SIFTER

Sifter Insight

7th of January 2019

Summary of 2018 and looking forward

It's time to summarize this year and, more importantly, to look to the future. The last twelve months, from an equity point of view, were mixed. Until the end of September, the Sifter Fund price was up by 9%. From October onwards, however, there was a large decline in markets. Eventually Sifter NAV price fell to -4.1% (R-class) and -3.7% (PI-class) in 2018. Looking to business results of the companies in the Sifter cylinder offers reassurance against this turbulence.

Sifter's investments, particularly in the US, showed strong results, with good growth in both earnings and revenue. Earnings per share grew (based on Q3 results) on average over 20% in comparison to last year's results. This means that the money-making capacity of the Sifter portfolio improved by 20%, when measured by earnings growth. This, of course is far better than the -4.1% decline of the portfolio's sales price (the NAV).

We do not know what sell price levels, and when, the Fund shall attain. On the contrary our job is to see that the businesses we own, and their markets, remain strong. The sell price has relevance only when we intend to sell.

Sifter investment strategy cornerstones

Just a short recap of the Sifter strategy to remind you why we're not worried about the recent stock price decline. For 15 years at Sifter Global Fund, our 3-step investment strategy has kept us calm during any market turbulence.

- Think long-term: Rather than chasing the rise and fall of stock prices day to day, we focus on resilient businesses that will perform well for years to come.
- Focus on business value: Sifter investors see themselves as business owners, not stock traders. As long as each invested business is doing well, so are we.
- Find the world's largest deal flow: We sift 65,000 global businesses, comparing and ranking them. Finally, we invest in those that will provide growing earnings for Sifter investors.

By following these rules, we have eased the pressure that comes of constantly following stock price movements. Please note in this context that here we talk of price, not of value, of the business. Stock price is not the same as value of a business. We measure value through the money-making capacity of the business. Value leads, price follows.

We also avoid unnecessary speculation related to political, economic and other factors, which most often do not have an impact on business results. Experts all over the world try every day to correctly guess the best moments for transactions and still receive disappointing results. That's why we follow our strategy. We invest in growth of business earnings, instead of trying to find out the best moment for the transaction.

2018 Sifter returns

Picture 1. Sifter Fund NAV evolution since beginning (2003/6-2018/12)

In picture 1 the blue line is Sifter and the green the comparison index. During the first 15 years after its initiation (2003) , Sifter fund managed to increase its price by 7.6% annually, after all costs and fees. This is a remarkable result, taking into account that the corresponding comparison index (MSCI World NR Eur) increased its sales price by 7.2% annually.

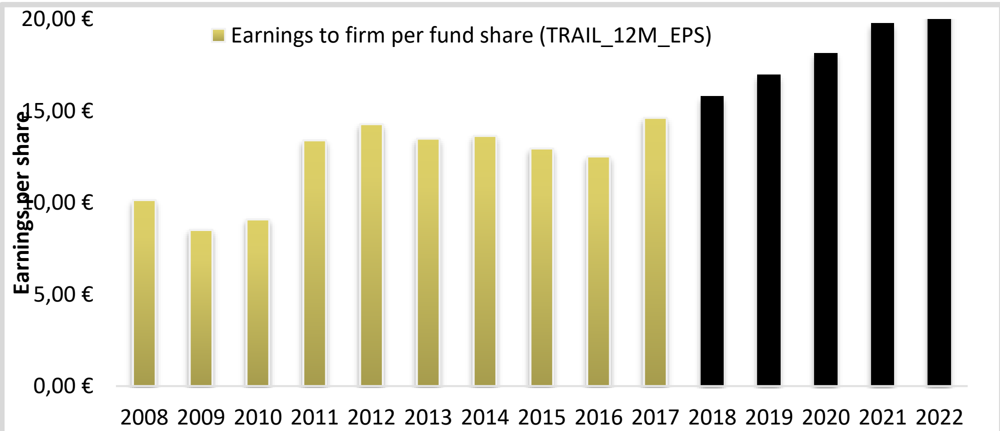
Picture 2 shows the evolution of Sifter Fund NAV in 2018

The year 2018, however, showed as a roller coaster ride for investors, including Sifter as presented in picture 2. The Fund's year-to-date NAV was -4.1 % vs the -4.8% for the benchmark index.

In a comparison some main market indexes' (iShares ETF) price return in 2018: S&P 500 - 6.2%, London -12%, France -10.5%, Germany -18%, Japan -12.1%, China -24.6%.

The focus is not Sifter's NAV price

It's important during times of market turbulence to reflect on the first point made above: think long-term. If you are invested in Sifter fund, you did not "lose" -4.1% this year, even if the sales price of Sifter fund declined 4.1%. In fact, you've earned about 15 € per Sifter Fund share which equals c. 5% on each invested EUR. That's the amount of earnings in average the Sifter businesses generated for you in 2018 in graph 1. below.



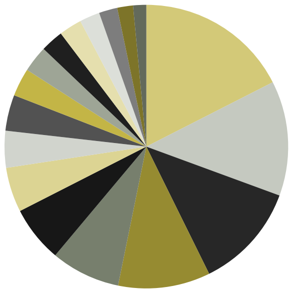
Graph 1. Money making capacity of Sifter businesses. Earnings per share for one Sifter Fund share

Long-term investors are not in the game of buying and selling stocks for an immediate net gain. They are in the game of owning good companies and profiting from their business success. If you take the weighted average of the businesses, we owned during 2018, their profits (real, "more money in the bank" kind of profits), were about 15 € per share of the fund in this year (Q1-Q3). We are still waiting for Q4 results to be announced in January-February.

But, yes, it can be tough to see the Fund NAV go down; your investment doesn't look so good. However, if you agree with our investment strategy then you decide to own good businesses and wait to see when the market will reward them with higher stock prices based on their upcoming profits.

You own a diversified portfolio of global businesses

Sifter Global is a 100% equity fund. Unlike many funds, Sifter doesn't have investment criteria based on sector or country devolution. The Sifter elimination process takes automatically care of diversification. In 2018, the Sifter team analyzed 4,850 global businesses out of 65,000 and finally invested in three new ones. The current allocation is an outcome of that process providing a diversified equity portfolio of businesses covering 17 sectors, 10 countries and in five currencies.



Sectors invested		Countries invested	
Semiconductors	17.5%	United States	57.3%
Aerospace & Defense	13.1%	Japan	9.4%
Software	12.1%	Canada	7.4%
Food & Staples Retailing	10.5%	France	6.5%
Capital Markets	7.9%	Taiwan	4.8%
Auto Components	6.4%	Germany	4.2%
Interactive Media & Services	5.1%	Sweden	3.4%
Communications Equipment	4.2%	UK	2.6%
IT Services	4.1%	Israel	2.3%
Chemicals	3.2%	Italy	2.1%
Machinery	3.0%		
Health Care Providers & Service	2.6%		
Pharmaceuticals	2.6%		
Health Care Equipment & Supplier	2.3%		
Hotels, Restaurants & Leisure	2.1%		
Household Durables	1.8%		
Industrial Conglomerates	1.5%		

Graph 2 shows the diversification of Sifter Fund by sectors and countries in end of 2018

What next – should I wait, buy or sell?

Macroeconomic point of view

The Sifter investment strategy is not based on changes in the macro or political environment. We are fully invested in great businesses in any markets or cycles. That isn't to say that we don't evaluate for example demand drivers when making an investment, but Sifter avoids all kinds of market timing, which is more dependent on luck than exact science. Timing occurs when the investor tries to use historical information to find the best future moment for a transaction. Do not try, please. You may be lucky initially, but It will not work as a sustainable investment strategy.

Business earnings point of view

For Sifter, business earnings are the most important element to evaluate and follow. The 2018/Q3 earnings reports were positive and provide us insight in to the 30 businesses Sifter has invested in. The picture 3 demonstrates how Revenue, EbIT and Earnings per share (Eps) have improved in comparison to last year's figures (Q3-2018 vs Q3-2017). All your businesses were profitable, none was making a loss despite the stock market decline.

For more information:

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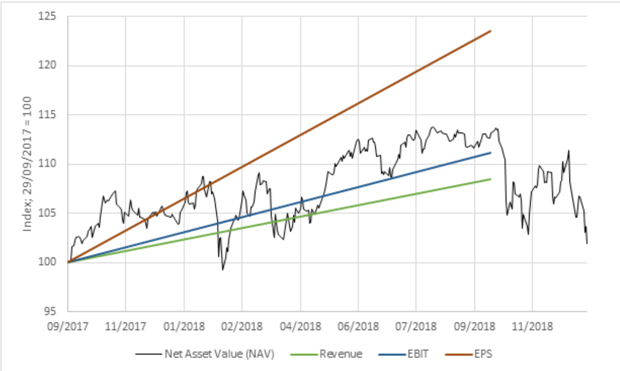

Revenue growth: Sifter businesses were able to boost their sales by 8.5% on average.

EbIT growth was even better, with an 11.1 % year on year increase. There is no single reason as to why this is the case – it depends on the business.

Eps took the biggest leap, being 23.5% higher than previous year. This was largely due to the tax reform in the US.

Picture 3. Sifter invested business performance vs Sifter NAV price evolution in Q3-2017 vs Q3-2018.

Sifter Fund price: This shows how Sifter's price moved downward over the same period. Despite of the stock price decline from October to December, businesses you own through Sifter Global Fund were doing well. It is our job to find out the strength of these businesses and of their market demand in the years to come

Conclusion

We will continue our proven and systematic investment strategy: Focusing on sourcing great businesses globally, generating the best possible deal flow and not speculating about market movements but instead evaluating the business models and investing like a long-term shareholder; the owner of a business. We consider investing in business earnings to be the safest investment in the long term. Therefore, we are 100% invested all the time. We have personally invested a significant percentage of our own wealth in Sifter and thus our interests are aligned with those of our investors.