

Chawton Global Equity Income Fund

December 2024



CHAWTON
GLOBAL INVESTORS

Letter to Investors – Fourth Quarter 2024

Overview

We discuss performance of the fund which whilst positive lagged indices and comparator funds and consider whether we are near a turning point on the large US technology companies. We comment further on the differing fiscal position of countries globally and provide detail of our material sales and purchases in the final quarter of 2024.

Performance

The fourth quarter of 2024 was flat for the fund in performance terms resulting in the fund being up a total of 7.2% in 2024 and just over 60% since inception around five and a half years ago. Comparator funds delivered 11% in 2024 and the MSCI World Index, just over 20%. A breakdown of performance is shown below encompassing 2024 year to date and preceding periods.

Discrete Performance	2019	2020	2021	2022	2023	2024
Fund ¹	9.3%	14.2%	18.2%	-8.3%	10.8%	7.2%
MSCI World TR in GBP	8.6%	12.3%	22.9%	-7.8%	16.8%	20.8%
IA Global Equity Income	7.0%	3.2%	18.7%	-1.2%	9.2%	11%

	Fund	MSCI World TR in GBP	IA Global Equity Income
Since Inception (21/05/2019)	60.5%	94.9%	57.2%
Compound Annual	8.8%	12.7%	8.4%

Source: FE fundinfo as at 31 December 2024. Total return in GBP. Past performance is not a reliable indicator of future results. The value of your investments and the income derived from it can go down as well as up and you may not get back the money you invested.

¹ WS Chawton Global Equity Income Fund B Acc. GBP

The long-term compound annual growth rate (CAGR) of the Fund stands at 8.8%² since inception five years seven months ago. Fund results are net of fees and charges and are compared to the benchmark index (MSCI World in GBP) and the comparator group as represented by the Investment Association Global Equity Income sector. Although the fund's performance is reasonable in absolute terms, it is more or less in line with the very long term nominal returns from US equities which stands at around 9%³. As active managers we are seeking to exceed this level materially.

It has proved difficult to keep up with the MSCI World Index especially in 2024. I would echo other active equity fund managers that this is a risk when performance is concentrated in a very few large companies. Even this would normally be manageable but when some of these large, well known, companies double in one year and others rise by 50%, it makes it more problematic. In my 29 years of fund manager experience, I only experienced this occur once before and that was in the second half of 1999 to early 2000. That preceded a period where the trend dramatically reversed.

Interestingly, as I write this in February, I note that in January we have seen some reversal of prior year trends with European equities up 8% (in USD) outperforming US and 'value' stocks as represented by ETF trackers rising 4% in advance of their growth counterparts. The fund rose 5.5% in January. However, we cannot be certain this represents a major turning point in the market. Below, I have compiled a table of the seven largest stocks in the MSCI World that sets out their PE ratio over the next twelve months and in calendarised 2026:

Stock	Share price	NTM EPS	2026 EPS	EPS Growth	NTM PE	2026 PE
Apple	244.5	7.3	8.3	13.1%	33.3	29.5
Nvidia	139.4	4.5	5.6	25.8%	31.3	24.9
Microsoft	409.6	14.1	16.4	16.2%	29.0	25.0
Amazon	226.6	6.3	7.6	19.8%	35.9	29.9
Alphabet	183.8	9.0	10.2	13.9%	20.4	17.9
Meta	716.0	25.2	29.0	15.0%	28.4	24.7
Tesla	354.1	2.9	3.8	32.2%	123.8	93.7
Average				19.4%	43.2	35.1
Average ex Tesla				17.3%	29.7	25.3

Source; FinChat and Chawton Global Investors Estimates as at 19 February 2025

² B Class ACC GBP

³ Barclays Equity Gilt study

Bearing in mind that the price earnings ratios of the largest stocks at the peak of the market in 2000 were well over 50x, the average ratio of the largest stocks now, excluding Tesla, is a much more modest 25x if estimated earnings for 2026 are achieved.

With the average earnings growth at over 19%, the greater risk is perhaps the failure to meet potentially elevated earnings growth expectations. A significant proportion of this growth is to be driven by cloud services sales augmented by increased compute power from the latest Nvidia GPU chips enabling the deployment of artificial intelligence across the corporate landscape.

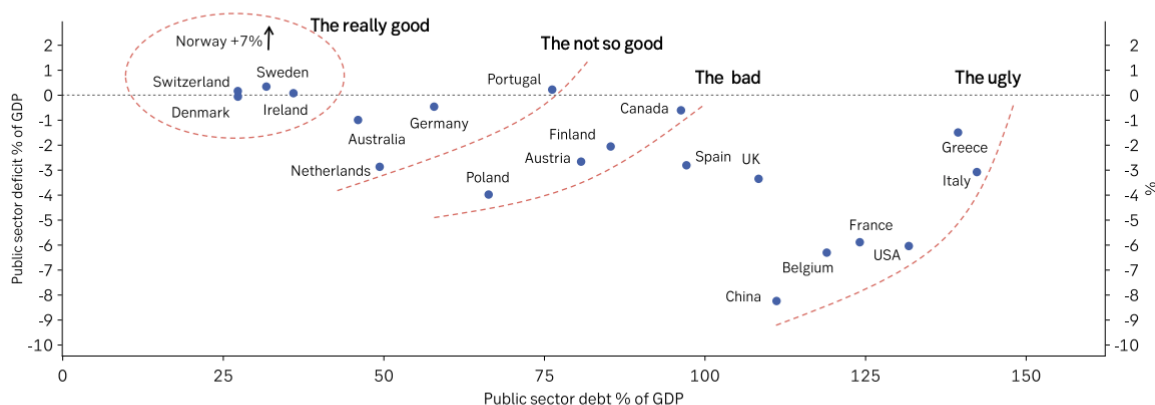
We consider the asymmetry of investment in these companies is starting to become negatively skewed. It is; however, difficult to predict with certainty that, at least some, of these large companies do **not** continue to deliver good shareholder returns over the next 5 to 10 years.

Some (rare) commentary on the global economy (part 2)

Following on from our commentary in our last letter on the changing political landscape having some likely interesting and divergent economic effects on different countries, we thought the following chart from SEB interesting:

The good, the bad and the ugly: can anyone afford the stimulus?

Few countries have the capacity to deliver fiscal support without worrying about yields



Source: Bloomberg, Macrobond, SEB Strategy Research

We have commented previously on the Nordics being a repository of both high quality companies and high quality management teams, and it is interesting to note that country constituents are amongst the best positioned fiscally. The portfolio is strongly represented in this region at about 20%⁴ of the total net asset value.

Although China, along with the USA is at the other end of the spectrum, as we commented in the last letter, we believe both countries are adopting the right approach to addressing their issues through free market solutions such as reducing regulations and encouraging entrepreneurship.

Activity

Material Sales

We sold three longstanding holdings on valuation grounds:

1. Fastenal (US industrial distributor) which we classify as a mature compounder and is on a price earnings ratio of 37 times earnings and yield of 2.3%. At this valuation, our estimated future total shareholder return (TSR) is mid-single digits.
2. Geberit (Swiss provider of plumbing products) which we classify as a mature compounder and is on 30 times earnings and yields 2.4%. Our estimated future TSR is low-single digits at this valuation point.
3. RELX (UK Scientific and business information publisher) which we classify as a mature compounder and is on 33 times earnings and yields 1.6%. Our estimated future TSR is low-single digits.

The business fundamentals of all three remain strong and above our hurdle criteria so the companies will remain in the Chawton Global universe.

Material Purchases

We made two material purchases:

Philip Morris International Inc (PMI)

PMI was formed following the spin-off by Philip Morris & Company of its international operations when the threat from litigation on tobacco in the US was at its height.

⁴ As at 19th February and treating Traton, quoted in Germany and Sweden, as Swedish

Hence it has no US combustible cigarette exposure. However, globally outside the US, combustibles demand is falling and we classify the company as being in the decline phase of the corporate lifecycle.

Management are correctly, in our view, managing this phase by redeploying capital away from the declining market into an adjacent market where they are likely to have considerable strength; smoke-free nicotine products. Their target is having two-thirds of the company's total net revenues from smoke-free products by 2030.

There are two drivers of this change. Firstly, the organic development and promotion of 'heat-not-burn' products under the IQOS brand. Secondly the acquisition of Swedish Match, the supplier of Zyn, a leading nicotine pouch brand allowing it to promote this product through its global distribution infrastructure. The company is in effect a disrupter in the US market where it has no legacy exposure. Both brands are growing fast and the company now has 40% of revenues from smoke-free. The net result is that revenue growth is starting to accelerate.

We consider that the company will be able to generate high single digit earnings per share growth and, through achieving high returns on invested capital, continue to grow a dividend which underpinned a yield of 4% at time of purchase. We acquired the position at a 2025 estimated price earnings ratio of 18.

Meta Platforms Inc

Meta Platforms Inc., has a diverse family of apps that include Facebook, Instagram, WhatsApp, and Messenger and a user base of around 4 billion monthly active people (MAP). The company provides digital advertising services and products to business customers based on a highly engaged user base and extensive time spent on its platforms.

Over the past decade, Meta's digital advertising has grown at an average annual rate of 33%, driven by a shift toward e-commerce. Currently, digital advertising comprises roughly 70% of total global advertising spending, and Meta controls approximately 20% of this market, making it the second-largest distributor of digital ads worldwide behind Google. This dominance is reflected in Meta's daily active people (DAP) to monthly active people (MAP) ratio of 80%, demonstrating exceptional engagement.

Despite this fast growth, the company now is classified as a maturing potential compounder under our cash flow analysis model. This is because cash flow from

operations considerably exceeds cash flow from investment. This will persist despite significant increases in planned capex to expand compute capacity for artificial intelligence projects.

Key factors driving future revenue growth include the scale and depth of Meta's user base, effective monetization through targeted ads, and AI-driven tools that enhance user experiences and advertiser outcomes. By maximizing the monetization of user time via precise targeting, Meta increases ad displays without diminishing engagement. Its investments in AI extend to advertiser services, offering tools that optimize ads automatically and enhance targeting precision.

We project 13% annual net income growth over the next five years, with an expected 15% earnings per share (EPS) growth given ongoing share buybacks. At our average purchase price of \$572, the acquisition valuation was 22 times 2025 estimated earnings, a 0.4% dividend yield and a 2.4% share count reduction yield.

Stewardship

In Q4 2024 the firm participated in 5 Annual General Meetings, voting upon a total of 43 proposals. We voted in line with management recommendations in relation to all proposals. To view our latest voting record and report, please go to the stewardship section of our website.

Regularity of letters to investors

We have been adhering to a regular quarterly letter to investors providing information on performance and commentary on company developments and fund activity. We would like to propose modifications to this approach which will coincide with the introduction of an updated website.

The new website will enable investors to sign up for ad-hoc insights. These will be published when we have something interesting and useful to say pertaining to the fund and its investments.

As a consequence, we plan to reduce the frequency of the more formal letter to investors to an interim and final letter each year so covering developments over six-monthly periods. This means our next letter will be covering the first half of 2025.

We consider this will improve the quality of our information flow and align more closely with our long term approach. Please feel free to contact us with feedback on this proposal.

Conclusion

Whilst performance of global equities has been very strong, it has been quite narrowly focused and arguably risk and reward is tilting further away from continuation of this trend. Whilst we focus on the fundamentals of companies and industries, we are keeping an eye on the fiscal status of countries where we are or may invest as this can impact the fundamentals. With valuation becoming more and more polarised, we retain our discipline and to this effect sold three positions in the quarter on valuation grounds replacing them with two high quality businesses on attractive valuations.

As a concentrated equity portfolio of typically less than 50 stocks the fund may involve higher volatility and therefore higher risk for those with shorter term investment time horizons (under 5 years). The value of an investment and the income from it can fall as well as rise as a result of market and currency movements and you may not get back the amount originally invested. You should therefore regard your investment as long term. Details of the risk factors are included in the fund's prospectus available at <https://www.waystone.com/waystone-fund-services-uk-limited/ws-chawton-investment-funds/>