cover more and more of the steps in biologic drug production from the bioreactors to the cell media to the separation of the drug. This has enabled it to offer something approaching a solution to drug manufacturers rather than a simple module in a manufacturing chain. The knowhow that Sartorius has makes them a great partner and is in part behind the rapid growth in their services in recent years.

It is well known that global supply chains are currently under stress. Long Beach Port sits on the west coast of the USA and is its second busiest container port. Nine of the port's ten busiest months in the last quarter century have occurred in the last year. Delays are common, containers are frequently lost or in the wrong place, costs are elevated and there are queues for ships to enter the port and unload due to congestion. It's against this backdrop that we thought it would be interesting to share Puma's experiences with their logistics chain (Kering, held in the Fund, has a 10% stake in Puma). Puma shipped around 270m units last year, about half of which were footwear, from 213 factories to 62 distribution centres via 850 different ocean trade lanes. They have a large and complex logistics operation.

Historically Puma tried to optimise cost by outsourcing to one or more providers at



each stage of the process – by using the cheapest warehousing (with a cost of 3.5-4% of revenues), and the cheapest freight operators for shipping and trucks (around 2% of revenues). Over the last five years Puma’s operating margin has averaged just below 6%, so these costs are very meaningful. Breaking up and separately contracting each part of their logistics needs to the cheapest operators made headline costs look lower, but also made the chain significantly more fragile. This meant that realised costs actually ended up being higher as there was almost always something going wrong. Three years ago, Puma moved to a more integrated approach in partnership with A.P. Moller-Maersk (held in the Fund) as its main provider. Together they prioritise cargoes, track progress through their blockchain-based TradeLens platform and can flexible timings on picking up cargoes from suppliers (such as during the initial phase of the 2020 lockdowns). Having a single overarching co-ordinator of logistics has made all the difference during the disruptions of the last 18 months. The result has been a more reliable service for Puma, which also delivered real world cost savings. For Maersk, the Puma relationship has become deeper, with more value added, and hence more profitable.

The ability of companies to outsource large parts of their businesses has led to new, smaller disruptive businesses being able to gain the benefits of scale that historically were only reserved for incumbents at scale. This has enabled competition and acceleration of innovation in some sectors. It also gives those companies that can control pinch points in these innovative value chains a strong competitive advantage in a potentially faster growing industry. Companies like TSMC are well-positioned here. We also see more examples of companies outsourcing more of their business to ‘solutions’ providers rather than low cost ‘bare bones’ product / service providers. This can be a win-win for customers who can grow faster, scale more rapidly and benefit from R&D that is spent centrally after being pooled from a large number of customers.

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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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LF Majedie Global Equity Fund

Quarterly Newsletter – June 2021

MAJEDIE
Asset Management



Fund Overview (as at 30 June 2021)

Top 10 Holdings (Absolute) %		Top 10 Sectors (Absolute) %		Top/bottom 5 Positions (Relative) %	
Facebook	4.2	Communication Services	19.9	Facebook	+3.0
Amazon	3.2	Information Technology	18.9	A.P. Moller-Maersk	+2.2
Alphabet	3.0	Consumer Discretionary	18.9	SoftBank	+2.1
Microsoft	2.5	Health Care	12.5	Electronic Arts	+2.1
SoftBank	2.3	Industrials	10.5	Fiserv	+2.1
A.P. Moller-Maersk	2.3	Financials	9.4	Alibaba Group	-0.6
Fiserv	2.2	Materials	5.9	Johnson & Johnson	-0.7
Electronic Arts	2.2	Consumer Staples	1.5	JPMorgan Chase	-0.7
Taiwan Semiconductor Manufacturing	2.1	Energy	0.7	Tesla	-0.8
NXP Semiconductors	2.0	Utilities	-	Apple	-3.5

Country Breakdown %		Market Cap Allocation (USD) %		Fund Information	
United States	61.9	> 100bn	28.9	Launch Date	30/06/2014
Japan	5.6	50-100bn	22.0	Benchmark Index	MSCI AC World
Denmark	4.8	25-50bn	16.3	Fund Size	\$84m
Korea	4.6	10-25bn	14.7	Strategy Size	\$229m
China	4.1	5-10bn	11.1	Number of Holdings	87
Other (16 countries)	17.1	2-5bn	4.9	Active Share (%)	84.4
Cash	1.8	< 2bn	0.3	Fund Type	UK UCITS
		Cash	1.8	Pricing Frequency	Daily at noon
				Swing Rates (%)	-0.08 / +0.08

The X share class is available via direct and advisor platforms.

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Share Class Information

SHARE CLASS	ISIN CODE	SEDOL CODE	BLOOMBERG CODE	INITIAL CHARGE	ONGOING CHARGE	MIN INITIAL INVESTMENT	MIN ADDITIONAL INVESTMENT
X Accumulation (USD)	GB00BN31TD61	BN31TD6	MAJGEXU LN	0.00%	0.65%	\$100,000	\$5,000
X Accumulation (GBP)	GB00BN31TC54	BN31TC5	MAJGEXG LN	0.00%	0.65%	£100,000	£5,000

Source: Majedie

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