Evenlode Global Opportunities Fund

Investment View

Review of Q1 2025

April 2025

For Professional Clients only

Certified B Corporation

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Summary

The Evenlode Global Opportunities fund returned +2.5% in the first quarter of 2025 ahead of its comparator benchmark, the MSCI World Index, which returned -1.8%. The fund benefited from a general rotation away from the islands of relative strength in 2024 towards a broader palette of ex-US and ex-tech companies. Fundamental results for our companies remained superior to that of the index in Q4 2024.

While this trend has since been overshadowed by the dramatic post-quarter announcement of new US trade tariffs, we think the outlook for the rest of 2025 for the fund remains good. Using the traditional value metric of free cash flow yield[i], the portfolio is at roughly the same multiple as the broader index, for a group of companies with lower leverage, higher gross margin, higher return on invested capital, higher conversion of Earnings per Share[ii] into free cash flow, and faster topline growth. We expect continued above-market revenue and earnings growth in the year ahead. While we expect earnings estimates to be cut hard for both the portfolio and the index following the dramatic events of 2 April and afterwards, we expect the portfolio earnings expectations to be cut less than the broader index due to its bedrock of repeat purchase business models, superior pricing power, and greater balance sheet optionality. To be clear, we are not taking an active posture in expectation of a cyclical decline in 2025, but rather our preference for lower cyclicality and better balance sheet is completely consistent with Evenlode's through-cycle investment approach.

Q1 2025 overview

The global equity market in Q1 2025 was in the position of the dog which caught the car. Both institutional and retail investor expectations at the start of the year were firmly of continued US exceptionalism rolled forward by the new administration's expected package of deregulation and tax cuts. Unsurprisingly, aggregate positioning reflected this outlook, and therefore the big rotation away from US and tech were – in hindsight! – inevitable. This started even before the swearing-in of the new administration in the US which overlapped with the Q4 results season for on-cycle reporters. As the quarter wore on a confluence of trends drove continued US underperformance: weaker-than-expected corporate results particularly in darling[iii] sectors, increased nervousness over US administration priorities and their alignment with the markets' wish-lists, and a dramatic fiscal turnaround in Germany.

The most important of these for us was the earnings season. The biggest idiosyncratic moves were on companies which often reported quite dramatic earnings growth, yet not enough to beat buyside consensus numbers, reminding us that in markets the change in level rather than the level itself is the critical component. Unfortunately, the situation of the US and Western consumer has not improved, which we think bodes poorly both for Q1 earnings and the year as a whole, particularly as the new tariffs, wherever they land, are unlikely to be good for consumer pricing. We also think it will be increasingly hard to keep funding capex into growth areas like AI lavishly while the financial payback keeps receding to the horizon. Sell-side firms

estimate that AI is likely generating about $10-12bn in annualised revenues at deeply negative margins. While this is growing quickly, so far the cost base has not scaled correspondingly, and the capital required to generate this revenue is truly enormous, running into the mid-hundreds of billions. These two factors are the most important ones in our view on earnings in the year ahead; as mentioned, we are confident our portfolio is less exposed than the wider index.

On the US administration and the German fiscal 'pivot', we have less insight and less to say. Equity markets like low macroeconomic and regulatory volatility so on the whole we think neither is particularly helpful to the market, with the repeated caveat that our portfolio is, in our estimation, meaningfully less levered to changes in the macroeconomic cycle than the benchmark.

Portfolio changes

In March we decided to move our exposure to the lodging online travel agency sector from Airbnb to Booking Holdings. We judged that Booking has a broader and more diversified book of business than Airbnb, both geographically and by lodging type. It is well placed to continue growing its share of the alternative accommodation market as it drives penetration outside the more mature US market. It also benefits from the continued transition of the lodging industry from business to leisure, which expands the requirement for online distribution. Pricing power versus hotels is attractive given the high incremental margins on an incremental room night sold, whereas in alternative accommodation owners tend to have less economic sensitivity to occupancy rate. Booking also has a long history as the most thoughtful and sophisticated travel acquirer in its channel, willing to sacrifice current earnings to drive lodging owner reach via paid search but also enjoying a well-established advantage in its 'Genius' loyalty programme. We continue to track Airbnb and it remains an investment opportunity should its valuation become more attractive relative to Booking; we need to emphasise that the company was sold on a pure competition for capital basis.

We also added the New York Times in March. This is a leading news publisher which operates the famous newspaper, both print and online, and a number of ancillary digital news platforms. It has a well-invested content franchise which is becoming increasingly differentiated to the overall news industry as its large subscriber base allows it to protect investment, while the rest of the industry is in rapid decay due to its dependency on undifferentiated advertising inventory. We have invested through the print-to-digital transition at other media businesses and expect that this one will continue to enjoy the same natural margin tailwind from variable production and distribution costs dropping away.

We look forward to being in touch again soon.

Chris, James, Cristina, Gurinder, and the Evenlode Team
14 April 2025

Evenlode has developed a Glossary to assist investors to better understand commonly used terms.

Please note, these views represent the opinions of the Evenlode Team as of 14 April 2025 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security, or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. For full information on fund risks and costs and charges, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectus, which are available on the Evenlode Investment Management website (https://evenlodeinvestment.com). Recent performance information is also shown on factsheets, also available on the website. Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Fund performance figures are shown inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs unless otherwise stated. The figures do not reflect any entry charge paid by individual investors. Current forecasts provided for transparency purposes, are subject to change and are not guaranteed. Source: Evenlode Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 767844.

Market data is from S&P CapIQ, Bloomberg and FE Analytics unless otherwise stated.

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[i] *Free Cash Flow (FCF) Yield - The Free Cash Flow Yield is the total free cash flow generated by a portfolio or index, divided by the market value of the companies in the portfolio or index. A higher free cash flow implies that a company is generating more cash that could be paid out as dividends and to reinvest into growth of the business.*

[ii] *Earnings per Share (EPS) is a measure of company profitability, calculated by dividing a company's profit by the number of shares in issue.*

[iii] *Darling sector - A specific industry or group of companies that are experiencing a surge in popularity and market performance, often due to positive news, strong growth prospects, or favourable macroeconomic conditions. They are viewed as highly desirable as it is believed that they will continue to outperform.*