

# Stenham Asset Management

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Stenham Equity UCITS Fund

Navigating Equity Markets in a Post COVID World



# Investment Philosophy

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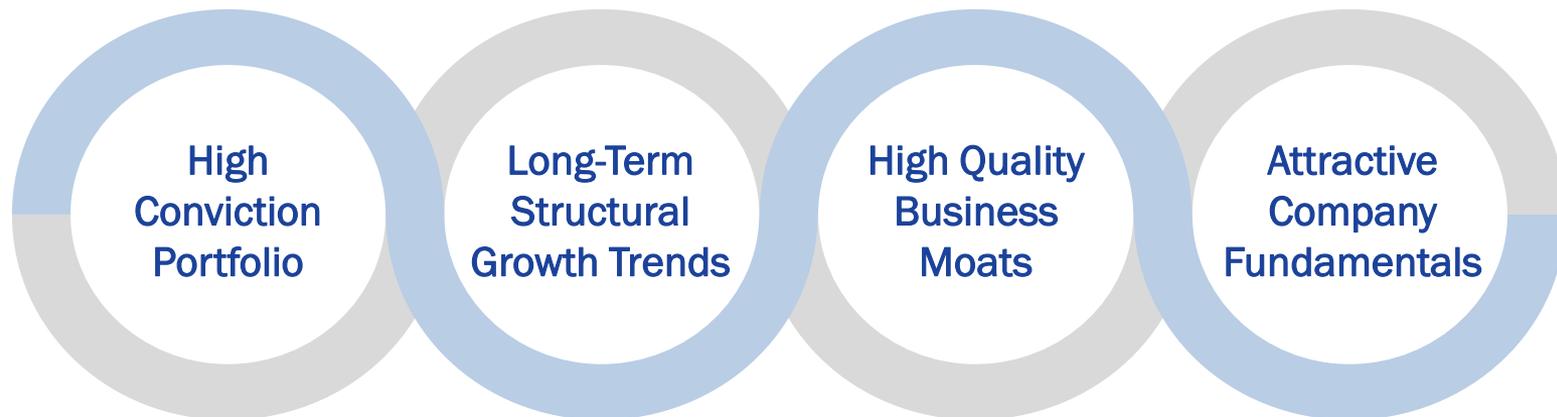


# Stenham Equity UCITS Fund

## Executive summary

### Philosophy:

- » Our aim is to identify companies that:
  - 1) Have exposure to attractive secular investment themes where long-term structural trends have been enhanced and should outweigh short-term periods of weaker economic activity. **Micro->Macro approach.**
  - 2) Are “extra-ordinary” businesses with structural competitive advantages and high, defensible returns on invested capital.
  - 3) Well positioned to drive long-term free cashflow generation
  - 4) Attractively valued on a forward and relative basis
  
- » The average global equity fund holds too many stocks, in effect an index tracker with higher fees. The Stenham Equity Fund is a **high conviction, best ideas portfolio of ± 20 companies** with these attributes.



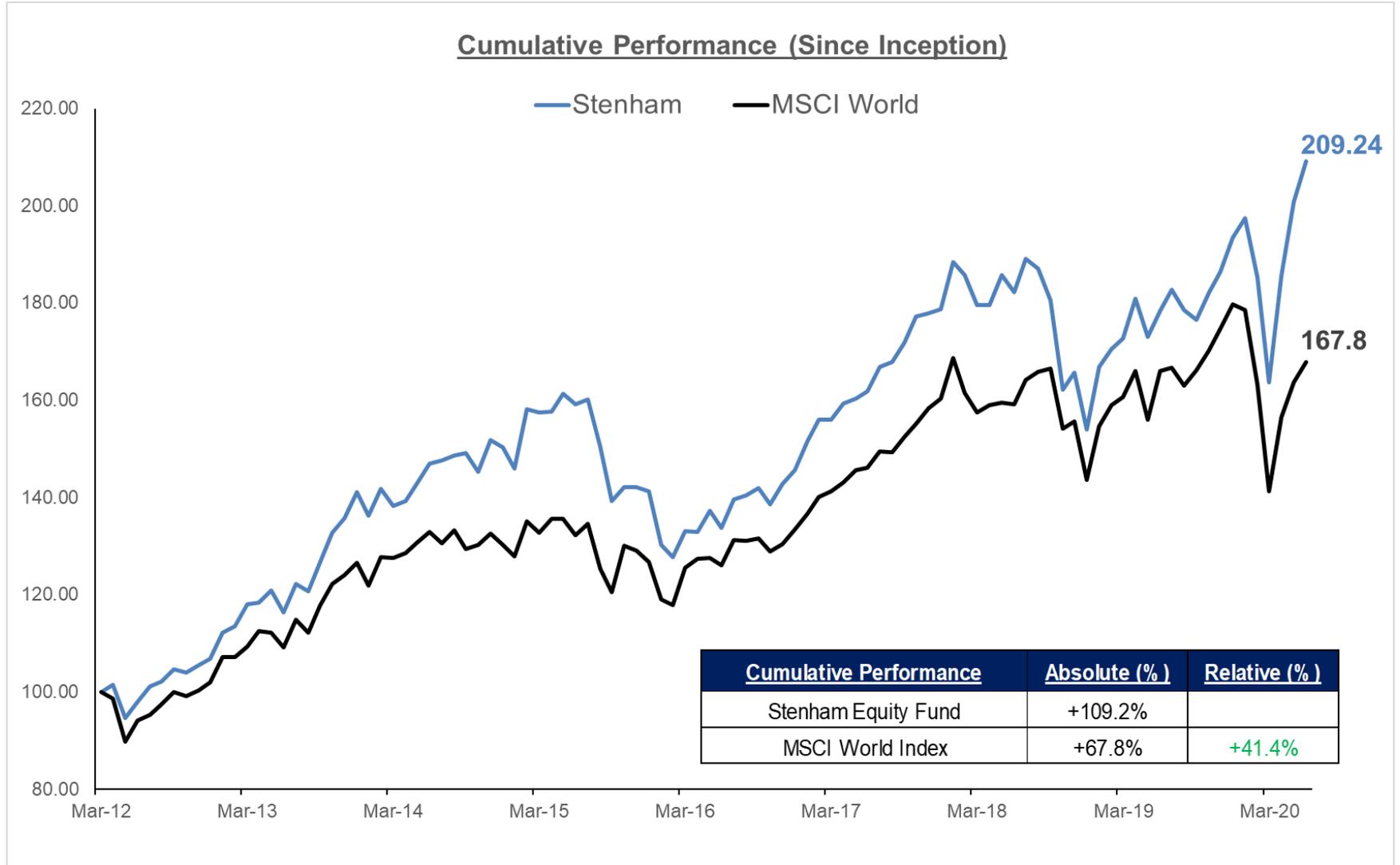
# Performance

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# Stenham Equity Long Only Strategy (Class A)

## Outperformance Versus Global Equities Benchmark



Source: Stenham Asset Management & Bloomberg. Performance figures to June 2020 close (net of fees USD)

Past performance is not a reliable indicator of future performance results

# Stenham Equity Long Only Strategy (Class A)

## Outperformance During Recent Market Volatility

<u>Performance (%)</u>	<u>MTD (%)</u>	<u>YTD (%)</u>
Stenham Equity Fund	+4.2%	+8.2%
MSCI World Index	+2.5%	(6.6%)
Relative	+1.7%	+14.9%

# Stenham Equity Long Only Strategy (Class A)

## Competitor Analysis – Bloomberg Peer Universe of 4,222 Equity Funds

- » Top decile 3-Month, Year-to-date & 1-Year fund performance.
  
- » Top quintile 3-Year fund performance.

<u>Performance (%)</u>	<u>Percentile (%)</u>
3-Month	95%
Year-to-date	93%
1-Year	94%
3-Year	81%

# Investment Outlook & Key Themes

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## Views & Observations

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- » The pandemic has three predominant facets. Health crisis → economic crisis → permanent psychological changes.
- » **Psychological:** We believe this crisis will cause structural changes in consumer and enterprise behaviour (work from home, cash to card, faster broadband, e-commerce etc.).
- » **Economic:** We are increasingly getting better visibility on how deep the valley is and what the other side might look like but acknowledge potential risk of a 2<sup>nd</sup> wave.
- » **Health:** Rate of change in cases continues to improve; vaccine potentially by early next year.
- » Secular growth pockets of the market likely to outperform cyclicals (business predictability premium).
- » In a world of low growth and low rates, long duration assets offer growth.
- » In a period of lower economic activity, balance sheets progressively matter.

## Key Themes which can play offense in a downturn



### Payments

- » Secular growth theme in the transition away from physical and towards digital payments as growth drivers in eCommerce, contactless, mobile payments and B2B continue to take shape.
- » **COVID-19 Impact:** Accelerated shift towards eCommerce and displacement of cash benefitting digital payments. PayPal stated on their most recent earnings call that *'May 1<sup>st</sup> was their single largest day of transactions in the company's history'* whilst Visa and MasterCard stated contactless volumes were +40% year-on-year.
- » **Visa, MasterCard, PayPal & Adyen**



### E-commerce

- » Early stages of shift from physical to digital commerce, with e-commerce still only 14% of retail sales globally and growing at consistent double digit CAGR.
- » **COVID-19 Impact:** E-commerce penetration in the U.S. increased by 68% compared to 2019 levels, as the consumer shift towards digital commerce has been brought forward meaningfully during this period.
- » **Amazon & Alibaba**

# Key Themes which can play offense in a downturn



## Broadband Infrastructure

- » Broadband is one of the greatest utilities that customers currently need and are using increasingly with consistent double-digit growth in household data consumption.
- » **COVID-19 Impact:** Charter stated on their Q1-20 earnings calls *that ‘over the past 60 days they have added 10,000 new broadband customers a day’* recording one of their strongest ever quarters for customer additions, as consumer trends in upgrading their broadband infrastructure have been brought forward meaningfully.
- » **Charter Communications & Liberty Broadband**



## Cloud Services

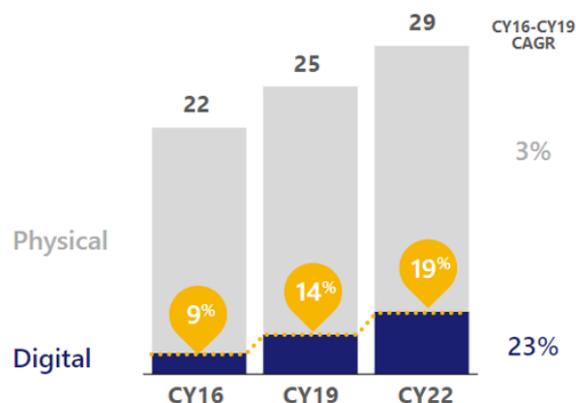
- » Long-term shift from on premise to cloud computing, still in the early stages of this transition with cloud services only representing 3% of total IT spend at present.
- » **COVID-19 Impact:** Enterprise shift towards cloud services accelerating as Microsoft most recently noted on their Q1-20 earnings call they have seen *‘two years worth of digital transformation take place in the past two months.’*
- » **Microsoft (Azure), Amazon (AWS) & Alphabet (GCP)**

# Payments

## Visa & MasterCard

- » **Significant room for further growth in digital payments** –
- » Digital payments still represent **only ~14%** of global retail spend with significant opportunity for future growth both in personal consumer expenditure (PCE), as tailwinds in digital adoption continue, and also business to business (B2B), where the opportunity set is **~2.5x greater** than PCE and less than **1% digitally penetrated**.
- » **Card networks remain the highest quality segment of the payments value chain** –
- » Card networks (Visa & MasterCard) are deeply entrenched in the payments value chain and appear the lowest risk of being displaced given their **scale and duopoly position**, offering a high degree of conviction in future earnings growth.
- » **V & MA's scale is unparalleled**. They processed \$13tn of volumes in 2018 which is equal to 17% of global GDP.
- » The rapid pace of innovation in the payments industry has led to an emergence of new players but almost all have **partnered** with Visa and MasterCard to utilise their payment rails.

Total Global Retail Spend (\$T)<sup>1</sup>



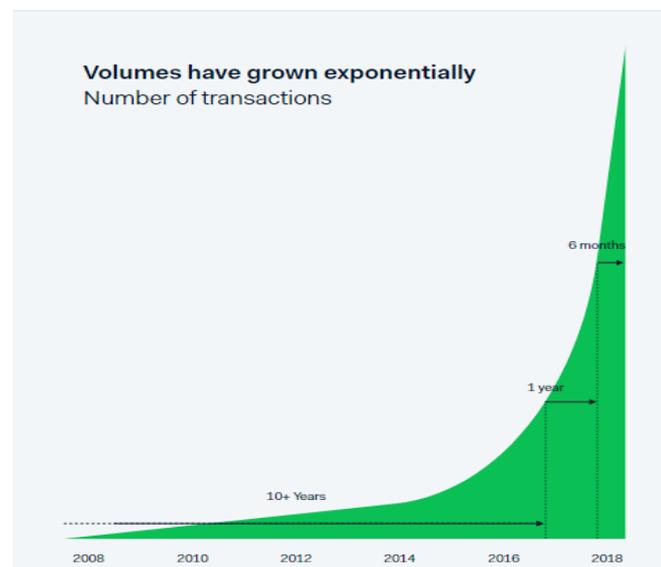
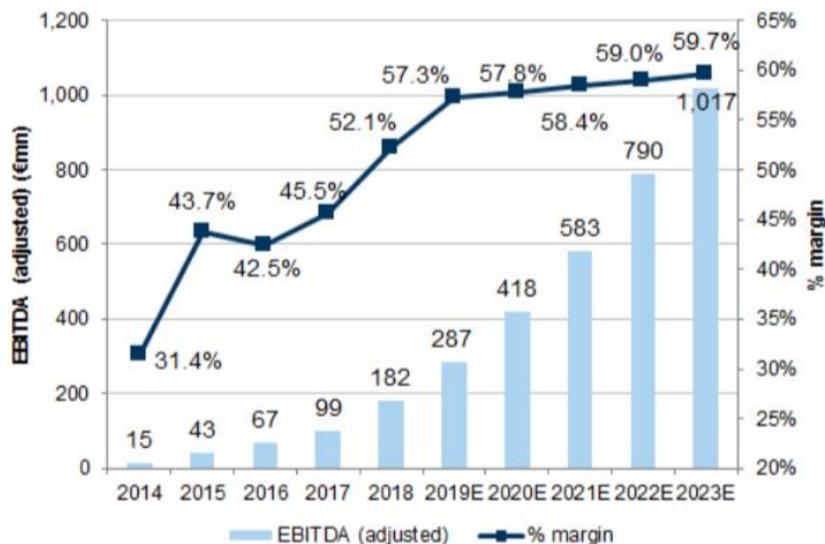
Cash & Check Opportunity by Region



# Payments

## Adyen

- » **High Growth, High Quality & High Returns –**
- » We strongly believe we have found the next Visa / MasterCard who are redefining the entire payments industry.
- » Adyen has built a unique and mission critical payments platform for disruptors and increasingly incumbents to “land and expand.”
- » They are expected to **sustain 40%+ revenue growth out to 2023**, leveraged by wallet share gains and new customer wins (Alibaba, EBay, McDonalds etc.)
- » Adyen is *already* a 58% EBITDA margin business with >90% FCF conversion.
- » We are modelling ROICs expanding to 27% out to 2023 or **18% above its cost of capital**.



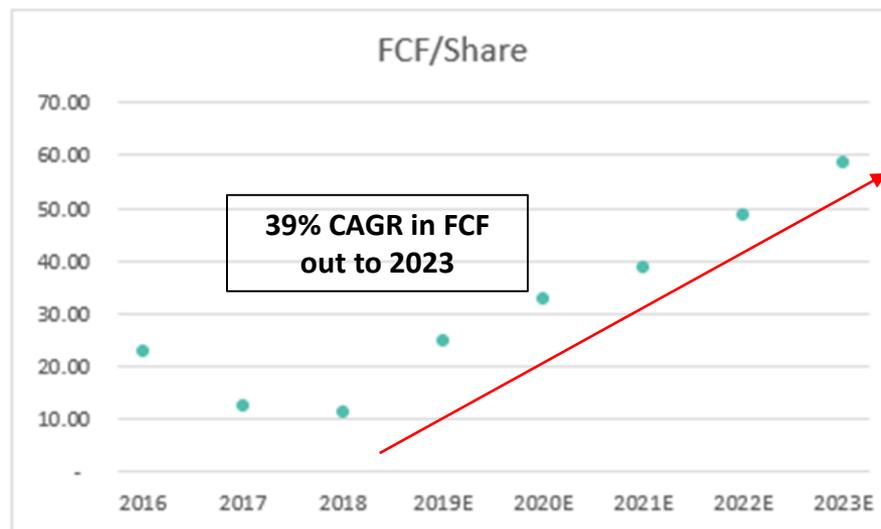
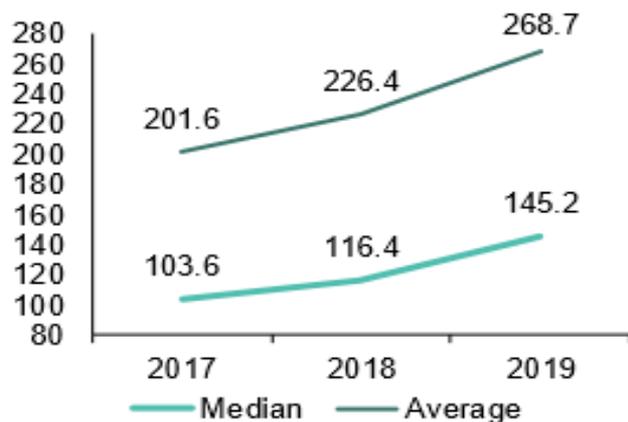
# Broadband Infrastructure

## Charter Communications & Liberty Broadband

- » **Broadband is one of the greatest infrastructure assets in the world today –**
- » Consumers are happy to pay more for more (we expect share gains from Telcos to continue).
- » US Cable has enviable & powerful operating models; pricing power & declining capital intensity = More Free Cash Flow.
- » **Charter offers the cleanest way to express our positive view on broadband –**
- » Great network assets & led by a proven mgmt. team who continue to execute above expectations.
- » In Q1-20, capital intensity continued to decline whilst FCF growth was +71%.

EXHIBIT 40: **Data consumption is SURGING**

**Data consumption / household (GB/month)**

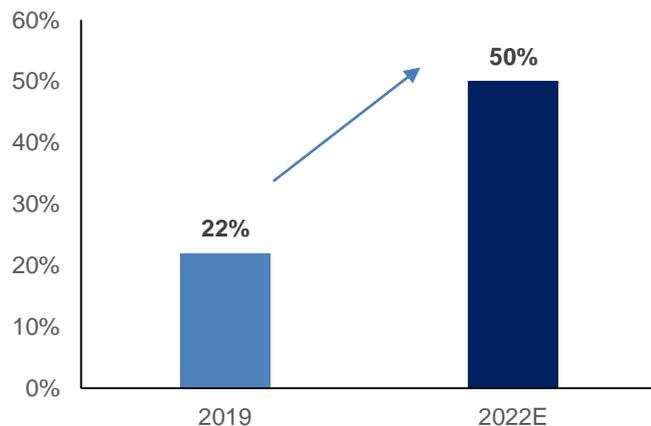


# Cloud Services

## Microsoft

- » **Long-term secular shift from on premise to cloud services –**
- » Public cloud is a once in a generation platform change of which we are in the very early innings. **Currently only 3% of total IT spend is directed towards cloud services.**
- » Enterprise adoption of cloud services has been accelerated by COVID-19, as businesses seek to reduce costs, improve operating efficiency, embrace digitalisation and support remote working capabilities.
- » **Microsoft offers enterprises a unique value proposition –**
- » Through their Office 365 platform, Microsoft has already has an extremely entrenched business model and clear mindshare leadership among enterprises.
- » Microsoft Azure is growing revenues at over 60%+ YoY and is expected to become a >30% operating profit margin business, over 2x greater than the average S&P500 company, .

**Cloud Services as % of Total Workloads**



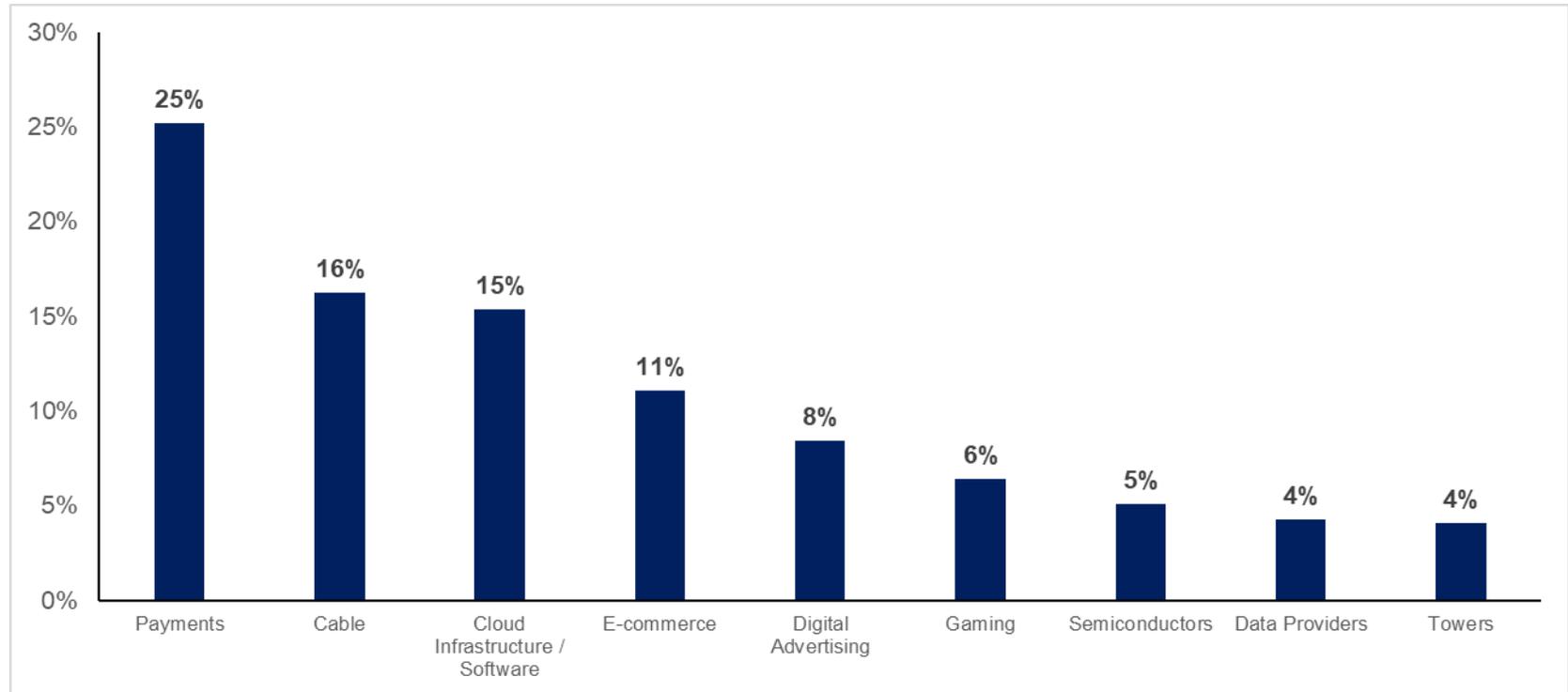
### Microsoft Azure - Competitive Advantages

Integration with Microsoft Software
Enterprise Salesforce
Large ecosystem
Global data centre footprint
Artificial Intelligence
Hybrid Cloud Model

Source: Stenham, Company Reports

# Portfolio Investment Themes

## Long Term Structural Growth Trends



Source: Stenham Asset Management. As at June 2020

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