FLAGSHIP
ASSET MANAGEMENT

Quarterly Telescope Q4 2022

Flagship Asset Management • Constantia, Cape Town • +27 (0)21 794 3140 • info@flagshipsa.com

01

We are a global specialist investment boutique

Flagship is a specialist global asset manager founded in 2001.

We are 100% independent and fully owned by staff and directors.

Our mission is to be the navigators and global authority of your complete investment future, wherever it may lead.

02

We manage global portfolios in three distinct strategies

Global Equity | Global Flexible | Global Fund of Funds

We believe in a focused approach to fund management

Our longest running Funds have track records spanning over two decades

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03

We are long term investors who manage concentrated portfolios

Our investment approach is process-driven and rigorous, and our definition of quality is demanding and exclusive.

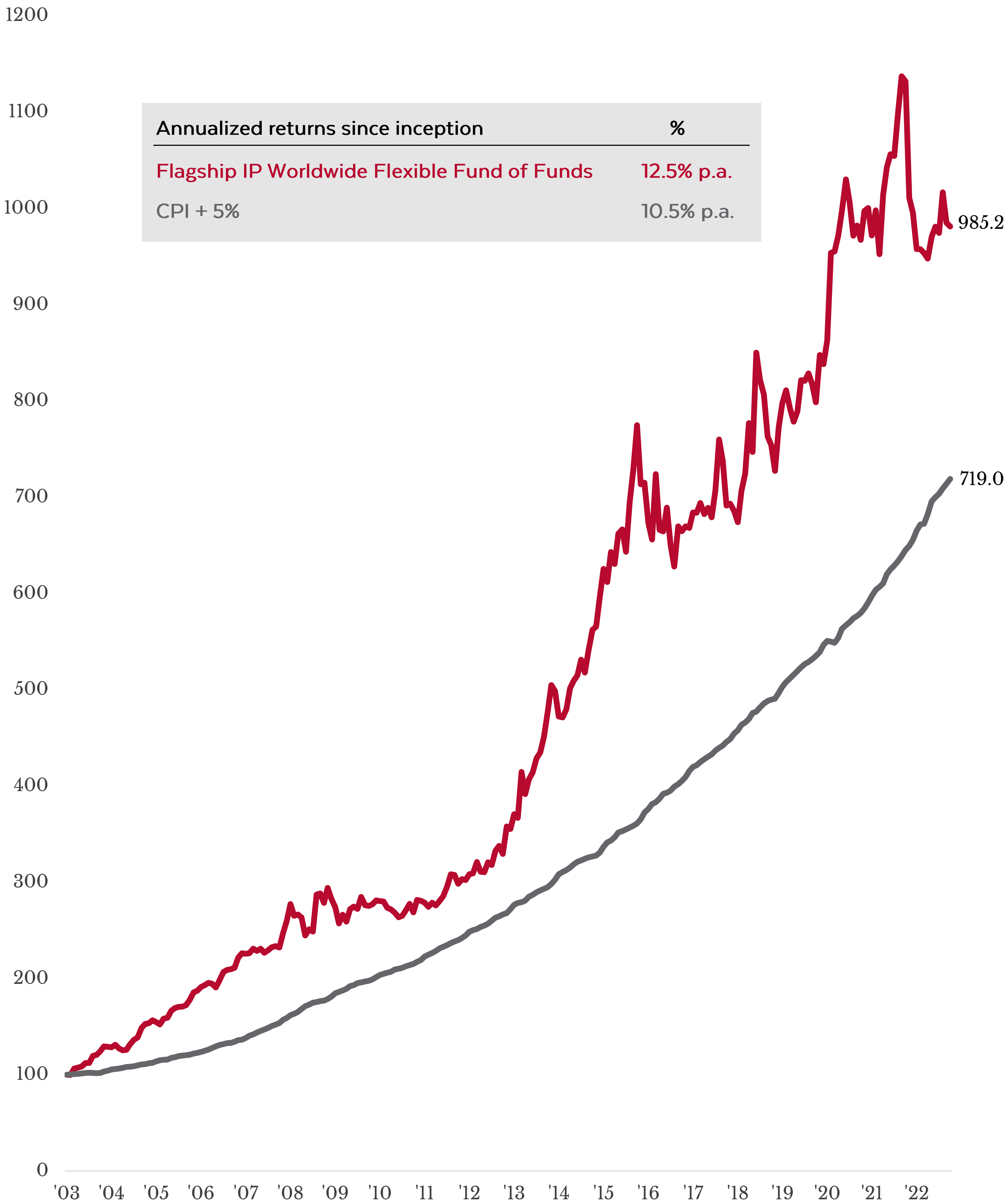
Our equity portfolios are focused. We own a maximum of 25 shares, diversified across geography and sector.

Contents

The Power of Long-term Compounding

The **Flagship IP Worldwide Flexible Fund of Funds** (net of all fees) vs. SA CPI +5%

from 3 April 2003 to 30 December 2022 (19 years, 9 months)



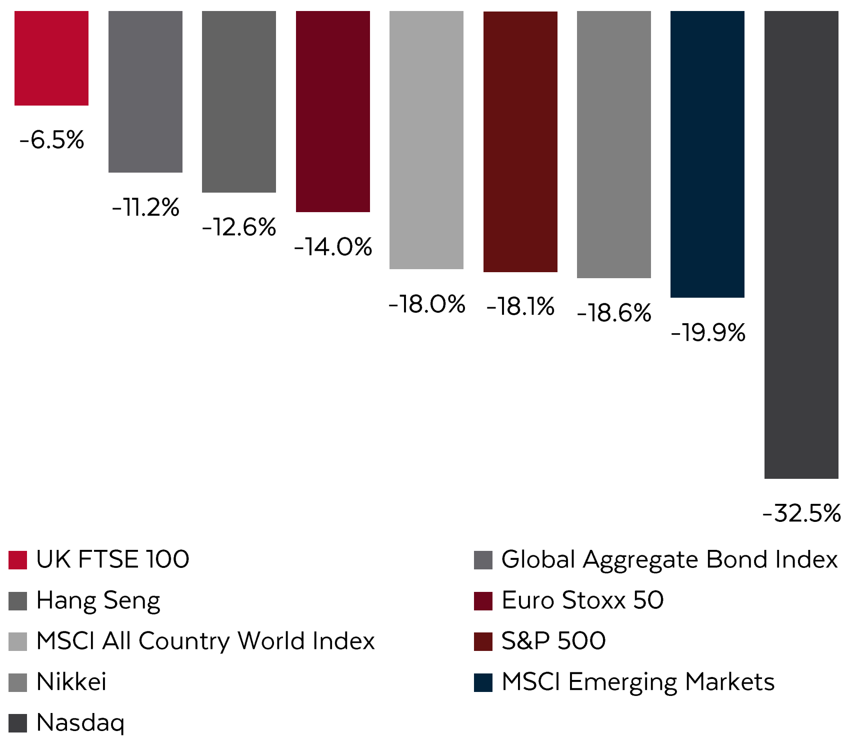
Annualized returns since inception	%
Flagship IP Worldwide Flexible Fund of Funds	12.5% p.a.
CPI + 5%	10.5% p.a.

2022: A Year to Remember

"The inability to forecast the past has no impact on our desire to forecast the future. Certainty is so valuable that we'll never give up the quest for it, and most people couldn't get out of bed in the morning if they were honest about how uncertain the future is."

- Morgan Housel

Chart 1: Global Index returns in USD (Dec 31, 2021 to Dec 31, 2022)



No institutional asset class emerged from 2022 unscathed. Stocks have retraced this much before - but not often - while bonds saw their biggest collapse in over 150 years of data. In fact, there have only been two other instances that we can find (in 1969 and 1941) where both stocks and bonds declined in one calendar year.

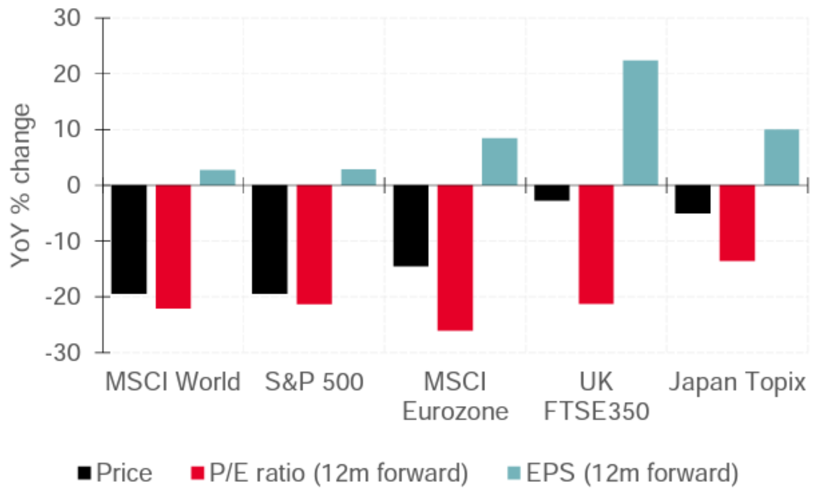
In these pages we have often mentioned our reticence to invest in bonds in recent years. The reason? Because their prices were articifical: driven purely by the lowest interest costs in living memory. So one could say we foresaw the pullback in bonds quite early.

Equity market declines were driven largely by valuation de-rating

For equities? Not so. While history tells us that the first year of an interest rate hike is generally good for equities (since the economy is generally doing well when central banks begin to tighten), 2022 was the exception to this rule. The rout in equities saw its nadir in September 2022, and we saw a tepid recovery into the end of the year.

Delving into the detail, global indices saw broad-based declines despite the fact that earnings – as well as earnings expectations – remained positive for most global companies. This means that the declines in stock markets at a global level were driven entirely by a decline in valuation multiples. In other words, price/earnings ratios collapsed (from admittedly high levels), while the expected earnings they were based on rose slightly. The chart below from Andrew Lapthorne at Societe Generale, illustrates this.

Chart 1: Poor 2022 returns were driven largely by valuation de-rating



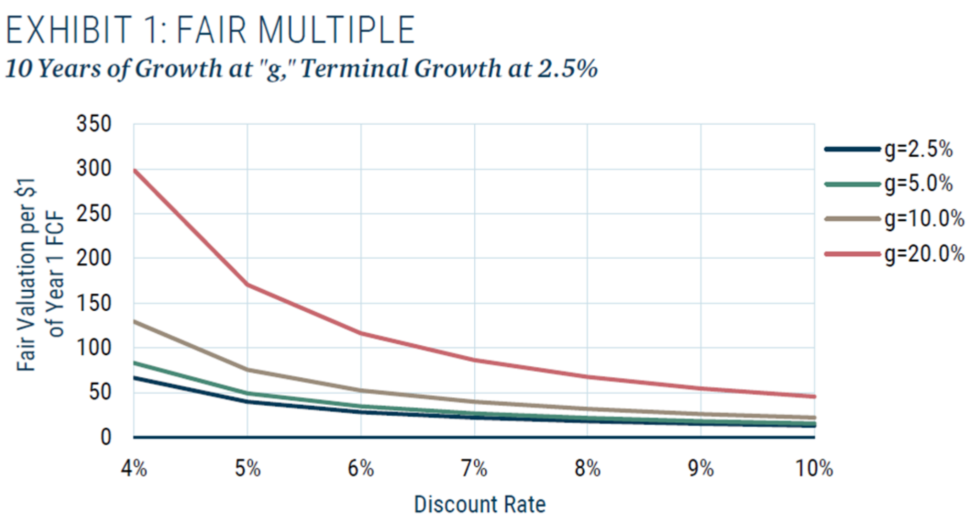
Why did this happen? P/E ratios are driven – in most part – by inflation and global interest rates. As inflation and interest rates rise, investors are less willing to pay a high multiple for future earnings.

P/E ratios are driven – in most part – by inflation and global interest rates

For example, earnings growth of 8% a year for 5 years looks attractive when interest rates are 1-2%, but appear less attractive when interest rates are 4-5%. Ergo, investors ascribe less value (a lower multiple) to the same earnings stream depending on the prevailing outlook for inflation and interest rates.

The chart below from GMO illustrates this. At discount rates of 4%, the fair valuation of $1 of free cash flow (FCF) is $300 for a company growing at 20% p.a. for 10 years (the red line). Rising rates negatively impact this value, with the same dollar of free cash flow being worth $50 at a discount rate of 10%. Faster growing companies are the hardest hit.

Chart 2: As discount rates rise, valuation multiples fall



The year 2022 provided ample reasons for a negative change in the growth outlook. The money injected into the financial system by central banks, as well as the direct money transfers to consumers due to COVID, came to an end. The Russian invasion of Ukraine and the resultant dislocations in the world's energy markets and trade frameworks increased inflationary pressures. On top of this, central banks are raising interest rates at the fastest rate in recorded history.

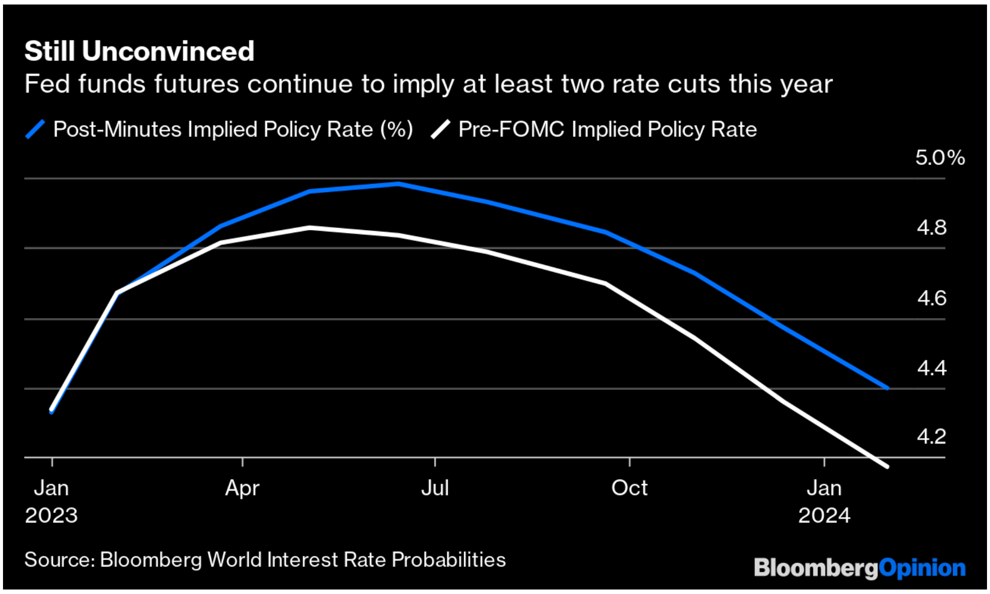
Will Central Banks continue to raise interest rates?

Most certainly. It is clear to us, from the December minutes of the FOMC of the Federal Reserve, that the resolve to combat still-high inflation remains strong. The notes from the meeting evidenced this, saying *"Participants noted that, because monetary policy worked importantly through financial markets, an unwarranted easing in financial conditions, especially if driven by a misperception by the public of the Committee's reaction function, would complicate the Committee's effort to restore price stability."*

In other words, as John Authers from the FT writes, *"Don't expect us to start cutting this year, and if the market persists in betting that we will, then this is going to get worse"*.

The market remains startlingly bullish, however. As the following chart from Bloomberg illustrates, if we look at the predicted path for the fed funds rate for the next 12 months, we can see that market participants still expect about 50 basis points of cutting this year, despite the clear statement in the most recent minutes that no Fed official expects to be loosening at all over this period.

Chart 3: Investors expect considerable loosening by year-end 2023



The Fed language is crystal clear, and moreover, the data is not in any way indicating that the Fed should back off its tightening stance

To us, the Fed language is crystal clear, and moreover, the data is not in any way indicating that the Fed should back off from its tightening stance. By tightening money, the Fed should reduce growth prospects, and as a result companies' demand for labour. However, the latest data on unemployment (claims for jobless insurance), for example, are at their lowest level in 3 months.

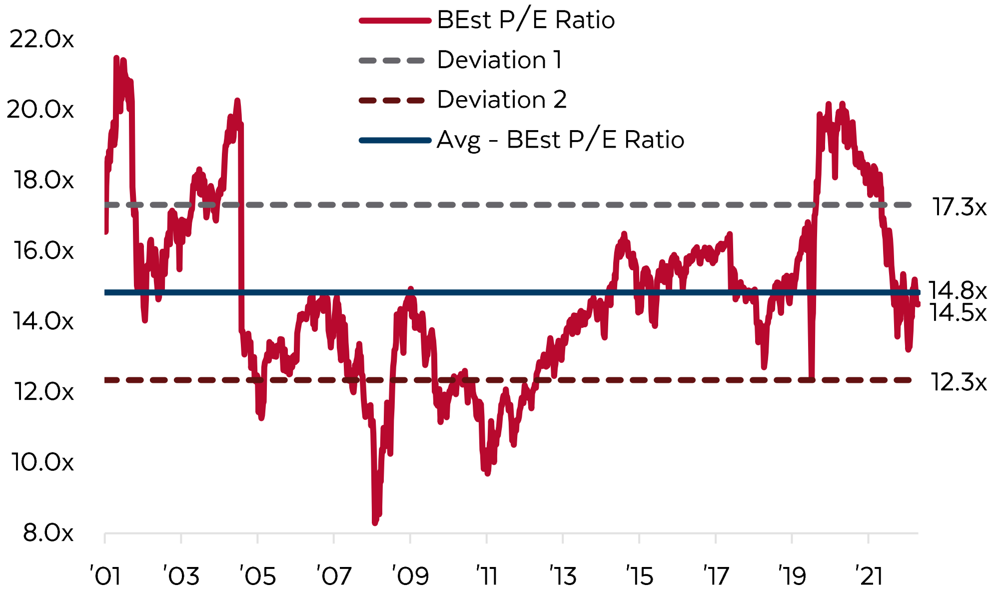
After the most aggressive monetary tightening in decades, common sense would suggest that unemployment should be rising. But it is not. One explanation for this is that the data on unemployment is wrong, as the Philadelphia Federal Reserve points out. Summing up final revisions to jobs data for Q2 state by state, they found that only 10,500 net new jobs had been added, while the US current employment statistics estimated net growth of 1.047 million jobs over the period. This would indicate that labour is indeed very weak. It also means the Fed is tightening into an already weak market, increasing the odds of a hard landing.

Unfortunately, the Fed's actions cannot rely on revisions, so data will have to reflect in preliminary prints first before the Fed adjusts its course.

Is the correction in valuation multiples over?

This is hard to say. The MSCI ACWI index currently trades at 14.5x 12-month forward earnings, just shy of its 14.8x average for the past 20 years. If excesses are followed by paucity, then we should expect the pendulum of valuation multiples to swing further below the average.

Chart 4: Valuation multiples have plunged to their 22-year average

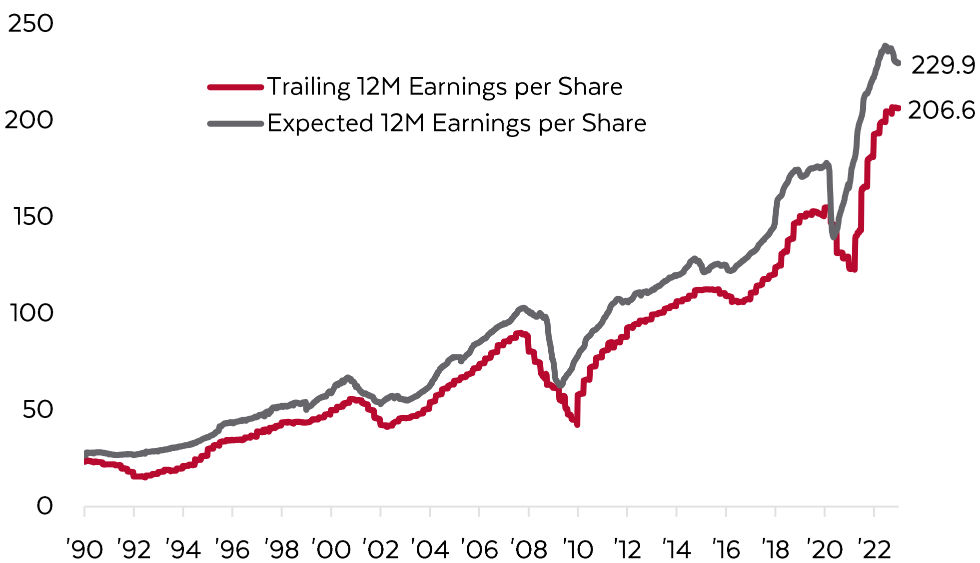


The key, however, is understanding the direction of earnings

The key, however, is understanding the direction of earnings. The chart below shows the actual trailing 12-month EPS of the S&P 500 Index over the past twenty years (the red line). Starting in March 2020, the EPS of the index declined as businesses shuttered during COVID. From Q1 2021 the situation reversed and earnings accelerated until Q4 2022.

Expectations of what EPS would be in the 12 months ahead (the grey line) have increased in line with actual EPS, but have recently started to decline from their peak of 240 to 229.9.

Chart 5: Earnings expectations remain highly optimistic



Growth expectations for the year ahead remain strong at 11.3% from current levels (from 206.4 to 229.7). With inflation running at 8-9% (6-7% currently) this seems achievable in nominal terms for *revenue*. However, cost increases have yet to express themselves, so to believe this is achievable for *earnings* implies a perfect pass through of cost to the consumer, and then some.

This is only possible if the consumer remains robust, and this in turn is driven by employment numbers, which will weaken in our view.

What does this mean for asset allocation?

We remain cautious in our allocation to risk assets

Firstly, most indicators point to inflation moderating in 2023. US inflation has started to trend downwards, as many of the factors which have contributed to high inflation have started abating. Chief among these is the oil price which peaked at USD 127 per barrel on the 8th of August and is now in the mid-70s. Other commodities have also fallen from their highs. The only potential upset on the horizon to the prevailing downward trend would be the opening up of the Chinese economy which may lift demand for commodities.

Secondly, equity valuations are by no means "cheap" with the blended forward P/E ratio of the MSCI ACWI at 14.5x and the S&P 500 being above its long run average (17x versus a long run average of 16x). In our view, share prices currently do not take any account of a possible fall in profits. In this environment we favour fixed income (or its shorter duration equivalent: cash) and are underweight equities. Looking beyond short duration assets, longer duration bonds in the US are now starting to offer positive real yields. For example, the US 10-year nominal bond offers a yield of 3.45% while the US 10-year break even inflation rate is 2.25%.

Within equities, pockets of opportunity are presenting themselves. Sectors which sold off considerably in 2022 have bottomed. If one takes technology stocks, for example, many commentators attributed their poor relative performance in 2022 to the fact that their cashflow streams extend further into the future so rising rates had a greater impact on their valuations. If inflation and interest rates have peaked, there may be only one direction left for them to go i.e., up.

Thirdly, global currencies have weakened considerably versus the dollar. We expect the dollar to remain strong as interest rates are considerably higher in the US than other OECD nations, and inflation is lower. Looking specifically at the Euro, the forecast 1 year real (post inflation) yield on the currency is negative 4.2%, while it is positive 1% in the US. Europe would have to hike rates quite aggressively, or inflation there would have to drop considerably, for this equation to move in the Euro's favour.

Taking all the above into account, we remain cautious in our allocation to risk assets. In our flexible mandates we are currently at 54.7% exposure to risk assets, with the balance in shorter duration fixed income, gold and cash. As the year progresses, we may see opportunities to increase equity exposure, and we will not hesitate to do so if the reward is commensurate with the risk.

In making any predictions as to what the market might do in the year ahead, one is reminded by how much of what happened in the past year could not have been predicted. Therefore, the most valuable lesson one may draw from such an exercise is the importance of maintaining a longer-term time horizon, which predominantly removes "luck" or "chance" from the equation.

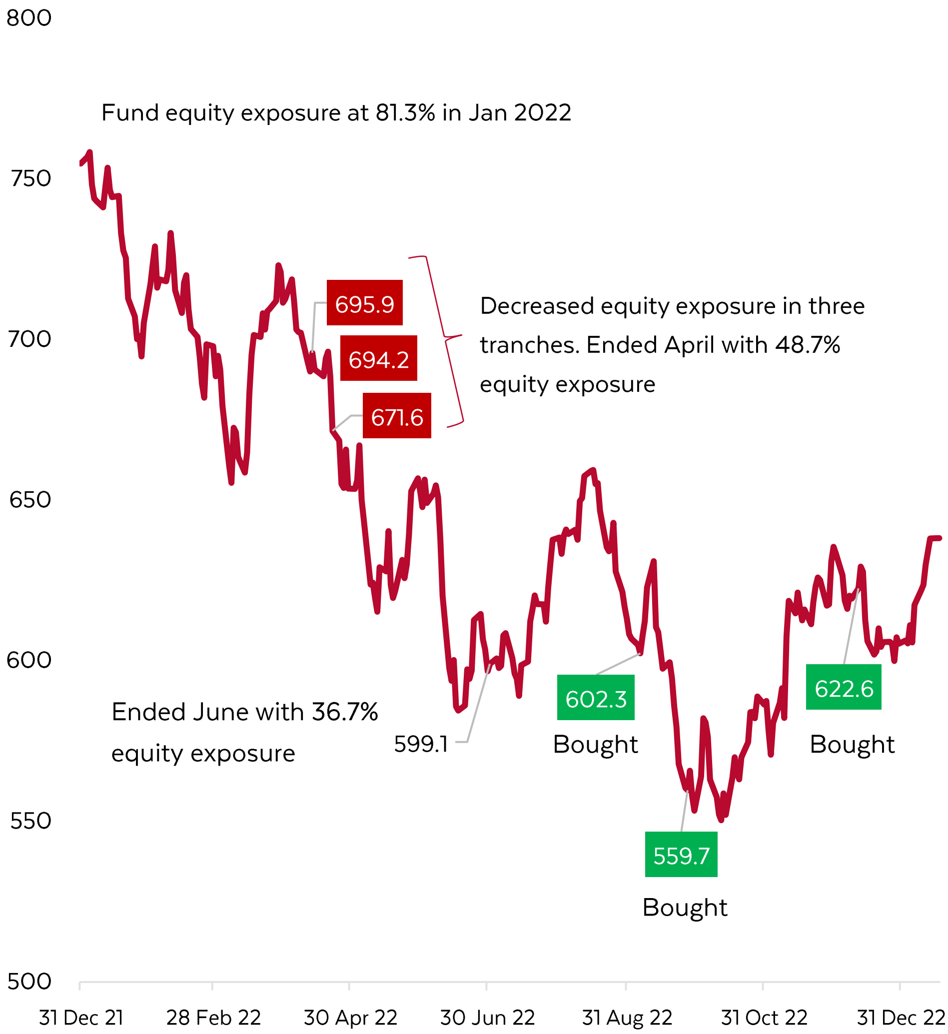
In the end, it pays to take a long-term view.

Looking at the Flexible Strategy positioning, the chart below provides full transparency on our decisions to decrease (and increase) equity exposure throughout the year.

- The MSCI ACWI Index started the year at 754.8, and Fund Equity exposure was 81.3%.
- We reduced equity exposure in three tranches in April to 48.7% of Fund
- Due to market moves the fund ended June with 36.7% equity exposure
- Equity exposure was increased on three occasions in Q3 and Q4, ending the year at 54.7%

Equity exposure was increased on three occasions in Q3 and Q4, ending the year at 54.7% of fund

Chart 6: MSCI ACWI in 2022 vs equity exposure decisions in the Flexible Funds



Going into 2023, our stance is cautious, but we are cognizant that bear markets don't last forever. Our ability to time the markets is limited, so we would expect to add equity exposure steadily throughout the year if inflation continues to moderate.

Strategy Performance

The performance of the Flagship Strategies in 2022 are shown below.

Fund of Funds Strategy		%Δ 1YR
Flagship IP Worldwide Flexible Fund of Funds	ZAR	-13.3%
Flexible Strategy		**%Δ 1YR**
Flagship International Flexible Fund	USD	-29.7%
Flagship IP Worldwide Flexible Fund	ZAR	-23.7%
Global Equity Strategy		**%Δ 1YR**
Flagship Global Icon Fund	USD	-35.2%
Flagship IP Global Icon Feeder Fund	ZAR	-32.3%

Beginning with our **Fund of Funds** strategy, the performance of GQG Partners was the standout. For 2022 in USD, GQG Partners Global Equity declined -6.7%, and our allocation to the iShares MSCI Value ETF also fared reasonably well, down only -9.8% in USD for the full year. On the other end of the spectrum, our allocation to more growth-heavy managers fared poorly: Sands Capital fared worst at -43.6%, while Guinness Global and Artisan Discovery fell -29.6% and -30.9% respectively. Asset allocation was additive to performance, with the fund avoiding the drawdowns experienced in Q1 by retaining moderate equity exposure.

In our **Flexible** strategy, the largest detractors were Meta, Zalando, and PagSeguro. The largest contributors were Schlumberger, Dick's Sporting Goods and Universal Music Group. Asset allocation detracted from overall performance, as we were too slow to reduce equity exposure in the first quarter of the year.

In our **Equity** Strategy, the largest detractors were again Meta, Zalando, and PagSeguro. The largest contributors were Schlumberger, Dick's Sporting Goods and Universal Music Group.

Our expectation is for all Flagship funds to deliver far more promising returns than their benchmarks over the following three years

None of the funds are run with a one-year time period in mind, so underperformance should be expected from time to time over this time frame. That being said, mistakes were made that have led to a deeper draw down in our flexible strategy.

With the benefit of hindsight, we underestimated the speed of the rate hikes and their impact on some of the long-duration businesses we held. Zalando, for example, which is net cash and in a stronger position today than ever before in its history, saw a total collapse of nearly 70% in its share price over the course of the year. None of this was warranted, but sentiment does indeed play an enormous role in the short term. We still hold these businesses (like Zalando, PagSeguro and others) today, so we will benefit from the other side of their cyclicality in the future.

We can also be criticised for the late use of our most powerful tool: asset allocation. There is no doubt that equity exposure could have been reduced earlier in the year when it became apparent that hikes were going to be steeper than the market had previously anticipated.

Given the extent of underperformance, and the cyclical nature of markets, our expectation is for all Flagship funds to deliver far more promising returns than their benchmarks over the following three years.

Activity in the fourth quarter of 2022 was high, with three buys and three sells for the equity strategy.

Credicorp (buy)

In December we added Credicorp to the portfolios for the first time. Credicorp is the largest bank in Peru with (an almost) unassailable market share of 40% in the country. While Credicorp has sold off due to political turmoil in Peru, we believe this provides the long-term investor with the opportunity to buy one of the best banking franchises in emerging markets at an attractive price to book value of under 1.5x. Credicorp is attractive due to political noise, and it is our view that the political risk premium which investors are currently applying to Peru should unwind once the rescheduled presidential elections are held by the end of the year. While Peru's dependence on copper is viewed by some as a risk, we are bullish on the long-term prospects for the metal because on the demand side decarbonization should play to its favor, and there has simultaneously been an under-investment in new supply. We believe 2x book value would be an appropriate valuation for Credicorp given the sustainable returns it is able to earn.

Legal & General (buy)

In Q4 we added Credicorp, Legal & General and Reckitt Benckiser to the funds

Legal & General (LGEN) is the largest underwriter of both retail and wholesale annuities (the latter are called pension risk transfers) in the UK. An annuity is a financial product whereby the underwriter promises to pay a retiree a fixed sum (whether in nominal or inflation-adjusted terms) for the rest of his/her life. What attracted us to Legal & General is that it had sold off to very low levels (P/E ratio of 8x, dividend yield of 8%) at a time when the prospects for its business had seldom looked brighter as higher interest rates boost demand for annuities. The reason for this sell-off was, more generally, that UK assets had fallen out of favour with the market in the wake of the Kwasi Kwarteng budget crisis and, more specifically, investors had overestimated its exposure to Liability Driven Investment (LDI) strategies after they had caused a blow-up in the UK gilt market. We expect the returns from LGEN to come from both share price appreciation as well as dividend yield.

Reckitt Benckiser (buy)

Reckitt Benckiser (RB) was historically a hygiene focused company with brands such as Finish and Airwick. Over the past 15 years RB has reshaped its portfolio with the inclusion of health brands Gaviscon, Dettol, Durex (c.40% of sales) and Infant Nutrition (c. 20% of sales). RB has exposure to several excellent categories that have pricing power and growth opportunities. We find management's +3-5% medium-term growth target to be achievable, and believe that, after the underperformance of recent years, we can expect renewed category outperformance through focused R&D and commercial execution. If management delivers, operating margins will return to the mid-20s, driven by positive mix and volume leverage. If they do not, we believe current valuations are sufficiently depressed, implying a generous margin of safety. RB has generated high returns on invested capital (ROIC) in the past, which support a justified valuation multiple of 19x. The PE is currently low relative to history, at 16.5x 2023 earnings.

Duck Creek (sell)

Duck Creek was one of the harder sales we have made in the fund. We continue to be bullish on the longer-term prospects of the company, however it is a marginally profitable business with a long duration growth profile. At the same time, the near-term prospects for its business are also darkening due to clients delaying new deals. As growth slowed, valuation support continued to decline. Rather than watch the value of your stockholding gradually drip down, we decided to sell and we will (potentially) rebuild a position at a more favorable time.

Meta (sell)

Meta is a leading online advertising business built on the world's most powerful social platforms (Facebook, Instagram and WhatsApp). Driven by vision (or hubris), CEO Mark Zuckerberg has pursued an aggressive expansion into the metaverse, a futuristic virtual world that he believes is the future of social interaction. This has led to an explosion in OPEX and CAPEX that seemingly has no bottom, destroying returns on invested capital and monopolizing management focus.

In Q4 we sold Duck Creek, Meta and Ubisoft from the funds

Meta has a compelling business model, and our research led us to believe that the investment case was one of cutting through the noise provided by the metaverse to see the long-term value on offer. Shares offered compelling value at around 10x earnings. However, our research leads us to believe that the investments into the metaverse will destroy considerable shareholder value, all while the core advertising business continues to face headwinds from general data protection regulations, as well as declining advertising spend due to a weak economy. Despite optically cheap valuations, we have concluded that the risk/reward profile has become unattractive.

Ubisoft (sell)

Ubisoft is a game developer and publisher. It holds some of the world's most valuable gaming IP, such as Assassins Creed, Rainbow Six and Far Cry. Ubisoft has been poorly run for a number of years, and has recently faced a mishandling of employee sexual harassment claims, poor execution and mismanagement of cash flow. The Company has been investing in a range of new titles and capabilities since 2019, and we have engaged with the company through 2020 and 2021 to ensure that spending and execution plans were on track. 2022 was to be a year of delivery on these titles. Instead, management have managed to snatch defeat from the jaws of victory. They have repeatedly dropped the ball on new releases. Ubisoft is now firmly the least attractive gaming company from an ESG, operational and financial perspective, leaving us with no further option than to exit the position.

The almighty dollar is not going to last forever

By Kyle Wales

The dollar is running rampant this year and while its appreciation appears unstoppable, that is unlikely to be the case down the line. Currencies play a far smaller role in investment outcomes than end-investors often assume, and they should instead ensure their investments will compound in value no matter what the dollar is doing on the world stage.

The dollar's rally is largely attributable to the huge upheaval we have seen in markets in the face of inflation rates that have risen to multi-decade highs and central banks' consequent efforts to halt the unfolding cost of living crisis. In 2022 the MSCI World Index was down 27% and the FTSE World Government Bond Index was down almost 23%.

Not every asset market has been a loser though. The US dollar has gained significant ground against a basket of other countries' exchange rates - now up almost 9% on trade weighted basis since the beginning of last year.

Some of this strength can be attributed to the dollar's status as the world's reserve currency, meaning that it benefits from a flight to safety when market conditions are poor. But there have been other factors at play as well.

> Rather than fretting about the level of the currency, or speculating on its direction, most investors would be better served by hedging themselves against currency risk where they can

Chief among these is the fact that the US Federal Reserve has been more proactive in raising interest rates than central banks in other parts of the developed world. The Fed has raised interest rates 3% since their lows while the Bank of England has raised them by 2.05% and the European Central Bank by only by 1.25%. Japan has seen no base rate increases at all.

This means that holders of dollars are "having their cake and eating it too", as they are being richly rewarded for holding a safe-haven currency.

This also accounts for the fact that some emerging market currencies are doing better than some of their developed world peers. Interest rates in Brazil, and to a lesser extent South Africa, are now sitting at levels where they are offering far superior real (inflation-adjusted) yields to other emerging markets. As a result, the Brazilian Real has actually appreciated by 3% against the dollar in 2022.

A number of idiosyncratic factors are also at play. The Euro has been weak, mainly due to weak German industrial activity and the effects of the Russian invasion of Ukraine. The UK, already weakened from Brexit, is plagued by political uncertainty and the fallout from (now "former") Chancellor of the Exchequer, Kwasi Kwarteng's proposed mini budget.

But what does this all mean from a practical standpoint?

Firstly, a strong dollar benefits countries and industries that export to the US, as consumers there are able to purchase more of the goods or services they sell. This list includes China, Japan, and Germany, which are the US's biggest source of imports.

Secondly, a strong dollar coincides with weak commodity prices. This deeply impacts a commodity exporter, such as South Africa, largely negating the bounce in commodity prices that we saw at the beginning of last year due to the Ukraine invasion.

Lastly, a strong dollar means there are opportunities for contrarians to position portfolios for a weak dollar. While dollar strength could be with us for a while as many of the factors contributing to its strength look set to persist, we know that, at some point, this is certain to change.

Ultimately, a strong dollar will lead to a decline in US competitiveness, which will tilt the macro-economic balance in favour of the rest of the world. Rather than fretting about the level of the currency, or speculating on its direction, most investors would be better served by hedging themselves against currency risk where they can. This means using dollar cost averaging to build positions in global businesses that are "natural hedges" because they generate earnings in multiple currencies.

Investors should not lose sight of the ultimate goal when investing, which is a portfolio that compounds its value through good times and bad - and currencies play a smaller part in this than is often supposed.

Investment Case: Informa

By Kyle Wales

We believe the market is currently doing a poor job of pricing the company because it is not looking through high near-term multiples to 2024 when earnings will reach “normal” levels

- ⇒ Informa is the largest trade show organizer in the world.
- ⇒ The trade show business benefits from powerful network effects which entrench Informa’s position and give it pricing power. The tradeshow business also has several other favourable characteristics.
- ⇒ We sold our position in Informa as business travel declined during Covid but jumped at the opportunity to buy Informa again, once the recovery from Covid began to gain legs.
- ⇒ We believe the market is currently doing a poor job of pricing the company because it is not looking through high near-term multiples to 2024 when earnings will reach “normal” levels once again.
- ⇒ The reopening of China post the relaxation of its zero-Covid policy will provide a further tailwind to Informa and there is a lot of opportunity for Informa to generate value for shareholders in other ways.

Informa began its life as an amalgamation of various academic publishing businesses, most notably “Routledge” and “Taylor and Francis” (which was founded in 1852).

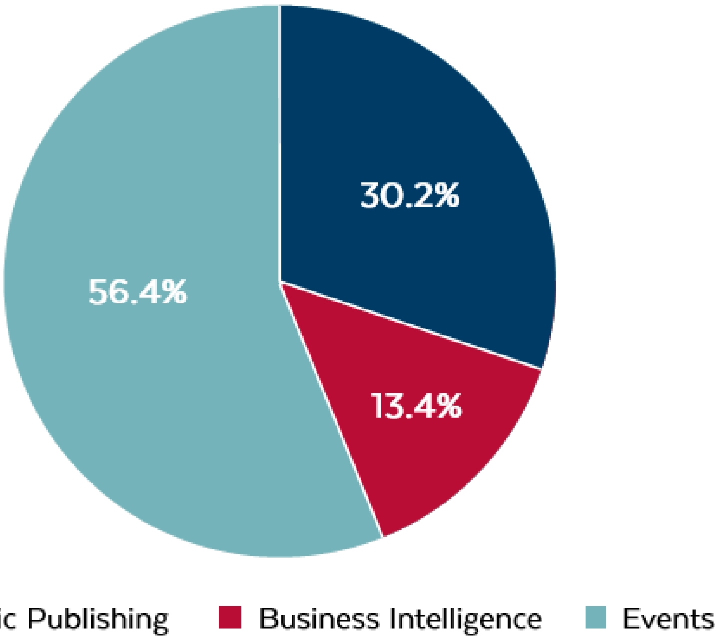
It subsequently expanded into business intelligence which consisted of providing niche data sets regarding clinical trials, vessel tracking and international fund and income flows to businesses within the pharma, finance and transport sectors. Its best-known brand in this space is “Datamonitor”.

The last leg of its expansion was into the trade show business and this gradually became its area of focus, surpassing all its other businesses in importance.

When Informa entered the FTSE 100 in 2018, it was already one of the largest trade show organizers in the world. Among its flagship trade shows are "Art Miami" and "Decorex," and the less exciting "Salvage and Wreck" and "World of Concrete". As at the end of 2019 (it will become evident shortly why I am referencing 2019) almost 60% of operating profit came from trade shows.

art miami   WORLD OF CONCRETE   Salvage & Wreck   DECOREX

Informa's operating income split by line of business FY19



It may not be immediately apparent, but trade shows are excellent businesses

It may not be immediately apparent, but trade shows are excellent businesses. What sets them apart from conferencing businesses more generally, is that incremental revenue from attending a trade show can be tracked and this often covers the cost of attendance multiple fold. Companies are reluctant to cut this spend even when times are tough.

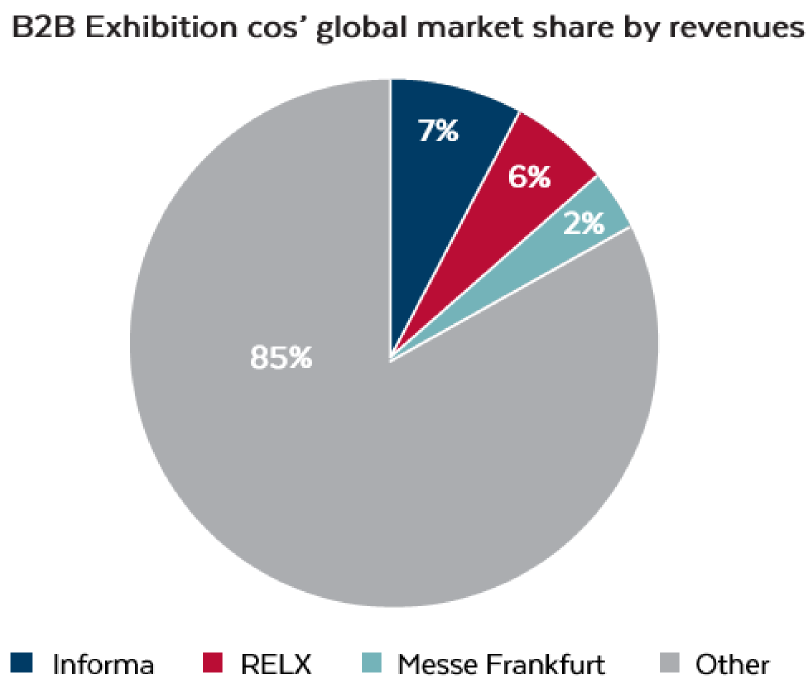
Trade shows also benefit from entrenched network effects because exhibitors are reluctant to participate in trade shows unless they know attendance will be good and vice versa. Revenues from trade shows are typically evenly split between those from exhibitors and attendees.

In addition to the characteristics above, Trade shows benefit from extremely good underlying free cashflow generation, often well north of 100%. The reason for this is exhibited well below:

The Pillars of Strong Cash Flow

Advance Booking	Subscriptions and events are booked and paid for in advance. (65%+ of revenue, >£500m cash advances held today)
Flexibility	Re-scheduled events roll bookings and cash payments forward. Suppliers paid in instalments, in advance and in arrears.
Low Capital Intensity	All businesses have low capital requirements with short-term flex.
Costs & Cash Management	50% direct and 50% indirect costs. Tight management of cash collection and working capital.

Lastly, the trade show business is highly fragmented, so opportunities for a well-funded player like Informa to add value through M&A abound.



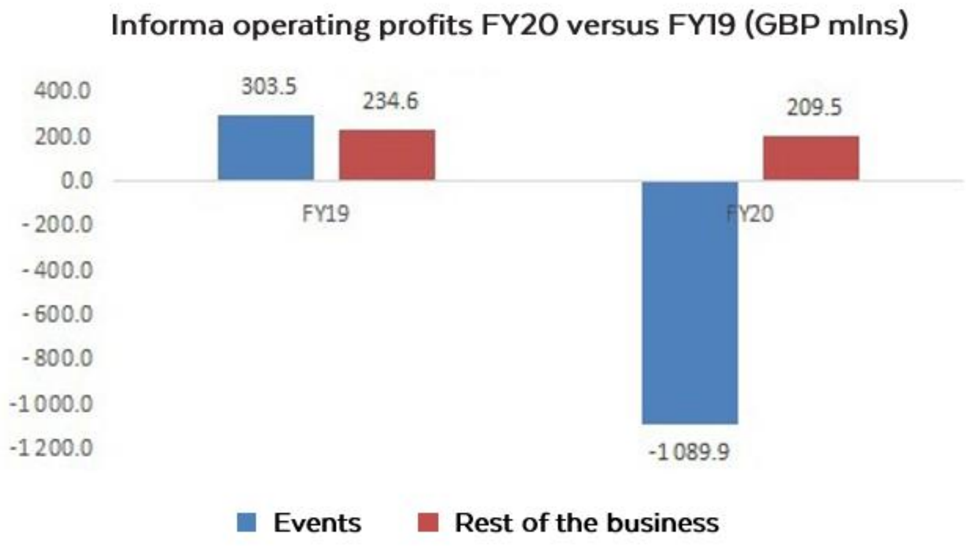
Trade shows benefit from extremely good underlying free cashflow generation, often well north of 100%

Covid

2019 was a good year for Informa. It had seen solid revenue growth across its divisions and the synergies from its acquisition of UBM, another tradeshow business the year before, were beginning to materialize.

Then Covid hit. With travel (including business travel) grinding to a halt around the world, Informa was forced to cancel many of its trade shows. From accounting for 60% of its operating profits in FY19, its trade show business made steep losses in FY20, vastly eclipsing the operating profits in the other parts of its business. At this point we sold Informa in your funds because while we believed Informa's underlying business would eventually recover, the debt that it had taken on to fund the acquisition of UBM might force the company into a dilutive capital raising at the worst possible time.

Informa, however, remained on our watchlist for when circumstances improved as this remained a business we would like to own at the right price.



Rebuilding our position

That moment presented itself mid-way through 2021 as Informa's revenue and operating income began to recover. While the company then traded at an optically high trailing multiple of 100X, our conviction that the business would return to its full potential remained steadfast.

Why we continue to hold Informa

While the business has recovered substantially from its Covid lows, we believe there is further to go, and not all of this has been adequately priced by the market. One of the reasons for this mispricing may be that due to its UK listing and relatively small market capitalization, it gets painted with the same brush as domestic UK businesses, even though the UK comprises less than 10% of its revenues.

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Going forward, the growth outlook for the business remains robust for reasons that include:

- China. China, which accounted for almost 15% of the business prior to Covid, still hasn't made a full recovery due to lockdowns in that country. In addition, Chinese attendance of international conferences has ground to a halt. The relaxation of China's policy began in earnest in December.

- Pricing. Since Covid, the business has taken no price increases and has instead focused on rebuilding attendance. Once Informa is satisfied with attendance levels, it will be able to resume putting price increases through.

- Digitization. The Company's shift to digital began when it rolled out on-demand versions of its events during Covid. It is now trying to use its digital capabilities to expand into adjacencies beyond face-to-face events and thereby increase its total addressable market.

- Capital allocation. Going forward, Informa has decided to focus on academic publishing and trade shows, having disposed of their business intelligence segment. This has added substantial value to shareholders as Informa sold these businesses at very high multiples and used the proceeds to buy back its own shares. The sale of its intelligence businesses took place at a blended EV/EBITDA multiple of 28x[1] (akin to a P/E multiple of 35x). While the Company's share price remains at low levels, further value can be added in this way.

Conclusion

Informa is an excellent example of market mispricing

Today, Informa trades at only 14x 2024 adjusted earnings, which will be the first year that earnings return to pre-Covid levels. This is a substantial discount to its own history and its closest peer, RELX.

Even once Informa's business completely recovers from Covid, it should continue to grow robustly. By investing now, one is essentially getting this excess growth "for free".

Informa is an excellent example of market mispricing, due to the market either not taking a long-term view, or lumping Informa together with other businesses with whom it shares few characteristics. It is these market mispricing's which provide the patient, long-term investor with the opportunity to make money.

In conclusion

We write these Telescopes so that our investors know what it is we are doing, and why we are doing it. For many of you, we are the caretakers of your global investments, and we would like to use this opportunity to thank you for the trust you place in us, and emphasize how deeply committed we are to the responsibility you have placed in our hands.

We believe it is of the utmost importance that all clients feel a true sense of the word "Partnership" in how we are aligned. Our portfolio management team reflects this with significant personal investments in the Flagship strategies.

Flagship funds own a selection of businesses that we believe to be of unusually high quality, and will prove to be financially resilient whatever the prospects of the global economy.

We expect the value of these businesses to rise at an attractive rate over the coming years, and that owning these businesses at a discount to what they are worth will make an additional contribution to your returns.

While we believe that Flagship funds will continue to outperform over longer-term periods, there will inevitably be shorter-term periods over which our funds will not outperform. This is the nature of markets – one's alpha (or excess performance relative to one's benchmark) is lumpy and doesn't accrue in a straight line.

Warm Regards,

Pieter, Kyle and the Flagship Global Team

FLAGSHIP
ASSET MANAGEMENT

Navigate Safely Forward

T +27 21 794 3140

E info@flagshipsa.com

www.flagshipsa.com

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