LF Majedie UK Income Fund

Quarterly Newsletter – June 2021

Fund Managers

Chris Field

- 34 years' investment experience
- Co-founded Majedie Asset Management in October 2002
- Manager of the UK Income Fund since May 2021

Overview

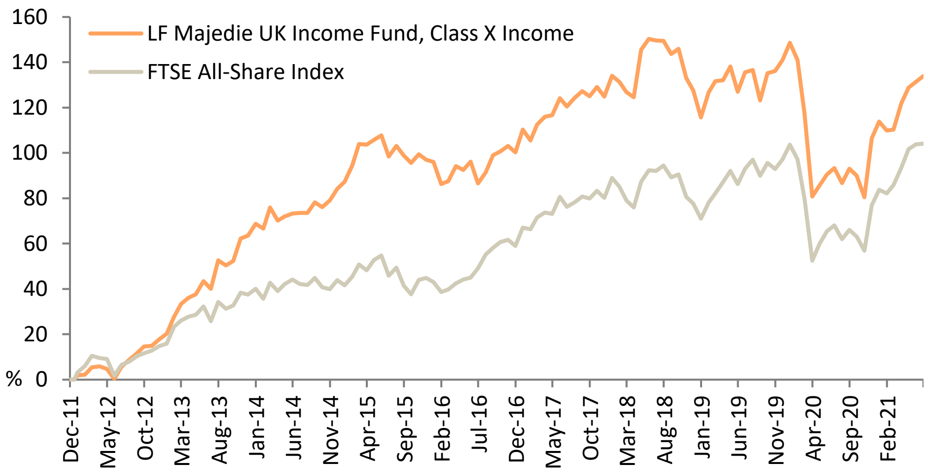
The Fund

- The UK Income Fund is a focused, high conviction UK equity income fund which has the flexibility to invest up to 20% of net asset value in shares listed outside the UK.
- The UK Income Fund is a UK domiciled OEIC.
- Consistent with all Majedie funds, capacity is limited to ensure that size does not become an impediment to performance.

Objective

- To produce, after all costs and charges have been deducted, an income in excess of the yield on the FTSE All-Share Total Return Index and a total return (a combination of income and capital growth) in excess of the return on the FTSE All-Share Total Return Index over any period of 5 years.

Fund Performance *(to 30 June 2021)*



Performance is calculated on a total return basis for the class X GBP income shares, net of 0.65% AMC (0.75% before 01 Oct 19, 1.5% before 13 Sep 12). The period 19 Dec 11 to 13 Sep 12 is simulated using the Class A total returns (net of 1.5% AMC).

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FUND PERFORMANCE (%) *(to 30 June 2021)*	1 MONTH	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION
X Income	1.1	5.5	21.0	-2.1	4.6	133.9
X Accumulation	1.1	5.5	21.0	-2.2	4.6	133.9
FTSE All-Share Index	0.2	5.6	21.5	2.0	6.5	104.1
Relative (for X Income)	*+1.0*	*-0.1*	*-0.5*	*-4.2*	*-1.9*	*+29.8*

DISCRETE YEARS (%) 12 MONTHS ENDING:	DEC 12	DEC 13	DEC 14	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	DEC 20	SINCE INCEPTION (P.A.) *(to 30 June 2021)*
X Income	18.0	40.2	11.0	4.6	7.3	11.3	-7.8	15.3	-14.0	9.3
FTSE All-Share Index	12.3	20.8	1.2	1.0	16.8	13.1	-9.5	19.2	-9.8	7.8
Relative (for X Income)	*+5.7*	*+19.4*	*+9.8*	*+3.6*	*-9.4*	*-1.8*	*+1.6*	*-3.9*	*-4.2*	*+1.6*

Source: Majedie, GBP, net of fees. Inception 19 December 2011. Past performance of the X share class prior to its launch on 13 September 2012 refers to the A share class (charging 1.5% p.a.).

Majedie UK Income Fund

QUARTERLY NEWSLETTER

FOR THE QUARTER ENDING 30 JUNE 2021

As many of you will be aware, I recently became lead manager of the Majedie UK Income Fund. This represents an opportunity which I am hugely excited about. This is a particularly interesting time to be managing a UK equity income strategy. Many dividends in the UK market have been reset to levels from which we should see some decent growth and there are some very interesting valuation anomalies in an undervalued UK equity market. Rather than run through an investment backdrop that many readers will be familiar with, in this newsletter I plan to focus on the experience and qualities that I bring as the new manager of the Fund.

By way of background, my fund management career began managing private client money for a stockbroking firm called Rowe & Pitman and in 1990, after the business was absorbed by SG Warburg and its investment arm, Mercury Asset Management, I was invited to join the Charities team. Six years later, I moved across to the institutional pension fund team where I managed pension schemes until I left in 2002 with colleagues to start Majedie.

What type of companies historically have I liked? At the risk of appearing flippant, the answer is the ones where I believe the share price upside is significant. I love investing in great businesses that earn a high return on capital invested, grow strongly, have high and growing market shares, which are capital light, cash generative, high yielding, with net cash on the balance sheet and I believe have a fantastic business model. For example, ARM, Rightmove or Fever-Tree, all of which I saw as having glaring undervaluations. In reality, all of these characteristics are rarely on offer by one company. But they are what I look for in companies, although NOT to the exclusion of everything else. Every company has a price to me and sometimes the undervaluation of a company that has very few of these characteristics might offer significantly higher returns relative to the best companies in the world.

Unlike many managers who develop and refine a certain style during their careers as a growth, value or GARP (Growth at a Reasonable Price) investor, my investment philosophy has actually broadened. I would say that I started my career with a value bias, but growth companies and the power of technology in the late 1990s caught my imagination as it was quite clear back then that technology would be a fertile ground for long-term investment and would also prove an enabler to businesses. As we approached the end of the millennium, the stock market really bifurcated between the “new” and “old” world stocks, and valuation differentials were enormous. At the beginning of 2000 I began to switch my highly rated growth stocks and technology stocks into the old-world stocks nobody wanted. I called some of the Finance Directors of the water companies in March 2000 and advised them it was a “no brainer” decision to buy as many of their shares back as possible given they were trading at up to a 50% discount to RAB (Regulated Asset Base) – notably, in the case of Pennon – on which they earned a near guaranteed regulatory return. I managed to outperform in both 1999 and 2000 because I was flexible, pragmatic and ultimately attracted to undervalued assets. That period was a lesson though for us all on how share prices can completely divorce from reality for a protracted period but when sentiment changes, share price movements can be swift as investors attempt to change tac at the same time.

Majedie launched its UK equity funds one week after the troops were sent into Iraq in March 2003. Investors panicked but for Majedie, we managed to launch at close to a market low and into a market that had also bifurcated: anything cyclical was on sale whilst defensive shares became highly rated. That was a very rewarding period for Majedie’s investors, and I took full advantage of the undervalued assets that were on offer.

As we headed into 2007, market exuberance pushed indices to new highs against what was a deteriorating background with HSBC’s warning of rising defaults in US sub-prime loans in December 2006. It was the canary in the coal mine ahead of the Global Financial Crisis (GFC). My colleagues and I had started to shift portfolios in 2007 out of highly indebted businesses and into some of the cheaper and defensive businesses – most notably, Unilever became one our largest holdings in the UK Equity Fund on 10x earnings! To outperform in the ensuing two-year period from 2008-2009, which we succeeded in doing, required a radical change in the portfolio which only comes from being flexible. I notched up outperformance over both years.

So why the history lesson? First, I’m not one for blowing my own trumpet because the market has an amazing ability to bring you down to earth with a bump, but I use the past to illustrate that the market gets it wrong from time to time and being flexible allows the opportunity to capitalise on the mispricing of companies. I believe there is a bifurcation in the UK market today, between the loved and unloved, that a flexible investor can exploit. I recognise valuations of out of favour companies can break from fundamentals for a long period of time and that opportunity cost and weakening fundamentals can be your enemy over time, but we seem to be in an environment where many investors are simply ignoring a swathe of seemingly challenged companies, regardless of valuation. Three important issues for me though in pursuing value stocks are to 1) try and get a handle on the downside potential in a share price as well as the upside as greater asymmetry to the upside is obviously sought, 2) monitor thesis creep as one needs to be disciplined about exiting if it isn't working and 3) be clear about the investment timeframe to avoid being trapped!

Since the GFC heralded a protracted period of low interest rates, accelerated technological disruption and a great deal of uncertainty in the world, an army of like-minded, risk averse investors have sought refuge and solace in "dependable" companies that compound over time and have a low probability of disappointing investors. I too went through a period of seeking out such companies as we emerged from the GFC. Having only this approach, however, is too narrow, a little bit lazy and not without risk. My contention is that there are many highly rated companies that are not growing quickly enough to make the shares look undervalued in any reasonable timeframe. To me, successful investment distils down to exploiting the gap between the valuation the stock market places on a company relative to its true worth. Quite often, as mentioned above, behavioural traits mean this gap can become very large as fear or greed takes hold. When a company has pariah status, for whatever reason, I often hear that the "return on effort" in analysing and investing in such companies is too low to make it worthy of consideration and, by that, commentators mean why bother spending time researching and analysing such companies when there are so many other great companies in the market that are reliable growers and, over the longer term, will win the race. Well, to me, it's all about the starting valuation. Great companies can be the best in the world but if that is more than reflected in the valuation, they are unlikely to make good investments.

In stark contrast to highly rated, much loved dependable growth companies, I see investor fear and apathy towards those companies that face a challenging future regardless of whether it is just short-term Covid related or bigger, more strategic and structural. Investors today are shying away from the uncertainty these issues create and are not interested in re-engaging with these companies until there is a resolution. This is presenting some very attractive investment opportunities. Take **Ascential**, a data analytics company that is the global market leader in collecting and selling data to consumer goods companies to help them, amongst other things, optimise their selling through some of the 3,000 business to consumer platforms that exist globally, such as Amazon. This is a business growing at around 30% but they also have live events which have not run due to Covid, which seems to preoccupy investors even though it's really only a short-term issue. Ascential's market position and the nascency of this market makes it one of the most exciting investments in the Fund. Another example would be **Daily Mail & General Trust** (DMGT) which is a conglomerate of media, internet and data related assets. It is no longer part of the FTSE All-Share Index and consequently is under researched by sell-side analysts. Those analysts who do follow the company have not been doing a good job, as DMGT over the last couple of years has sold businesses at multiples of what these analysts had in their sum of the parts. They continue to underestimate the value of subsidiary businesses within the group such as RMS (catastrophe modelling for the insurance industry), Cazoo (online car retailer floating this summer) and Landmark (online property transaction portal designed to compress the time it takes to execute a property transaction). News about the potential listing of Cazoo and sale of RMS as part of a wider restructuring of the group, as well as the Rothermere family's take-private proposal, show how our investment thesis has been playing out. Another example would be **Dixons Carphone** which has been scarred through its disastrous merger with Carphone Warehouse. It is a very lowly rated company that has been completely transformed and is seeing earnings upgrades based on higher than expected growth rates. This transition from unloved and misunderstood to compelling growth is a form of investment nirvana that can realise outsized investment returns. And it is not as rare as one might think. **Ashtead Group**, **Rentokil Initial** and **Electrocomponents** are just a few examples of companies I have bought in my time as an investment manager as out of favour value stocks that have been rerated as growth stocks.

One final theme I would highlight is corporate Darwinism. There are many examples across various industries of companies extending their lead over competitors through, perhaps, a combination of increased investment and better technology, stronger management with great strategic vision and increased financial flexibility. Where investors are misjudging the opportunities for these strategically well-positioned businesses that are operationally firing on all cylinders, the gains can be substantial. These are exciting times and I intend to capitalise on them.

I can declare having a substantial investment in the Majedie UK Income Fund, which I placed on the first day I became manager, reflecting my strong conviction in the extreme opportunity in this area of the market.

Companies highlighted in bold are currently held in the LF Majedie UK Income Fund.

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 Income Fund Team

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MAJEDIE Asset Management

Fund Overview (as at 30 June 2021)

Top 10 Holdings (Absolute) %

Royal Dutch Shell	6.5
AstraZeneca	4.8
St. James's Place	4.4
Dixons Carphone	4.1
Daily Mail and General Trust	4.1
Ascential	4.1
Serco	4.0
Essentra	3.8
Domino's Pizza	3.8
BAE Systems	3.7

Top 10 Sectors (Absolute) %

Industrial Support Services	12.5
Investment Banking and Brokerage Services	7.9
Pharmaceuticals and Biotechnology	7.7
Personal Care, Drug and Grocery Stores	6.6
Retailers	6.6
Oil, Gas and Coal	6.5
Household Goods and Home Construction	6.0
Life Insurance	5.7
Media	4.1
Software and Computer Services	4.1

Top/bottom 5 Positions (Relative) %

Daily Mail and General Trust	+4.1
St. James's Place	+4.1
Dixons Carphone	+4.1
Ascential	+4.0
Serco	+3.9
British American Tobacco	-2.7
GlaxoSmithKline	-2.9
Diageo	-3.3
HSBC	-3.6
Unilever	-4.6

Asset Allocation (Absolute) %

FTSE 100	52.2
FTSE 250	33.8
International	3.0
FTSE Small Cap	0.0
AIM	2.5
Fledgling/Other	4.1
Cash	4.5

Fund Information

Launch Date	19/12/2011
Benchmark Index	FTSE All-Share
IA Sector	UK Equity Income
Fund Size	£85m
Strategy Size	£88m
Number of Holdings	29
Active Share (%)	77.7
Historic Yield (%)*	4.3
Ex-Dividend Dates	End Jun & End Dec
Distribution Dates	End Aug & End Feb
Fund Type	UK UCITS
Pricing Frequency	Daily at noon
Swing Rates (%)	-0.10 / +0.55

*X Income 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 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 Income (GBP)	GB00B7XCNP79	B7XCNP7	UKINCXI LN	0.00%	0.65%	£100,000	£5,000
X Accumulation (GBP)	GB00B83QP495	B83QP49	UKINCXA LN	0.00%	0.65%	£100,000	£5,000

Source: Majedie

Important Information

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