LF Majedie UK Equity Fund

Quarterly Newsletter– September 2021

MAJEDIE
Asset Management

Fund Managers

James De Uphaugh

- 33 years' investment experience
- Co-founded Majedie Asset Management in October 2002
- Co-managed the UK Equity Fund since inception

Chris Field

- 34 years' investment experience
- Co-founded Majedie Asset Management in October 2002
- Co-managed the UK Equity Fund since inception

Imran Sattar

- 24 years' investment experience
- Joined Majedie Asset Management in June 2018
- Co-managed the UK Equity Fund since July 2019

John King

- 11 years' investment experience
- Joined Majedie Asset Management in December 2019
- Co-managed the UK Equity Fund since December 2019

Overview

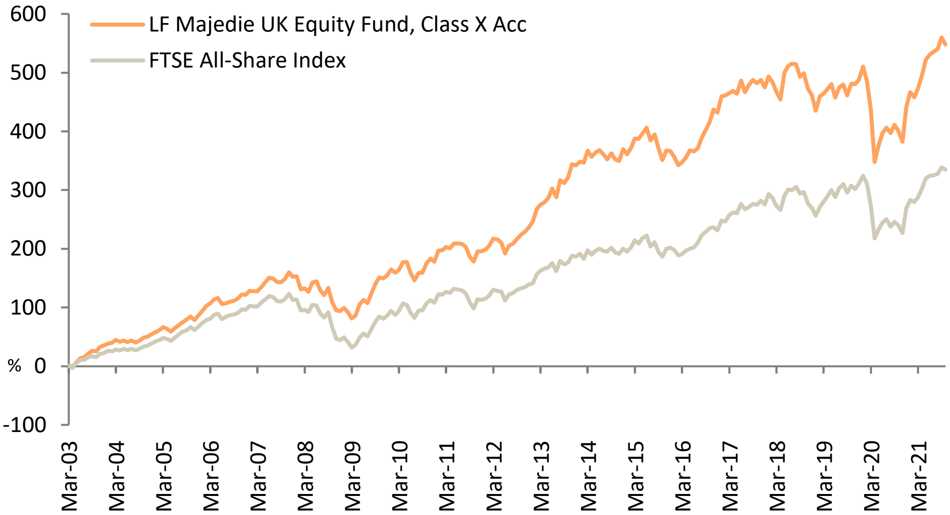
The Fund

- The UK Equity Fund is our flagship UK fund. In addition to its UK equity holdings, it has the flexibility to invest up to 20% of net asset value in shares listed outside the UK. It also incorporates a dedicated investment in smaller companies.
- The UK Equity Fund is a UK domiciled OEIC. An Irish domiciled version of the Fund is also available.^
- It is managed by James de Uphaugh, Chris Field, Imran Sattar and John King.

Objective

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

Fund Performance *(to 30 September 2021)*



Performance is calculated on a total return basis for the class X GBP shares, net of 0.65% AMC (0.75% before 01-Oct-19). The period 07-Jul-03 to 13-Sep-12 is simulated using the A Share Class net of 1.0% AMC. 27-Mar-03 to 07-Jul-03 is simulated using the Class B total returns net of 1.0% AMC.

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FUND PERFORMANCE (%) *(to 30 September 2021)*	1 MONTH	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	10 YEARS (P.A.)	SINCE INCEPTION
X Accumulation	-1.8	2.0	29.4	2.7	4.7	8.8	548.2
X Income	-1.8	2.0	29.4	2.7	4.7	8.8	548.2
FTSE All-Share Index	-1.0	2.2	27.9	3.1	5.4	8.2	334.7
Relative (for X Accumulation)	*-0.8*	*-0.2*	*+1.5*	*-0.4*	*-0.7*	*+0.6*	*+213.5*

DISCRETE YEARS (%) 12 MONTHS ENDING:	DEC 11	DEC 12	DEC 13	DEC 14	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	DEC 20	SINCE INCEPTION (P.A.) *(to 30 September 2021)*
X Accumulation	0.6	16.2	29.4	2.8	-1.0	22.6	6.0	-9.8	14.1	-7.1	10.6
FTSE All-Share Index	-3.5	12.3	20.8	1.2	1.0	16.8	13.1	-9.5	19.2	-9.8	8.3
Relative (for X Accumulation)	*+4.1*	*+3.9*	*+8.5*	*+1.6*	*-2.0*	*+5.9*	*-7.1*	*-0.4*	*-5.1*	*+2.7*	*+2.4*

Source: Majedie, GBP, net of fees. Inception 27 March 2003. Performance is calculated on a total return basis for the class X GBP shares, net of 0.65% AMC (0.75% before 01 Oct 19). The period 07 Jul 03 to 13 Sep 12 is simulated using the A Share Class net of 1.0% AMC. 27 Mar 03 to 07 Jul 0 3 is simulated using the Class B total returns net of 1.0% AMC . ^Share classes for the Irish domiciled Fund: Class Z Acc (ISIN: IE00BH65MY57), Class Z Inc (ISIN: IE00BH65MZ64). Fund performance is calculated using month end COB prices and may differ from performance disclosed in the Fund's KIID which are calculated using the Fund's valuation point (12 noon London time).

Executive summary

While macro uncertainty has dominated markets in the latest quarter, we have been encouraged by the return of the "marginal buyer" to the UK equity market. Nevertheless, we still believe the opportunity for investors in the UK is largely misunderstood. In this newsletter we outline why the current environment is providing an exceptional hunting ground for our stock-led approach to investing.

The hard yards?

Equity markets were unsettled in the September quarter. A combination of tempering growth, ongoing supply bottlenecks, and rising energy prices ignited concerns that the recovery was waning, and inflation was starting to stick. Bond markets sold off, while the returns for equity investors were muted with a notable market rotation from growth into value stocks. Evergrande's mounting financial difficulties in China added to the more circumspect mood among investors.

Central banks found themselves in the precarious position of either continuing to stoke inflation with accommodative policies or pulling back with likely ramifications for the recovery, especially in the entry-level jobs market. Here in the UK, Bank of England Governor Andrew Bailey, described the next phase of the recovery as "the hard yards", especially for the labour market where furlough has come to an end. On the face of it, the job market looks to be in rude health. The unemployment rate is low at 4.6%, while job vacancy rates have climbed to about one million (with associated increases in wage inflation). But the Bank expects some lumpiness in the transition from the end of furlough for some 1.7 million people, many of whom may not be absorbed by previous jobs, high levels of Covid related inactivity and the potential mismatch between those who might become newly unemployed and the sorts of jobs available (e.g., redundant air stewards may not retrain as lorry drivers or abattoir workers). Nevertheless, the Bank appears ready to pull the trigger on tighter policy if current inflation dynamics start to harden. The Chancellor's £500m plan to renew job support schemes should help and provides the Bank with some breathing room in terms of dealing with inflation. The Government's targeted visa programme to address labour shortages will also provide some respite, although this may turn out to be a longer-term feature than the

Government's hard-line rhetoric suggests.

Businesses haven't lost their bounce

Notwithstanding these challenges, the bottom-up picture in the UK continues to show signs of health, providing reasons for optimism. The latest business survey data from Lloyds Bank suggests confidence is back at levels last seen in 2017 (Figure 1), with improved sentiment across services, manufacturing and construction[1]. Firms are expecting higher staffing levels, higher wages and increased prices over the next 12 months. While these surveys are a few weeks old, they were taken at a time when bottlenecks and shortages were prevalent (albeit with less bite than in recent weeks) and show an encouraging level of optimism following a challenging few years.

Figure 1: Business confidence continues to recover

Source: Lloyds Bank Business Barometer (August 2021), BVA BDRC

There are myriad reasons for the supply issues and rising energy prices, including irregular supply and demand dynamics due to the uneven economic reopening, as well as rapidly changing supply chains as a result of Covid and ongoing geopolitical tensions. In recent months, we have been engaging with investee businesses on these issues, speaking to the likes of shipping company Maersk, as well as a range of consumer-facing businesses. The key message has been that while headwinds have been at times fierce, many businesses have managed to insulate themselves relatively well, with revenues and profits expected to be robust for the rest of the year. Inventory management is a real issue, especially for businesses with seasonal products (to which our funds have very little exposure). Overall, bottlenecks are expected to continue up to Christmas and the Chinese New Year, before shipping backlogs properly clear.

To provide a flavour of the unique issues each business faces, it's worth highlighting some examples. **Dunelm**, which sources inventory from the Far East, has weathered the current environment better than its competitors due to the strength of its supplier network, the fact it has a 90-100-day inventory cycle (which is not seasonal), as well as its ability to pass on rising costs. **Currys** as market leader in multiple countries has been able to secure goods ahead of competitors, while driver shortages are having a negligible impact as the group has successfully incentivised them to stay, helped by strong employee engagement scores. **Greggs**, meanwhile, has reported a decent third quarter, in part due to its ability to buy well in advance, providing some certainty over costs, although it has cautioned about some labour shortages and potential cost pressures in coming months. Lastly, although **Made.com** announced excellent first-half results, the business flagged short-term difficulties in its supply chain, which are likely to pose temporary headwinds to its wider plans for reducing delivery times. Overall, we are alive to the mispricing opportunities that the current environment might present and have been adding to positions.

It was the best of times, it was the best of times

Beyond the current headlines, there are several reasons to be optimistic about the outlook for investing in the UK more generally. Indeed, we'd go as far as the say that we believe this is one of the best periods for investing in this market that we have witnessed in our careers (some of which stretch back to the mid-1980s).

The return of the "marginal buyer", which is shorthand for buyers willing to compete for UK assets, is a notable positive. This has been most obvious in the tug of war battles among private equity firms for British businesses – Clayton, Dubilier & Rice and Fortress Investment Group's battle over Morrisons is a ready example. Meanwhile, the quantum some companies are willing to pay – a 100% premium for Meggitt, for example – speaks to the undervaluation.

In our view, this activity is delivering three powerful messages. First, the listed market is inefficiently priced, in part (we believe) due to a shift in focus away from the UK by international investors. The return of the marginal buyer is starting to arbitrage this valuation discount away. The second is that the UK is home to global leading businesses. This extends beyond the obvious names such as **RELX**, **Unilever** and **AstraZeneca**, and includes the likes of **AVEVA** and **Electrocomponents**, both of which have grown into global leaders through unassailable product offerings backed by leading technology. The third message is that the market is too focused on short term issues and is looking backwards rather than forwards. Morrisons is a prime example. The merits of this cash generative, vertically integrated business, with close relationships with suppliers, high levels of store ownership, and an online tie up with Amazon, were largely overlooked, in part due to persistent worries about competitor pressures which had mostly played out several years ago.

UK-listed companies have started to return capital via dividends with renewed vigour and the flurry of buyback announcements provide further evidence of the market's mispricing, in our view. It also speaks to the balance sheet strength of many incumbents, including the banks, resources companies and staples businesses like **Unilever** and **Diageo**, as well as lockdown winners like **Domino's**. **Tesco**'s £500m buyback programme announced in recent days is a further example. James de Uphaugh wrote an op-ed on this theme in early September. It is worth repeating his conclusions here:

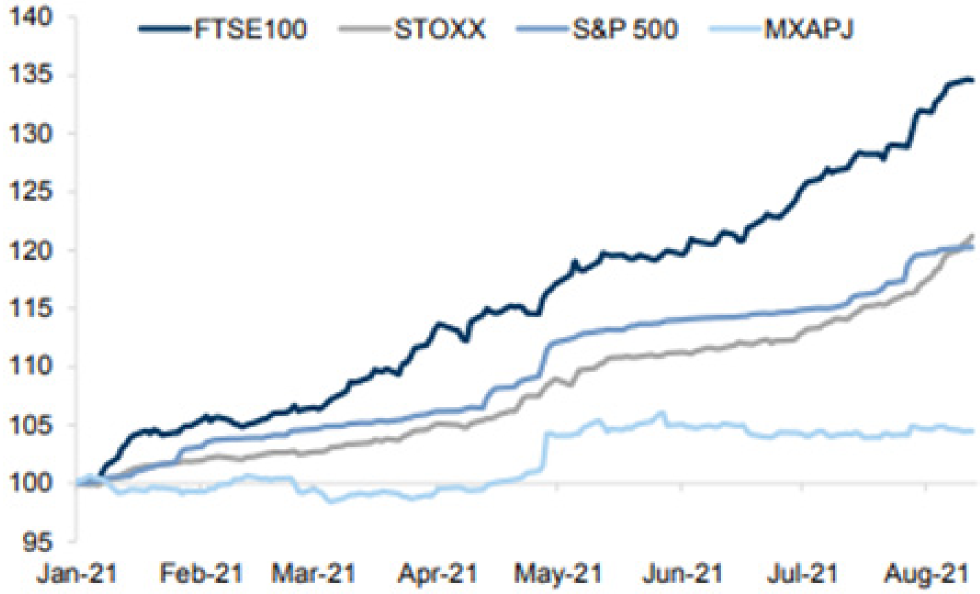
"While private equity buyouts might be grabbing the headlines, buybacks are a nuanced example of the increased competition for assets that is playing out in the UK. Indeed, they are often viewed as a strategy for management teams to defend against predatory takeovers by not only reducing the roster of marginal sellers on the register, but also enhancing valuation metrics.

"Moreover, unlike previous years when we have seen peak buybacks, this activity is occurring at a time when earnings for FTSE100 businesses have been rising faster than share prices. Earnings per share revisions have been beating those of markets in the US and Europe, and revisions of net income margins are the highest for 20 years."

The following charts (Figure 2) from Goldman Sachs underscore many of these points. Share prices tend to follow earnings, yet the FTSE100 has failed to keep up with upward earnings revisions despite generally undemanding valuations which reinforces our view of how unloved the UK remains and its inherent value.

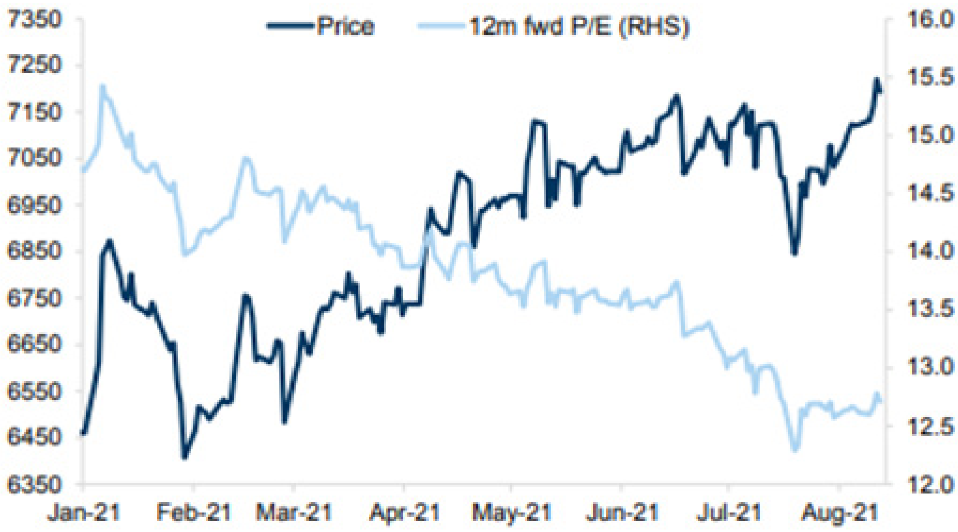
Figure 2: UK equities are back on track

Exhibit 1: 2021 FTSE 100 EPS revisions above those in Europe and the US



Source: FactSet, STOXX, Goldman Sachs Global Investment Research

Exhibit 2: YTD FTSE 100 price has risen ... but P/E has fallen



Source: FactSet, Goldman Sachs Goldman Investment Research

We mentioned earlier that investors are too focused on short term issues and are in many cases misunderstanding the opportunity that some individual stocks are presenting for investors.

E-commerce optimisation business **Ascential** is a good example of this sort of opportunity. The stock's long-term potential is largely eclipsed by short term concerns about its events exposure and plans to invest in its e-commerce data business. What is largely underappreciated is the growth of its innovative and world leading digital commerce segment. This includes a data analytics and e-commerce platform that has expanded rapidly both organically and through bolt-on acquisitions and provides essential market optimisation analytics for a growing list of consumer brands. It also has a significant stake in Hudson-MX, a disruptive business that is set to revolutionise the global media buying and advertising industry, providing an end-to-end solution that streamlines processes and helps track and optimise campaigns in real time. All of the major global advertisers have used its flagship product, BuyerAssist, transacting over $6bn worth of media buying: yet, Hudson-MX barely gets a mention in research about **Ascential**. Examples of other misunderstood businesses include **Compass Group**, **Fever-Tree**, **Currys** and **Serco**, to name a few, which as specialist bottom-up investors makes the current UK market a particularly exciting hunting ground.

One final note on this theme: it is important to recognise that the complexion of the UK stock market and economy is changing. Capital has been flooding into UK fintech start-ups, in fact more so than France, Germany and Sweden combined. We recently invested in the IPO of **Oxford Nanopore**, the gene sequencing company, which represents a new cohort of home-grown science-based enterprises with immediate global standing. In part due to a sensible policy backdrop, the country is cementing its reputation as a science and technology hub which will provide long term benefits for investors. In our view, this is indeed an exciting time to invest in the UK.

Stocks held within the portfolio are highlighted in bold. All other stocks are mentioned for information purposes only.

Endnotes

1 https://www.lloydsbankinggroup.com/media/press-releases/2021/lloyds-bank/business-confidence-surges-four-year-high.html

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.

UK Equity Fund Team

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Fund Overview (as at 30 September 2021)

Top 10 Holdings (Absolute) %

Royal Dutch Shell	4.3
AstraZeneca	3.7
3i	2.8
RELX	2.7
Ascential	2.7
Electrocomponents	2.7
Unilever	2.7
NatWest	2.7
Tesco	2.5
AVEVA	2.4

Top 10 Sectors (Absolute) %

Industrial Support Services	10.4
Personal Care, Drug and Grocery Stores	10.0
Software and Computer Services	7.9
Investment Banking and Brokerage Services	7.4
Media	7.1
Retailers	6.0
Pharmaceuticals and Biotechnology	5.0
Oil, Gas and Coal	4.8
Travel and Leisure	4.5
Banks	4.0

Top/bottom 5 Positions (Relative) %

Ascential	+2.7
Electrocomponents	+2.5
AVEVA	+2.3
3i	+2.3
Fevertree Drinks	+2.2
British American Tobacco	-2.5
HSBC	-2.7
Diageo	-2.7
BP	-2.8
GlaxoSmithKline	-2.9

Asset Allocation (Absolute) %

FTSE 100	47.5
FTSE 250	32.5
International	7.3
FTSE Small Cap	2.8
AIM	6.5
Fledgling/Other	2.6
Cash	0.8

Fund Information

Launch Date	27/03/2003
Benchmark Index	FTSE All-Share
IA Sector	UK All Companies
Fund Size	£976m
Strategy Size	£2.6bn
Number of Holdings	160
Active Share (%)	68.8
Historic Yield (%)*	1.5
Ex-Dividend Dates	End Jun & End Dec
Distribution Dates	End Aug & End Feb
Fund Type	UK UCITS
Pricing Frequency	Daily at noon
Swing Rates (%)	-0.15 / +0.55

*X Accumulation shares

How to Buy the Fund

Platforms

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

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 Link Fund Solutions or in hard copy free of charge by contacting Link Fund Solutions, the Authorised Corporate Director. Alternatively, please visit https://www.majedie.com/.

Share Class Information

SHARE CLASS	ISIN CODE	SEDOL CODE	BLOOMBERG CODE	INITIAL CHARGE	ONGOING CHARGE	MIN INITIAL INVESTMENT	MIN ADDITIONAL INVESTMENT
X Accumulation (GBP)	GB00B88NK732	B88NK73	MAJUKXA LN	0.00%	0.65%	£100,000	£5,000
X Income (GBP)	GB00B8BH0R25	B8BH0R2	MAJUKXI LN	0.00%	0.65%	£100,000	£5,000

Source: Majedie

Important Information

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