



IFSL Evenlode Income Fund

Investment view

Quality dials up
November 2025





Quality dials up - November 2025

November was marked by intra-month volatility in global stock markets, with both the US and UK markets ultimately posting a small positive return. US technology stocks briefly sold off on AI concerns but then rebounded in the second half of the month. In the UK, sentiment was muted for most of the month, though domestic shares saw some relief following the autumn statement on 26 November.

To the end of November, Evenlode Income's year-to-date return has been +1.9% compared to +13.8% for the IA UK All Companies sector and +21.4% for the FTSE All-Share.ⁱ Though aggregate portfolio fundamentals have been progressing quite well and at a similar rate to that expected at the start of the year, Evenlode Income's holdings have in aggregate de-rated and their share prices have therefore been left far behind global and UK benchmark returns in 2025 - stuck between the AI capital-expenditure trade that has come to dominate the global index on the one hand, and asset-intensive cyclical stocks such as banks and miners within the UK market context, on the other.

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We would rather be reporting better numbers - 2025 has been by the far the worst year for relative performance over the fund's more than 16-year life.

The portfolio remains, though, a diversified list of market-leading quality businesses - almost all UK-listed - with good growth prospects, low levels of debt and total leverage. They are consistent cash generators, with the free cash flow yieldⁱⁱ of the portfolio currently standing at 5.7% and forecast to be 6.0% next year. The portfolio is also full of repeat-purchase companies - with less than 15% of the portfolio invested in companies we

deem to have above average economic sensitivity.

These characteristics have been of little interest to investors over the last five years, but with global markets looking increasingly late-cycle in many places, we think it is only a matter of time before they become appreciated by investors again. We also feel we've been able to turn the quality dials up even further than normal over the last few years, and diversified the portfolio nicely, as an increasingly broad range of UK quality companies have traded at very decent valuations.

Third quarter results

More than 85% of the portfolio has updated the market in the last few weeks. Weighted organic revenue growthⁱⁱⁱ has come in at +5.5%, with 30 of the 32 holdings reporting growth. For companies that also reported operating profit, average growth has been double-digit.^{iv}

The rest of this investment view includes a discussion on a range of portfolio companies, and what we are hearing on the ground.

Specialist engineers

After a difficult post-Covid period for some industrial end markets, engineering holdings are generally seeing positive demand, and - though end markets will always come with some variability - the longer-term outlook looks well underpinned, helped by trends such as investment in energy security, national infrastructure and defence renewal and the electrification of the industrial sector. These holdings benefit from durable competitive advantages, that position them well to turn this revenue growth into attractive value creation for shareholders. Below are a few brief notes from key holdings:





- **Weir Group:** We attended Weir group's capital markets day last week, Management reiterated guidance of mid-to-high-single digit revenue growth and through-cycle margins of more than 20%, with these targets underpinned by production from existing brownfield mines. There is potential upside if greenfield investment accelerates over the coming years, with the global pipeline beginning to grow over recent months. Weir's mining focus positions it to benefit from structurally growing demand for critical metals such as copper, nickel, lithium and cobalt - all essential for the global energy transition, infrastructure renewal, and reshoring of key manufacturing processes.
- **Spirax-Sarco:** After a growth slowdown in the post-Covid period, Spirax is seeing demand pick up again in its key markets. The company expects revenue growth of approximately +4% for the full year. Looking further ahead, Spirax expects organic revenue growth above +5% over the medium-term, underpinned by the strength of the company's competitive positions, and the long-term opportunity driven by rising investment in energy efficiency, infrastructure renewal and life sciences.
- **Rotork:** A global market leader in specialist actuators, Rotork reported orderbook growth of +6% at its recent trading statement. The company is benefitting from a combination of growth drivers including energy security investment, methane reduction and the transition to electric actuators - a shift driven by structural trends in automation, electrification, and digitalisation. Meanwhile, Rotork is also targeting newer and high growth markets to

diversify the business, including water infrastructure, nuclear HVAC (heating, ventilation, air conditioning), desalination, datacentres and carbon capture.

- **Smiths Group:** The company reiterated full year guidance at the company's latest trading update for organic revenue growth of approximately +5% and profit growth at a higher rate for the current year. The company has also made good progress on the disposals of its Interconnect and Detection business. This leaves Smiths a higher margin, higher-return company and will lead to more than £3bn of cash - 40% of the market capitalisation - coming back to the company over the next six months or so, much of which is to be deployed as share buy backs.

Return-on-capital obsessed industrial compounders

We also met with the Diploma and Halma management teams this month. Both companies have impressive long-term track records and are well set to enjoy many more years of compound growth, via a balance between organic growth and bolt-on acquisitions. They benefit from a variety of features - strong competitive advantages, attractive structural end-market growth, and entrepreneurial divisional management teams working within a disciplined financial framework at the group level. In particular, both businesses have been run for many years with a very close eye on return on total capital employed - the holy grail for shareholder value creation.

At most recent results, Halma grew revenue by +17% and earnings by +29% and Diploma grew revenue by +11% and earnings by +21%.





This growth is partly due to the underlying strength of portfolio businesses and is also a reflection of particularly strong end demand from sectors such as infrastructure, electrification, datacentre and defence.

Valuation-wise, the shares of both companies have had a good run, so we have been trimming back the position sizes over recent weeks.

Data and data analytics

“I won’t dwell on other glamorous businesses that dramatically changed our lives but concurrently failed to deliver rewards to US investors: the manufacture of radios and televisions for example. But I will draw a lesson from these businesses: The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that competitive advantage.”
Warren Buffett, 1999.

Approximately 18% of the portfolio is invested in companies that deliver software and data analytics services to a wide range of professional customers from a variety of sectors - large corporates, small businesses, lawyers, doctors and academics. In the increasingly polarised market of 2025, these digital analytics companies have been added to the ‘AI losers’ bucket, as investors worry over the potential disruptive impact of generative AI technology on their businesses. RELX, LSEG and Experian, for instance, have been three of the most significant detractors to Evenlode Income's performance over the last six months.

Buffett’s quote appeared in a Fortune article back in 1999, at the height of stock market

optimism towards the internet and the capital expenditure boom in fibre to support this new technology. I’ve included a link in the footnotes - it’s well worth a quick read, including the interesting side bar on Jeff Bezos.^v

I discussed RELX, LSEG and Experian in last month’s investment view, and why we view their competitive advantages as more-than-durable in the generative AI era. Recent results from these holdings give a sense of the underlying demand they continue to see, with organic revenue up +7%, +6.4% and +8% respectively. Experian, reporting interim results rather than just a trading update, also reported +12% earnings growth.

The following quotes, from our meeting with Experian management this month, highlight the incremental opportunity that AI technology is providing, as the company continue to plough investments back into the business to drive future growth:

“We are driving growth by finding signals and propensities in our large proprietary datasets and turning this into product that adds value to clients... AI helps to accelerate both of these aspects, and it helps with our code efficiency too... we can continue to accelerate organic growth towards +10% given the value we can create from our datasets.”

When discussing the acquisition environment, management also noted that AI interest within private markets is increasingly moving towards hard-to-replicate proprietary data assets, and valuations are beginning to reflect that. This is, as they put it, *“a bit counterintuitive if you think about the way public markets are valuing our equity right now!”*





Classifieds

Switching gears - so to speak - we also met with Auto Trader management last month after the company released solid interim results. Revenue was up +5% and earnings per share +11%, and the full-year outlook was reiterated. But as has been a familiar theme this year for several holdings, solid results were met with a weakening share price - in this case mainly due to market concerns about potential AI-related disruption. We believe Auto Trader is very well positioned in this regard, with a comprehensive ecosystem of structured, real-time, image-heavy inventory and a very strong consumer brand. Around 80% of Auto Trader visitors go direct - via the app or straight to the website. These competitive advantages are also complemented by rich proprietary data, strong domain expertise and - crucially - deeply rooted relationships with their dealership customers. Over the years, Auto Trader has embedded its APIs and software systems into the UK car dealership sector, and these customers are seeing strong value-added benefits from the result of this work. It has involved hard yards from Auto Trader over many years, involving boots-on-the-ground and long hours across the UK, all around the provinces. Google have not attempted to dirty their hands with similar work over the last twenty years, and we doubt Sam Altman is considering this a priority either.

Auto Trader has completed its cloud transition and is now in a strong position to leverage AI and enhance its product offering. In terms of harnessing generative AI technology, a recent example is the launch of its Codriver product, allowing dealers to categorise and reorder imagery using AI image recognition, using millions of proprietary consumer insights collected over

the years from the Auto Trader site. The product can also write detailed descriptions of cars at the click of a button, prioritising the features consumers care most about - again informed by Auto Trader's huge dataset of user insight. Here we have another excellent business trading at a workaday valuation. The price-to-earnings (PE) multiple^{vi} is 17x this year and less than 16x next, the free cash flow yield is over 6%, and the company has a clean net cash balance sheet.

Rightmove is also a small position in the portfolio with room to build, and we think it looks very interesting for not unrelated reasons. Just to give a sense of current pessimism, the level of the rejected REA bid for Rightmove - made just over a year ago - was nearly 50% above where the shares trade today.

Consumer-facing names

Reckitt

Reckitt hosted an investor day on its emerging market business last week, and we were in attendance. As a reminder, the core of Reckitt is a focused and attractive list of health and hygiene brands, with the following brands representing more than three quarters of revenue: Mucinex, Strepsils, Gaviscon, Nurofen, Lysol, Dettol, Harpic, Finish, Vanish, Durex and Veet. These brands have grown globally at about +5% over the long-term, and their prospects look similarly attractive. Within the mix, emerging markets sales have grown on average at +8% per annum and now represent 42% of total sales. This is not a new growth avenue - we have been talking about it in these investment views since the early 2010s - but the runway remains long. As incomes in emerging markets increase, Reckitt are delivering +5% growth in more mature areas of their emerging market portfolio - bar soap, toilet cleaner,





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handwash, condoms. But they are also able to deploy an already proven innovation pipeline from developed markets into emerging markets, within more nascent categories such as sore throat, intimate hygiene, auto dishwashing and VMS (vitamins, minerals and supplements). This part of the portfolio is generating growth of more than +10% at higher gross margins than the group average. Reckitt trades on a 17x PE multiple this year, and 16x next. The company's free cash flow yield is approximately 5%.

Diageo

We hold our hands up for not reducing Diageo far more aggressively in 2022, when it briefly touched a price-to-earnings (PE) multiple of 28x and a free cash flow yield of 3% - our biggest error of the last five years. Three years on, the global spirits sector has experienced a significant downturn and is struggling for growth, with affordability an ongoing issue for the embattled US consumer. We continue to think recent economic factors are the main cause of the downturn in US spirits, with similar trends seen in other consumer categories, but moderation, health and immigration trends in the US are also playing a part. As a result of all of the above, the company is guiding to only low-single-digit profit growth in its financial year to June 2026.

Zooming out, though, Diageo remains a great British global market leader with an impossible-to-replicate portfolio of brands with authenticity and heritage - not least Guinness. We think the company can grow in the US, just not at the rate it did in the 2010s, and the opportunity in emerging markets - particularly Latin America, India and South-East Asia - remains large. In the near-term, it is not that the company's earnings and free cash flow have

disappeared, in fact free cash flow in the year just finished was higher than in 2022, when the share price peaked. Management have also set achievable targets for continued free cash flow delivery (growth of more than +10% for the current year - to \$3bn - and rising from there).

The stock is now trading on a PE multiple of 13x and a free cash flow yield of 7%, a valuation level not seen for more than a decade, and after three years of management change - following the untimely death of Ivan Menezes in June 2023 - we look forward to Dave Lewis's arrival next month as the company's new CEO. He is a thoughtful, decisive operator with a wealth of consumer goods experience from leadership roles at Unilever, Tesco and Haleon.

Unilever

To round off the main consumer goods holdings, it is worth noting that Unilever demerged the Magnum Ice Cream company on 6 December. This leaves Unilever a cleaner, higher growth, higher margin and higher return-on-capital business with more than 75% of sales coming from its attractive 'Power Brands' - Dove, Vaseline etc. The stock currently trades on a PE multiple of 17x (or 15x if you strip out its listed stakes in Hindustan Unilever and Indonesia Unilever), and a free cash flow yield of 6%.

Intercontinental Hotels Group (IHG)

Although 2025 has been a very challenging year for the global (and particularly US) consumer, travel markets have performed relatively well, as people around the globe continue to place value on experiences and face-to-face encounters in an increasingly digital, social-media engaged world. IHG's recent results demonstrate the power of the hotel group's franchise model even in quite





challenging markets, with plenty of tariff uncertainty and geopolitical considerations to navigate this year. The company is on track to grow earnings per share for 2025 in-line with management's medium-term +12-15% growth expectation. IHG's asset-light business model and cash-generative characteristics allow the company to repurchase a significant amount of outstanding shares each year; by the end of September the company had already bought back approximately 4% of its total shares in issue since January, and this process is set to continue over coming months.

Games Workshop

Another social-media friendly corner of the consumer market that is thriving in a more fragmented, digital world is 'hobbying'. For Games Workshop enthusiasts, this involves collecting, crafting and playing with the franchise's miniature figures, sharing these activities on Instagram, and also exploring the huge universe of content that has been created within the Warhammer universe, via audiobooks, video games and the forthcoming Amazon live-action series. The hobby is becoming increasingly international, with only about 30% of revenue now generated from the UK. There is an appealing runway of growth in newer markets, including Europe, the US, Mexico, Japan, China and South-East Asia. Games Workshop grew revenue +9% in the latest quarter, helped by good growth in the Americas and Asia. The Games Workshop team have been working hard to get the proposition right in these markets, often for many years - over a decade in Japan for instance. This work includes ensuring foreign language translation is at a high quality and understanding how shops and infrastructure work best in each region. This process is now

well advanced in a wide range of countries, and regional businesses are in a good place to steadily expand and drive incremental growth. We have been trimming the holding in recent weeks after strong share price performance, but growing success in the US and Asia on a decade long view would be transformational for the company.

Elsewhere in the portfolio

Having taken up more than enough of your time already, here are a few snippets from across the portfolio to highlight recent results from a diverse list of other portfolio holdings:

- **Integrain:** The company provides a leading investment platform, Transact, to UK financial advisers, and generates a high degree of recurring revenue. The company has a strong position in its niche (with more than 10% market share) and continues to gain share, with share of net inflows consistently above 15% over recent years. The company's full-year trading update was strong, with funds under direction up +16% over the year, and positive guidance for next year. As management put it, "*we continue to make financial planning easier by developing our proprietary technology adviser platform and enabling a more integrated ecosystem for clients and advice firms. This puts us in a strong position to deliver growing operating returns and to take advantage of the compelling opportunities present in the UK advice market*".
- **Intertek:** A global leader in corporate assurance, testing and inspection, Intertek grew organic revenue by +4.3% in the third quarter, and reiterated guidance of mid-single-digit revenue for both the full-year and the medium-term, with profit growth





ahead of revenue. There are several structural drivers underpinning demand. The company's multi-national clients (of which over 99% are retained each year) have a need for increasingly transparent and robust supply chains. The very common 'China plus one' strategy that many clients have been pursuing for several years now (to ensure robustness of supply in a multi-polar world) is driving incremental business for Intertek, as clients utilise more services from across Intertek's global network. After a lull during Covid, client investments in innovation and new product development are also driving growth again in the range of products and services that require testing and assurance. In Intertek's infrastructure and energy divisions, investments in new infrastructure and renewable technologies are also driving demand. Tariff uncertainty has kept Intertek's valuation depressed this year, despite positive trading. As a result, the company currently trades on a PE multiple of 17x and a FCF yield of nearly 6% - not bad for a cash-generative compounder with durable competitive advantages.

- **Informa:** The global market leader in B2B trade exhibitions (Informa holds a 15% share in a highly fragmented market) continues to demonstrate the power of network effects within its portfolio of global trade shows, which includes everything from prestigious events such as Money 20/20 and the Cannes Lions International Festival of Creativity, to other very strong - albeit less glamorous - franchises such as World of Concrete and WasteExpo. Interim results saw organic revenue grow 6.6% and the company expect more than +10% earnings growth for the full year. The core of Informa's competitive

advantage is its two-sided network effect with well-established events dominating their niche industries. For exhibitors, the value of participating grows as more attendees register for top-tier events. For attendees, the breadth and diversity of exhibitors provide greater choice, more innovation to discover, and enhanced networking opportunities. Revenues are also surprisingly resilient in downturns - the cost of attendance is low relative to overall marketing budgets, and it is important to represent your business at these events during the bad times as well as the good. The company is currently trading on a PE multiple of 16x and a FCF yield of over 7%.

- **Compass:** The global market leader in food catering, Compass continues to benefit from the steady move from insourcing to outsourcing in its markets. Outsourcing food catering comes with multiple benefits, not least a reduction in hassle-factor, better efficiency and improvement in the offer. A complex backdrop of food price volatility, changing consumer preferences, healthy eating trends, and more regulations are all underpinning this trend. At recent full-year results, Compass posted +8.7% organic revenue growth and earnings per share growth of +11%.

That's it for this month. The Evenlode team will release their winter book list later this month. Then, we will be back again in January to review 2025 and discuss the outlook for 2026. In the meantime, we wish you all a very peaceful and enjoyable holiday season.

Hugh, Chris M., Ben P., Charlotte, Leon and the Evenlode team
15 December 2025





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

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ⁱ Source: Financial Express. Year to date performance 31 December 2024 to 30 November 2025. Bid to bid, Total return basis, GBP Terms. IFSL Evenlode Income B Acc Shares.

ⁱⁱ *Free Cash Flow (FCF) Yield: A measure of how much cash a company can generate over and above normal operating expenses and capital expenditure, relative to its total value. 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.*

ⁱⁱⁱ *Organic Revenue Growth: Excludes growth attributable to mergers and acquisitions, and foreign exchange.*

^{iv} Source: Evenlode, company reports.

^v <https://www.berkshirehathaway.com/1999ar/FortuneMagazine.pdf>

^{vi} *PE multiple: Price-to-Earnings 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).*

