

Monthly Fact Sheet

31 October 2024

The Chelverton Select Consumer Staples Fund is managed by a London-based team with extensive experience covering consumer companies. The fund pursues a long-only, 'Buy-and-Hold' strategy focused solely on global food, beverages and household and personal care companies (the 'Consumer Staples' sector). These companies have historically produced higher long-term returns than the market*, and with lower volatility, the sector tends to combine attractive income generation with inflation protection and growth, supported by brands and franchises which have often been built over decades, even centuries.

*market is MSCI World; note the fund has no formal benchmark

Launch Date 1 January 2024

Fund Size € 7.7m

Share Price (as at 30.09.24)

GBP A shares 151.01p

Fund Managers



Mark Purdy

has a degree in Economics from Cambridge University and leads the Chelverton Global Consumer Franchise Fund's coverage of Beverages & Food. Mark began his career in fund management

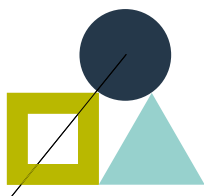
at Legal & General in 1985 and then worked at Gartmore (1988-1998), responsible for managing pension scheme equity portfolios. He then moved into investment banking with Dresdner Kleinwort (1998-2001), before joining Deutsche Bank in 2001, where he played a pivotal role in the creation and organisation of its annual Global Consumer Conference in Paris, the largest of its kind. Mark's analysis of consumer franchises started in 1987, and his favourite portfolio product at the moment is Lindt's 70% cocoa Dark Chocolate Bar.



Harold Thompson

has a degree in Economics from University College London and leads Chelverton Global Consumer Franchise Fund's coverage on the Household and Personal Care sector,

globally. Harold began his career as a retail and luxury goods research analyst at Deutsche Bank in 2001, before focusing on the Household and Personal Care industry from 2004. As Harold's expertise developed in his field of research, he picked up numerous awards for providing valuable insights and was regularly called upon to present to the board and executive teams of his coverage companies. Harold's analysis of consumer franchises started in 2001, and his favourite portfolio product at the moment (a functional one) is Reckitt Benckiser's Finish dishwasher tablets.



Chelverton Select Consumer Staples Fund

Monthly Manager Commentary

After a strong finish to the previous month, most markets were weaker in October. The initial euphoria over the potential fiscal stimulus in China faded, and this was compounded by stronger economic data from the US, dampening hopes for aggressive interest rate cuts.

Our portfolio had a difficult month, after a good period in September, driven by weakness in the beauty and spirits industries in particular. In the beauty industry, long-term growth - both historically and prospectively - has been and is likely to be driven by China. Per capita consumption is less than 10% of the level in many developed markets (including, notably, South Korea), and given the size of the population, that represents an excellent growth opportunity for the medium and longer-term. However, growth in emerging markets rarely comes in straight lines, and the current weakness of consumer spending in China has been greater than most analysts and companies expected. We had trading updates from L'Oreal and Estée Lauder during the quarter (our portfolio owns Estée Lauder, but not L'Oreal), and forecasts for both companies were downgraded on current weakness in China and a lack of visibility on the timing of a return to growth. For Estée Lauder, this was compounded by the company withdrawing guidance for the year, although this is largely so that CEO-elect Stéphane de la Faverie is not forced into making short-term decisions to meet public targets.

The weakness in the spirits industry in the last 12-18 months has largely been driven by the US, where modest underlying growth has been offset by notable de-stocking by both the retailers and domestic households. Beclé, Campari and Pernod all reported weaker sales than expected, although the impact on profitability was considerably more varied. Beclé (owner of the Jose Cuervo brand, and the global leader in tequila) is starting to see considerable benefits from lower agave prices, the key ingredient in making tequila. Profit forecasts rose, continuing a trend that started 6 months ago, but the shares remained under pressure due to the subdued sales outlook. Pernod (which our portfolio does not own) reported sales down 5%, and is clearly losing share in the important US market. By contrast, Campari continues to gain share both in the US and globally, driven by the on-going strength of its Aperol, Campari and Espolon brands. However, as a company with a family (majority) shareholder, it will continue to invest for future growth even when shorter-term sales growth slows. This is a characteristic we admire (a healthy 'capacity to suffer'), but it does occasionally put pressure on shorter-term margins. For Campari, forecasts fell by c10% following the Q3 results, creating what we now see as a very attractive entry point. We expect the increased investment to drive faster sales growth. In turn, that sales leverage will allow margins to recover, and this should allow the company to regain its premium valuation, over time.

We regard the spirits and beauty industries as the two most attractive sub-sectors of the consumer staples industry, as they combine the highest gross margins with the most international brands and opportunities. History has shown that both industries have an excellent track record of driving premiumisation - consumers being prepared to pay more for a better product - which is always likely to be the most significant driver of growth, especially in developed markets. Growth has been driven by the US (spirits) and China (beauty) for much of the last 10 years, and the current slowdown in these 2 markets need to be seen in that context. We expect both markets to return to growth in the near future and have been selectively adding to our holdings in these stocks.

The main contributor to performance during the month was Reckitt, which has been under a cloud due to a number of existing and potential litigation claims against the business through its Mead Johnson infant formula business. During the month, it received considerable support for its defence against the claims in a joint statement from the FDA (Food & Drug Administration); CDC (Centers for Disease Control); and NIH (National Institutes of Health). The statement said that for premature infants, where the supply of human milk is insufficient, infant formula is part of the standard of care. For NEC in particular (necrotizing enterocolitis), it also noted that there is no conclusive evidence that preterm infant formula causes NEC. Subsequent to the month end, Mead Johnson has won the most recent case - and, to highlight how depressed the share price has been, the stock rallied 10% on this news. Even after this move it still trades on a free cash flow yield of 7%, with a very strong underlying business that is allowing the company to buy-back stock. It is the biggest position in the portfolio.

The top 3 contributors in the month were Reckitt, BellRing Brands and Glanbia. The bottom 3 were Estée Lauder, Campari and KOSÉ.

Performance Since Launch (%)

Performance is not shown on this factsheet as the fund has changed manager. Platform providers have historical data.

Top 10 Holdings

Rank	Holding	Sector	% of Portfolio
1.	Reckitt	Household Goods	8.04
2.	Unilever	Personal Care	7.21
3.	Beiersdorf	Personal Care	6.74
4.	KOSÉ	Personal Care	4.93
5.	Heineken	Beverages	4.79
6.	Fever-Tree	Beverages	4.53
7.	Lindt	Food	4.49
8.	Procter & Gamble	Household Goods	4.33
9.	Nomad Foods	Food	4.29
10.	Nestlé	Food	4.28

Source: Chelverton Asset Management Limited as at 31 October 2024

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Valuation	10am CET
Domicile	Ireland
Base Currency	EUR

	GBP A Shares
Initial Charge (%)	Up to 5%
Annual Management Fee (%)	0.75%
Minimum Investment	£100
Ongoing Charge (%)	0.99%

Share Class	ISIN
GBP A shares	IE00BQQFW373
CHF A shares	IE00BQQFW597
EUR A shares	IE00BQQFW480
USD A shares	IE00BQQFVW90

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FURTHER INFORMATION

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Geographic Breakdown

	% of Portfolio
Europe ex-UK	23.7
US	21.9
UK	15.4
Japan	15.0
Switzerland	8.8
South Korea	7.0
Canada	2.8
Mexico	2.4
Cash	3.0

Market Cap Breakdown

	% of Portfolio	No. of Stocks
Above €30bn	40.8	8
€10bn - €30bn	8.7	3
Below €10bn	47.6	14
Cash	3.0	N/A
Total	100.0	25

Sector Breakdown

	% of Portfolio
Personal Care	47.5
Beverages	19.0
Food	15.6
Household Goods	14.9
Cash	3.0

Source: Chelverton Asset Management Limited as at 31 October 2024

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