2023 First Half Review & Outlook

August 2023

Many of our high-quality companies that were sold off aggressively in 2022 have clawed back some of their underperformance. In addition, whilst the macro-economic backdrop remains challenging, inflation is coming down from elevated levels and there are signs that interest rates could be at or nearing a peak. We are pleased with the progress and strategy execution our companies continue to demonstrate. They are well positioned to navigate the economic challenges and become more valuable enterprises as they stay close and relevant to their respective customer sets.

Performance

The first half of 2023 saw a return to outperformance for the Ocean Equity fund following a difficult and volatile year in 2022. The fund delivered performance of +5.6% versus our benchmark, the CBOE UK All Companies Index, which delivered +2.5%, whilst the IA UK All Companies Index was up +1.9%.

Which Companies Have Performed?

Dechra Pharmaceuticals was bid for but we are disappointed with the price for a well invested and positioned business. **Microsoft** rose strongly due to excitement over the launch of its Artificial Intelligence (AI) platform, *ChatGPT,* and companies prioritising the need to digitise their ecosystems. Microsoft is well respected and strategically positioned as

Chief Technology Officers allocate increasing amounts of capital to digital transformation. **LVMH** reported strong revenue growth and its creativity and integration of Tiffany remains compelling.

Ashtead also performed well and continued to grow in terms of revenue, profit, and market share, and benefited from mega projects in the US. **Diploma** continued to broaden and deepen its laser-like focus on product and customer service excellence. **Games Workshop** reported record revenue as it continues to innovate and serve its loyal hobbyist fanbase. **JD Sports** performed well and has material growth ambitions over the next few years. The shares do not reflect the quality and growth potential but there are execution risks. **Halma** reported yet another year of record revenue and profit. **Savills** has performed well, boosted by nearly 40% of its revenue coming from property maintenance which helps when transactions in residential and commercial property are under pressure.

Which Companies Have Underperformed?

Impax Asset Management fell due to concerns over their inability to raise assets in a challenging equity market environment. Whilst they aren't growing as fast as they were, the business is well invested and has a significant first mover and structural competitive advantage in term of its ESG stable of funds. **Croda** had a profit warning due to aggressive de-stocking by customers which was sector specific rather than Croda specific. The business has taken action to protect all future projects, which we believe are well placed to drive the business. **Telecom Plus** fell due to concerns over customer growth which we think is misplaced.

Management have been patient and disciplined over the years and have a significant competitive advantage over rivals as they provide mission

critical products and services that are very competitively priced with one set of overheads. We think their strategic growth plans are sensible and deliverable.

We continue to focus on high quality businesses that typically have excellent management, growing end markets, and are beneficiaries of the following structural tailwinds:-

- Decarbonisation of the economy - business transition to net zero
- Electrification of industrial processes - to meet net zero
- Curated data/analytics - better insights and outcomes for businesses and individuals
- Luxury products - aspiration purchases amid growing middle class notably in Asia
- Provision of mission critical products/services - without which businesses can't operate
- Healthcare - ageing population, propensity to catch diseases and other medical conditions

Outlook

As always, the macro-economic environment is uncertain due to unpredictable circumstances such as the direction and level of interest rates, inflation, and geopolitical tensions for example in Ukraine and China/Taiwan. Furthermore, in 2024 we have a UK general election and a US Presidential election looming. There is no doubt that the operating environment for companies is challenging, and they are having to deal with higher input costs and slowing revenue. Having said this, companies are pretty battle hardened having navigated Covid and significant supply chain and end-market disruption. The encouraging aspect is that inflation is falling and interest rates are nearing a peak. In addition, input costs, whilst volatile, are falling and in some cases quite substantially. We remain cautiously optimistic and focused on the deployment of your capital into high- quality businesses that are able to compound in value and drive the long- term performance of the fund

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