



IFSL Evenlode Global Income Fund

Investment view

Getting more than you pay for
October 2025





In last month's investment view we outlined the valuation disconnect that has opened up between the market and the IFSL Evenlode Global Income portfolio. Whether looking at free cash flow yieldsⁱ, price earnings multiplesⁱⁱ or our long-term discounted cash flow modelling, the valuation of the portfolio looks comfortable whilst that of the market is expensive.

Whether a company's stock is expensive or not depends on how its share price compares to its future prospects, and it is therefore important to look at both opportunities and downside risks. We take potential counterarguments to an investment case seriously and have built analysis of business risk and opportunity into the heart of our investment process. Risk is all about the unknown future. In the present, corporate results and other indicators act as useful data to test our thesis to see if a business is standing up and potentially thriving despite buffeting from the outside world.

A measure of corporate health is revenue growth. It is imperfect as revenues can grow even as profitability and cash flow shrink if costs rise faster. However, for relatively stable businesses it is not too bad an indicator of progress. In headline, revenue growth is looking good for the portfolio in absolute terms, compared to the broader market and in the context of the current mixed macroeconomic environment.

The growth picture has been muddled by the US dollar's weakness over the last year, with the US being a large market and much trade being denominated in the currency. We look through this by examining 'organic' growth that strips out the effects of currency swings (as well as acquisitions and disposals) and

calculating growth in terms of different currencies. The portfolio's +5% growth in euro-denominated revenue over the last yearⁱⁱⁱ compares favourably to the MSCI World Index's slight decline, although currency swings depress that figure. In the first half of 2025 organic growth was a little over +5% on average^{iv} for the portfolio. This steady growth is what we would expect, perhaps at the lower end of our range but given a generally slow economic environment, as evidenced by the low growth for the benchmark, we think it is understandable.

Below we outline some examples to give an idea of the range of growth rates and how we think about contextualising that performance.

Slower growers

There are a handful of companies in the portfolio where revenue growth is currently minimal or slightly negative, which make up about 16% by weight. Where we hold such businesses, it is important to understand the underlying demand dynamics and, if expected to improve, the company's ability to cement or even improve its competitive position as things turn more positive.

LVMH - 3.6% of the portfolio^v

LVMH is a luxury goods giant whose core intangible assets are its stable of powerful brands and the control it has over their distribution. LVMH's brands' heritage is impossible to replicate, and the company's responsibility is to manage their legacies diligently. Its Fashion & Leather business accounts for half of revenues but three quarters of profits, the rest coming from Watches & Jewellery, Retailing, and Wines & Spirits.





Recently business has been more variable than in previous times. LVMH doubled their profit through and after the pandemic due to the powerful combination of lockdowns, economic stimulus, spending shifting to goods from services and ‘revenge’ consumption once the world got its freedom back. This has inevitably normalised, a trend we have seen for many consumer businesses, with -2% organic growth year to date. Part of the weak demand can be attributed to the pressure on consumers of higher inflation and interest rates. LVMH’s wealthy customers are relatively immune to this, but some are on the ‘aspirational’ end of the wealth spectrum and can feel the pinch.

The slowdown in China has been particularly strong. There is evidence that reduced spending reflects a retrenchment and shifting of preferences for upper middle-class consumers in particular. We have checked in with independent experts in the industry - including a large owner of prime luxury retail space in China - to get a sense of how things look on the ground. They told us that there has been a shift which has left ultra-high net worth customers as 70% of the market, up from 50% pre-pandemic. This makes the market going forward less sensitive to the prevailing economic conditions which is the main driver of current sector weakness. Most of household savings in China are invested in property and the market has collapsed after the long debt-fuelled boom. This has impacted consumer sentiment.

Another trend is local Chinese brands popping up and offering competition. This is to be expected from any sector that has grown strongly for a long time. However, the experts we have spoken to explained that these brands

have no heritage, which is key for luxury customers. Luxury customers do not buy a product for its use or the label but for the idea and story it represents. The local brands also are limited to lower-tier price points, a key indicator of desirability.

Brands can fall out of fashion of course, and something that encourages us is that Louis Vuitton is viewed as having been dynamic in tailoring its products to the local consumer whilst retaining its core values. We expect similar from the newly appointed designers at Dior. Elsewhere in the business, another sign of strategic capability is Tiffany, the famous jewellery brand acquired in 2020. A product and store overhaul has created faster growth around ‘evergreen icon’ products and better margins. Whilst the company is not totally immune to a consumer slowdown, such abilities are a sign that the company has control of its longer-term destiny. These investments can use up cash flow and margin in the short-term, but we find it reassuring that the company continues to protect the brands for the long-term.

CME Group – 2.8% of the portfolio^v

CME Group is one of only a few major global derivatives exchanges and is the dominant futures trading venue for many US asset classes including futures on US interest rates and equity indices. Trading volume is driven by both hedgers and speculators and while they are generally higher in risk-on environments (like we are in now), there is some countercyclicality as participants try to protect themselves from downside. CME proves its worth in downside scenarios as liquidity becomes critical.

Barriers to entry are very high and derivatives exchanges tend to dominate trading for a





particular instrument, generating excellent economics while charging tiny fees to customers; CME's operating margin is about 60% and the ratio of capex to operating cash flow is less than 5%. Futures are not fungible like equities; they are the property of the exchange and must be cleared via the exchange's clearing house. Futures also require margin balances to trade, and the exchange must carefully manage the net risk exposure as a whole. Because of this, costs are massively reduced for participants if they consolidate their activity onto one venue; the exchange can better manage the net risk exposure and clearing processes, reducing margin requirements, and more liquidity means lower spreads and less trading risk in case of high volatility.

In recent years CME has been experiencing high growth in volumes and revenues, driven by volatility across asset classes and more recently, retail participation. US interest rate futures are their biggest instrument by revenue. Volumes have been helped by the very large US government debt balance, changes in federal funds rates and volatility in the interest rate curve in response to tariffs in particular. However, in the quarter just gone, revenues were down -3%. The decline is partly due to comparing to a record quarter in 2024 where uncertainty and risk management were in prime demand, due to questions over Fed rate cuts and the US presidential election amongst other things. In the same period last year revenue increased +18%, with overall average daily volumes growing +27% including +36% for interest rate futures and double-digit growth for all asset classes.

Long-term and through cycles, CME will benefit from the growing US capital stock,

including growth in the US Government's balance sheet which is showing no signs of slowing down. In our valuation model we factor in a modest through-cycle growth rate to account for ups and downs but apply a long duration of excess returns on capital due to the strength of CME's economic moat.

Snap-on – 2.3% of the portfolio^v

Snap-on makes professional-grade tools and diagnostic instruments for the automotive and industrial sectors focused on the US. It has a franchise model which limits capital intensity and easily aligns incentives. Their brand is iconic to those in the know, synonymous with quality and customer service. Their leading market position allows them to reinvest more aggressively into product development and increases efficiency for the network of franchisees. In the Tools division they sell a range from highly complex, very specialist products to the simple spanner. Whether complex or simple, the quality of the tools matters to those using them day in, day out.

In 2024 organic revenue growth was flat and this year tariffs have increased uncertainty, though trends are improving. Revenue growth turned negative in the first half of 2025 at -2%, but in the recent third quarter things turned around to +3%, with tools returning to slight growth and a strong showing from the repair systems and information business supported by new product launches. That's perhaps surprising to us outside the US who look enviously on at the country's GDP growth, but on the ground people are "*fed bad news for breakfast*" as one-of-a-kind CEO Nik Pinchuk put it. The high level of macroeconomic uncertainty over the past few years has meant mechanics have been "cash rich but confidence poor," becoming more





conservative and buying fewer, smaller tools. Importantly default rates on financed purchases have remained unchanged.

The market for automotive and industrial repairs normally grows steadily. The equipment fleet is growing and ageing, and repair work cannot be avoided, only delayed. Additionally, new models come with complications that require new tools, and Snap-on works with original equipment manufacturers to address those opportunities.

Greater growth

Often greater growth comes with higher valuations, something that is writ large in the broader market. Within the portfolio we have businesses that have higher growth rates in the high single-digits to low double-digits but remain attractively valued.

RELX – 3.1% of the portfolio^v

RELX is well known to investors in the UK market and indeed has been a very long-term holding in the IFSL Evenlode Income fund. They offer business information software, data and analytics across the divisions of Risk, Legal, and Science, Technical & Medical (STM). STM also owns a market leading portfolio of journal brands, and the Exhibitions business is one of the biggest operators of trade shows globally. Key elements of their competitive advantage are switching costs, network effects and brand. Their services are at the centre of customers' operations in settings where being accurate is critical. Over the years the company has very successfully transitioned from print media to data-driven services, the former now only 4% of sales, which has driven increases in both revenue growth and return on capital.

The Risk business has consistently grown in the high single-digits in recent years, providing automated solutions for things like financial crime compliance and fraud and identity detection. This year its growth has been outstripped by the Legal division which has risen from being a slow grower thanks to a shift towards high value legal analytics. Law is a great real-world use case for artificial intelligence. Legal work is, as Mike Walsh, CEO of the LexisNexis division put it, *“conducted in natural language, repeatable, and high stakes”*. In the latest quarter RELX noted that new AI functionality was the main driver of double-digit growth with law firms and corporate law (70% of the division). Elsewhere in the STM division, discovery is ever more important with the exponentially increasing volume of research publication and supporting data to sift through. Research solutions with AI-driven functions are receiving positive feedback and RELX will likely be able to price the added value appropriately.

We think RELX is a good example of a quiet beneficiary of AI. AI is an impressive technology, but as it matures the underlying models are likely to become commoditised, while the owners of proprietary data and value-added workflow solutions will be ideally placed to benefit from improved functionality.

Microsoft – 4% of the portfolio^v

Microsoft has three main businesses, 1) the Azure cloud platform, 2) a broad suite of enterprise software and 3) 'More Personal Computing' which includes Windows, gaming, search and PCs. Azure justifiably grabs most of the attention given its growing contribution to profit, but it is important not to forget the rest of the business which is also highly profitable





and growing well. In their latest reporting period revenue grew 17% at constant currencies, with Intelligent Cloud +25% (Azure +39%), Productivity and Business Processes +14% and More Personal Computing +9%.

Microsoft's economic moat is based on network effects and switching costs. Once a company's processes are plugged into Azure or Dynamics, it is difficult, costly and risky to change. There are only a few 'hyperscale' cloud providers due to the capital required to build massive databases, but Microsoft differentiates by using the infrastructure as the entry point to cross-sell enterprise software on top which generates much higher profitability than raw compute alone.

The combination of mid-teens revenue growth and a 45% operating margin means Microsoft is a cash generation powerhouse. This cash generation is critical for funding the step up in capital expenditure for data centres supporting the roll-out of cloud and AI-related services; even after the enormous spending, Microsoft will still have a lot of excess cash flow left over and their balance sheet is rock solid.

We are monitoring this carefully as the capital outlay marks something of a shift in Microsoft's business model. However, the extra capex is discretionary and predicated on future growth. Either way Microsoft is well positioned. If AI generates lots of value, they are one of the few who can provide the infrastructure and tools required. If AI does not provide a commensurate return on investment, Microsoft can stop spending, which would be a benefit to their cash flow. Either way, their high-growth, highly profitable core business will continue to tick along as the economy continues to ubiquitously digitise.

Amadeus – 2.8% of the portfolio^v

Amadeus is the largest provider of the electronic plumbing for the global travel industry - particularly airlines - offering software that handles the whole operation from booking to inventory and airport management. Their economic moat is built on a two-sided network effect between travel agents and airlines in distribution and switching costs elsewhere. The pandemic was obviously a tricky time but Amadeus - unlike their competitors Sabre and Travelport - entered it with a strong balance sheet. This meant that they were able to continue to invest and have emerged in a much better competitive position now flights are back to normal, with next-generation software offerings across all divisions.

The company is expanding beyond its traditional global distribution system for airline ticketing into a broader range of retail and hospitality offerings. For example, its Nevio retail modules enable booking, shopping and check in services to be customised to individuals with offers through different sales channels at different points of the journey. Amadeus has a commanding position in ticket distribution that can be built on, but it is an evolving industry. The Evenlode team have conducted calls with airline clients and business travel experts to gain confidence that Amadeus' position is solid, and industry evolutions present an opportunity rather than disruptive threat. That we retain a position tells you that we are satisfied, but as with any business we keep a watching brief. For Amadeus' part they are demonstrating success via +8% organic revenue growth in the first half of 2025, backed by large investments in R&D at 22% of





sales. Amadeus continue to expect 7.4% - 11.4% revenue growth for the full year.

Quest Diagnostics – 2.5% of the portfolio^v

Quest is a provider of diagnostic lab testing for the US health care system. Their model is simple; rather than hospitals inefficiently doing the tests themselves, Quest have large facilities, mostly automated, that consolidate regional demand and provide a better and cheaper service. Quality and cost are important for customers because diagnostics drives most health care decisions and budgets are stretched. Quest and Lab Corp are the two largest players in the US, followed by Sonic Healthcare (also a portfolio holding, their business is mostly in Europe), and both tend to have market leadership in particular regions.

In normal times, Quest grows consistently and steadily, churning out a return on invested capital of c10% and an operating margin of c17% while only spending about a quarter of its operating cash flow on capex. The Covid pandemic was a different story due to the massive surge in Covid testing. Revenue grew by 22% in 2020 and 14% in 2021, which was unusually high for a company like Quest. This inevitably normalised, revenue declining -8% in 2022 and -6% in 2023, but all the while the base business of non-Covid testing continued to tick along at a mid-single-digit rate. Covid testing is now negligible.

In the third quarter of this year, organic growth was 6.8%; 4% from volume, the rest mainly from mix (i.e. selling higher-priced services). The increase in growth was due to high demand from the new direct-to-consumer channel, an increasing contribution from more advanced tests and share gains in part from getting 'back-in-network' with a couple of health plans. The consumer growth was more

than the company expected at the beginning of the year and is a relatively new foray for them, after society's health and testing awareness was increased dramatically during the pandemic. Quest have partnered with the leading tracking devices Whoop and Oura to provide access to test purchases and results within their apps, which should continue to drive consumer growth.

We do not expect Quest to continue to generate 7% organic growth in the long-term. Growth will likely normalise but continue to be driven by increasing health care needs due to US demographics, treatment and diagnostic innovation, with upside from consumer trends. Pricing is important given the limits of health care budgets, but Quest offset this with efficiencies and recent legislation on industry reimbursement is moving in a positive direction.

Steady performers

Companies that can compound returns for shareholders over the long term are often steady in nature; the value comes partly from growth but really from the fact that they generate a high return on the incremental capital that they invest in themselves, leaving a lot left over for the owners. These sorts of businesses continue to quietly do this job and in many cases are attractively valued, but each one has its own story.

L'Oréal – 4.4% of the portfolio^v

L'Oréal is the undisputed market leader in beauty, skincare and cosmetics. The company has an enviable portfolio of brands across categories and price points and an excellent track record of reinvesting behind them, consistently spending c30% of sales on marketing. This is enabled by a very high





gross margin of c73%, evidence of strong pricing power and their competitive position. Not only do they spend a lot on marketing, but they are smart with it, having developed the most advanced inhouse marketing technology that we know of. Additionally, they have a rare history of successful capital allocation as almost all of the current brands were originally acquired. And as they say, “beauty is a timeless value.”

L’Oréal has compounded revenue organically at about 7% for decades while increasing margins *and* investment levels. However as with other consumer goods companies, L’Oréal has seen its sales growth slow in recent years, although from a higher base than its peers. Again, this is due to cost pressures on consumers from high inflation and interest rates, as well as normalisation following the stimulus-boosted revenge-spending period post-Covid. Importantly L’Oréal have continued to gain market share throughout. A big part of this was their swift pivot to digital channels well ahead and to a much more material degree than key competitors.

In the third quarter of 2025 L’Oréal reported improving trends, notably in China as also experienced by LVMH, and overall, +4% organic revenue growth. Thus, there are signs that while the bumper times are not quite back, things are stabilising. The company is continuing to invest; L’Oreal recently acquired Kering’s Creed fragrance brand and signed exclusive 50-year licenses to produce beauty products for their portfolio of luxury brands like Gucci, Bottega Veneta and Balenciaga.

Medtronic – 3.6% of the portfolio^v

Medtronic are a market-leading provider of medical devices, particularly those used in surgery. Their business segments are Cardiovascular, Neuroscience, Medical Surgical and Diabetes. Products include devices that keep the heart pumping and stimulate the nervous system after being inserted via a thin tube through a vein in another part of the body, for example the leg.

Medtronic’s products are used in high-risk situations where failure can cost lives. In the US - which accounts for half of sales - the physician takes on responsibility for outcomes and is the key decision maker in what devices to use. Their priority is quality and not cost. Medtronic’s products are patent protected, backed by investment in R&D. The company’s gross margin is high at c65%, demonstrating their value-add.

Geoff Martha took over as CEO in 2020 and has shifted the strategy towards better competitiveness, organic investment and market share gains after a period of diversification under the previous CEO. After some disruption in Covid where elective procedures were delayed, the company has settled into consistent mid-single-digit organic growth. Future high growth opportunities include new markets of pulse field ablation (atrial fibrillation), renal denervation (high blood pressure) and surgical robotics.

Unilever – 4.2% of the portfolio^v

Unilever is one of the largest global consumer goods companies with a diversified portfolio of household names, including Dove, Vaseline, Knorr, Hellmanns and Persil, as well as a collection of newer, increasingly





premium brands. Two-thirds of revenues are from emerging markets, including a very strong market position in India. Their competitive advantage is based on the strength of the brands, the ability to invest behind them with scale and precision, and distribution advantages.

Unilever's story in recent years has been of restructuring and renewal, long in the making but only now starting to really show at the surface. The company has a new strategy, new structure, new management team and new incentives. The priorities are creating demand (or '*desire at scale*' as CEO Fernando Fernandez puts it), digital marketing, premiumisation, a focus on Beauty, Wellbeing, Personal Care, and geographically the US and India. We think these changes mirror what peer Procter & Gamble went through many years ago to much praise and success, but like an oil tanker it takes a long time for things to take effect for such a large business. We have been impressed by Fernandez' energy, operational and strategic understanding, and communication.

The changes seem to be working. In the most recent quarter, organic growth was 4% and broad-based by category, with the US growing 5.5%, all from volume. The turnaround in the US is notable given this was an area of weakness for Unilever and a specific priority for management.

Another key aspect has been the normalisation from the tumultuous crisis period of Covid, supply chains and inflation. We think Unilever, amongst the other FMCG companies we own, proved their value through this time as they were able to grow, invest and protect margins

in a complex operating environment.

Unilever's gross margin was 44% in 2019, it dipped to 40% in 2022 at the height of Covid-era cost inflation, but recovered to 45% in 2024. The upcoming disposal of the Ice Cream division should step up margins and given Fernandez' focus on achieving consistent 2% volume growth and Unilever's c60% average incremental gross margin, there is room for things to improve further.

Quality: Getting more than meets the eye

Hopefully that gives you some detail on how portfolio companies are growing and handling the challenges of the real world. We find it reassuring that on the whole things are going as expected; that is, consistent growth backed by strong profitability and cash flow generation. Where there are pockets of weakness, we spend time analysing the risks, grounded in the lens of reality rather than market narratives, and we factor long-term concerns into our risk analysis, valuation models and position sizes accordingly.

In our view the market is currently valuing highly both super-normal growth and certain cyclical sectors at the expense of companies that persistently churn out high returns on capital, which for us is the definition of a quality business. This presents us with the opportunity to own these companies at attractive valuations for the long-term, even if the short-term momentum is elsewhere. The portfolio's free-cash-flow yield is currently a little over 5% and the PE ratio is under 19x, both measures comfortably within their historic ranges.

Ben Peters and Rob Strachan
28 October 2025





Getting more than you pay for – October 2025

Evenlode has developed a **Glossary** to assist investors to better understand commonly used terms.

Please note, these views represent the opinions of the Evenlode Team as of 28 October 2025 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security, or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. For full information on fund risks and costs and charges, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectus, which are available on the Evenlode investment Management website (<https://evenlodeinvestment.com>).

Recent performance information is also shown on factsheets, also available on the website. Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Fund performance figures are shown inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs unless otherwise stated. The figures do not reflect any entry charge paid by individual investors. Current forecasts provided for transparency purposes, are subject to change and are not guaranteed. Source: Evenlode Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 767844.

Market data is from S&P CapIQ, Bloomberg and FE Analytics unless otherwise stated.

ⁱ Free Cash Flow Yield - A measure of how much cash a company can generate over and above normal operating expenses and capital expenditure. Free Cash Flow (FCF) per share divided by the current share price. A higher Free Cash Flow Yield implies a company is generating more cash that could be paid out as dividends and to reinvest into growth of the business.

ⁱⁱ Price Earnings Multiple (PE ratio) - A measure of a company's current market valuation compared to its earning potential, calculated by dividing a company's share price by its Earnings per share (EPS).

ⁱⁱⁱ Source: Bloomberg, as at 26 September 2025.

^{iv} Source: Corporate reports, portfolio mean +5.8%, median +5.2%

^v All portfolio weights as at 24 October 2025

