

Q1 2022 NEWSLETTER

FINANCIAL RATIOS OF EQUITY ALLOCATION

PRICE TO EARNINGS RATIO **12.0×**

The market value of our current company holdings in relation to their earnings over the past year. This provides an indication of the number of years of company profits that equates to the current market price of our equity assets.

DIVIDEND YIELD OF EQUITY ALLOCATION **2.8%**

The dividends of our current company holdings over the past year, in relation to their current market value.

PERFORMANCE SINCE LAUNCH (%)



QUARTER 1 2022

+1.9%

3 YEARS

+30.6%

2021

+15.2%

2019

+15.3%

YEAR TO DATE

+1.9%

SINCE LAUNCH

+30.7%

2020

+2.4%

This performance information refers to the past. Past performance is not a reliable indicator of future results. This information is denominated in GBP: returns may increase or decrease as the result of currency fluctuations.

COMMENTARY

The change in the Fund's unit price for the first quarter of 2022 was 1.9%. This was in contrast with broad market indices falling at the start of the year.

Optimism that the global economy was emerging from the COVID-19 crisis was abruptly shattered by the Russian invasion of Ukraine on 24th February, with the world looking on in horror and disbelief at the scenes of brutal aggression. The United States, along with most European countries, imposed stringent financial sanctions on Russia but stopped short of military action. At the same time energy prices spiked, as the conflict shone a light on the dependency that Europe has on Russian oil and gas.

The actions of Russia are abhorrent, and clearly stem from one man, not the entire nation. However, I see a danger that these actions find popular support in Russia, because of discontent amongst citizens who feel left behind by globalisation. China's stance of not condemning Russia appears motivated by the practicalities of cheap energy and a disinterest in receiving moral leadership from the West. Whilst the two countries are starkly different, their actions reveal the deep cracks underlying the current global economic system.

We have lived through a period of prosperity in developed countries, as globalisation has meant that many of the goods we consume have been produced by countries with low paid workers and weaker environmental and labour regulations. At the same time many western nations have become increasingly indebted, financed indirectly by central banks printing new money. The two are intertwined, as the deflationary impact of cheap goods has helped central banks justify a flood of new money creation.

I wrote about the risk of price inflation in my letter this time last year, since when measured inflation has hit levels not seen in developed countries in the last forty years. It is not yet clear the extent to which this is because of production stoppages during the COVID crisis versus the impact of central banks printing money. I believe that both have played a part.

The Russian conflict provides a catalyst for continued high inflation. Many households will have a limited ability to absorb higher energy and food costs, which will put pressure on both companies and governments to increase workers' pay. Central banks will find themselves trapped between the economic orthodoxy of raising interest rates to dampen inflation, and the pain that it would inflict on both household and government finances.

The investing environment that we have lived through in recent history has been incredibly benign, with increasing profit margins for many companies, together with falling interest rates and taxes. All are related to the deflationary influence of globalisation and the accompanying low interest rates and rising government deficits. I see a clear risk that this environment does not persist.

We do not make investment decisions based on macro-economic forecasts, but we do want to own a portfolio that will be robust in a range of future scenarios. It is too soon to know what the implications of the conflict will be, and I do not claim any foresight on this, but it seems likely to me that it represents a change in the World order and a turning point for investors.

My optimism is that in a more challenging investment environment, company valuations and their financial strength, will become increasingly important. This would be to the benefit of quality value investors like us. Time will tell if this is wishful thinking, but it is at least a view that is supported by a knowledge of history.

Fund Performance

The largest contributor to the increase in unit price this quarter was Newmont Corp, which is a gold mining company. The rationale for us investing in the business was that as well as generating an acceptable return on shareholder capital, it would benefit if inflation fears pushed the gold price higher. It is gratifying that it has behaved as we had hoped, but it is just the first act of a story to which we do not yet know the ending.

The second largest contributor was Warren Buffett's conglomerate, Berkshire Hathaway. We have owned shares in the company since the fund's inception, having been attracted to the talents of their CEO alongside what was an attractive price relative to our view of its intrinsic value. The company appeared to be overlooked by many investors in recent years, which allowed Buffett to repurchase shares. This repurchase of shares, for less than we believe they were worth, is beneficial to us as it now means that the profits of the company are having to feed fewer mouths!

The third largest contributor to the change in unit price was the British wealth management business, Brewin Dolphin. The company has been subject to a takeover offer by the Royal Bank of Canada, at a significant premium to its pre-offer share price. The price at which the takeover has been agreed is ahead of where we would value the business, and so we look forward to reinvesting the proceeds elsewhere.

Three of the top ten contributors to the increase in unit price were energy companies, and a fourth is a producer of farmed salmon. All were owned in the belief that, as well as being good businesses, they would be robust to higher levels of inflation. As per my comments on Newmont it is gratifying to see them contribute in the way that we hoped, but it is too soon to call a victory.

At the opposite end of the spectrum the largest negative contributors were the British conglomerate, Associated British Foods, the Taiwanese camera lens manufacturer, Largan Precision and the Chinese paper manufacturer Nine Dragons Paper.

Associated British Foods (ABF) is a business that we added into the portfolio this year, and so it was disappointing to see its price fall. We do not hold any pretensions about forecasting short-term price movements, and so the experience is one that we will surely suffer again. ABF's best-known business is the clothes retailer, Primark, that is still recovering from COVID induced lock downs. It also owns branded food businesses, one of the world's largest sugar producers, an agriculture business, and a speciality ingredients business. This diversification is something that we felt attractive, despite the prevailing view in financial markets that seems to shun such conglomerate businesses.

Shares in the Dutch holding company, Prosus, were also added into the portfolio this quarter. The company's main holding is in the Chinese technology business Tencent, which was the subject of our research. Tencent, alongside other Chinese technology companies, has been subject to pressure from their national government. Our view is that this pressure is real, but that it is motivated to limit their dominance and not to put them out of business. Tencent is a remarkably adaptable company that also owns large stakes in many other well-known technology businesses. Our investment thesis is that it will be able to adapt to its changing environment, that the price at which we invested provides a margin of safety and that China is unlikely to drastically reverse its economic development towards a mercantile economy.

We researched and added one further new company into the portfolio, which is a US media business. We also invested into two companies that we have researched and owned in the past, following large falls in their prices. We sold two small holdings in British industrial companies, both of which we decided no longer met our investment criteria, alongside our holding in one of the two British agriculture businesses that we previously invested in.

We move forward with a continued focus on owning a portfolio of quality businesses purchased at reasonable prices. We wish to remain humble about our ability to know the future by, as far as is possible, owning a portfolio that is robust to whatever might come next.

Matthew Beddall
CEO, Havelock London

Unless otherwise stated all numerical data was courtesy of Bloomberg.

This is the opinion of the author at the time of writing and it may change. The company examples used are for illustrative and information purposes only. Every attempt is made to ensure this information is correct or up-to-date. This is not a recommendation or investment advice and you must not use it to make investment decisions.

The data in this document is sourced from the fund accountants as at 31.12.21 unless otherwise specified. The data used to calculate the financial ratios of the equity allocation is sourced from Bloomberg.

INVESTMENT RISKS

The value of investments in LF Havelock Global Select (the fund) may fall as well as rise. Investors may not get back the amount they originally invested. Investments will also be affected by currency fluctuations if made from a currency other than the fund's base currency. Past performance is not a reliable indicator of future results.

Potential investors should not use this document as the basis of an investment decision. Decisions to invest in the fund should be informed only by the fund's Key Investor Information Document (KIID) and prospectus. Potential investors should carefully consider the risks described in those documents and, if required, consult a financial adviser before deciding to invest. The fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state listed in the prospectus.

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The Key Investor Information Document (KIID) and prospectus are available in English from:

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