Sifter Global Fund

Quarterly Report Q1/2021

"We do not buy stock price returns – we buy business returns."

Hannes Kulvik / Founder of the Sifter Fund

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SIFTER

In Q1 the Fund returned 12.6%.

Fund Performance

During Q1 2021, Sifter Fund's total return was 12.6% vs 8.9% for the market (MSCI ACWI Eur), as depicted in table 1.

→ In Q1/2020 The Fund returned 12.6 % (R-class) and 12.7% (PI-class)

→ In March the Fund returned 5.8 % (R-class) and 5.9% (PI-class)

→ Annualized return since inception of the Fund is 9.6% (2003/06–2021/03)

→ Since inception (2003/6), Sifter Fund R-class has returned 407% in total, which is 67% better than the market.

Geographical allocation

United States	55.6 %
Japan	11.3 %
Sweden	8.4 %
Taiwan	7.0 %
Canada	6.4 %
Denmark	3.9 %
Germany	3.9 %
France	3.5 %

Graph 1. Sifter Fund Global NAV changes Q1/2021 (R/I-class)

Fund Performance

	Returns					Annualized returns since inception	
	Q1 2021	2020	2019	2018	2017	(6/2003–)	(3/2015–)
Sifter Fund Global R/I	12.6 %	10.4 %	31.3 %	-4.1 %	8.5 %	9.6 %	
Sifter Fund Global PI	12.7 %	10.9 %	31.8 %	-3.7 %	8.9 %		10.1 %
Market index*	8.9 %	6.7 %	28.9 %	-4.9 %	8.9 %	8.7 %	8.4 %

Table 1: All returns are net after all fees (*MSCI ACWI, Total return EUR).

The sub-fund is not managed with reference to benchmark to select securities for portfolio composition neither to outperform benchmark index or to achieve similar performance. Any benchmark in the marketing document are only for information purposes and market comparison.

Best & Worst performers in Q1/2021

Top 3
return in EUR

iRobot	+53.3%
Lam Research	+31.5%
Old Dominion	+28.3%

Bottom 3
return in EUR

Verisign	-4.4%
Costco	-2.4%
Nitori	-1.8%

SHORT BUSINESS STATUS

iRobot

iRobot shares contributed 253% in nine months.

This quarter saw interesting developments in stocks with a high short interest, i.e. securities where investors borrow stocks on margin in anticipation of falling stock prices.

Retail investors were in the early weeks of this year able to cause a short squeeze in retail chain Gamestop by causing more demand for outstanding shares than available on the market, therefore causing investors with a short position to cover their position at elevated prices. This phenomena quicky spread to other similar stocks with a high short interest as speculators searched for the next squeeze while investors with exposed short positions rapidly reduced their riskiest positions.

iRobot had at the start of the year a 30 % short interest, or in other words 1/3rd of all shares were sold short. The company was consequently caught up in the wake of the short squeeze frenzy one week after Gamestop's initial surge and the price of iRobot doubled over the course of a week.

THE SIFTER FUND deemed iRobot share price action to be unsustainable and not linked to business fundamentals, and disposed the entire position on the most volatile day to take advantage of the market inefficiency.

As the general economy recovers, the demand is getting red hot.

SHORT BUSINESS STATUS

Old Dominion

The less-than-truckload industry has multiple tailwinds currently, as the economy recovers. During the midst of the pandemic, the large retailers were driving demand in the in LTL industry. But now, as the general economy recovers, demand is getting red hot while at the same time capacity is still constrained. This leads to a favourable pricing environment for LTL carriers like Old Dominion.

For Old Dominion specifically, a majority of its revenue stems from shippers in the industrial sector. This sector is currently experiencing a sharp recovery. We are also encouraged by managements promise of continuing the expansion of its service centre network, which has historically been key for Old Dominion to grow faster than the market.

Serious shortage of computing chips signals great times ahead for semiconductor companies.

SHORT BUSINESS STATUS

Lam Research

This quarter saw a rapid rebound in automotive production and general industrial activity as hopes of a favorable business environment after vaccinations swept the industry.

This sudden surge in demand for manufacturing parts caught the semiconductor industry off guard, as they had prepared for a slow recovery and was therefore unable to meet new demand due to the long lead time of manufacturing. This in turn caused a serious shortage of computing chips which signals great times ahead for semiconductor companies and will lead to increasing capacity being built.

Lam Research is the company that sells manufacturing equipment to these semiconductor factories (analogous to those who sold pick-axes and shovels to miners in the gold rush era) and is expected to grow its profits in the years ahead as customers invests in expansion. Additional demand for Lam Research's products comes from Chinese factories, which aim to drastically expand its dometic semiconductor manufacturing footprint to secure this essential resource for the future.

READ MORE about Lam Research and semiconductor industry from our blog.

In Q1 we invested in one entirely new company, Nitori from Japan.

10 largest holdings

Representing 53.4% of total portfolio (31.3.2021)

Lam Research Corp NORTH AMERICA
Taiwan Semiconductor-SP ADR ASIA-PACIFIC
Microsoft Corp NORTH AMERICA
Alphabet Inc NORTH AMERICA
Starbucks Corp NORTH AMERICA
Johnson & Johnson NORTH AMERICA
Automatic Data Processing NORTH AMERICA
Canadian National Railway Co. NORTH AMERICA
Atlas Copco AB-B SHS EUROPE
Texas Instruments Inc NORTH AMERICA

Portfolio changes in Q1

During Q1 Sifter fund made a few changes in the portfolio. The aim of the trades is to improve Sifter portfolio's business performance.

iRobot (sold)

The fund disposed of the entire holdings of iRobot on the 27th of January due to the market anomaly described earlier, as the price increase was not related to business fundamentals and deemed to be a rare short-term opportunity.

Ain Holdings (sold)

The fund's holding in Ain Holdings was entirely divested to partially finance the investment into Nitori, as we deemed the expected risk adjusted return to be more attractive in Nitori's case.

Our investment into Ain Holdings hinged on a continuation of the rapid consolidation of the Japanese drug dispensing industry. Ain Holdings was expected to continue its success as a consolidator, thanks in part to its leading profitability and market share.

The results have been underwhelming, and we are convinced that Ain can't match its previous success any time soon.

S&P Global (position decreased)

We reduced our position in S&P Global after other shareholders approved the company's plan to merge with the UK-based data and index house IHS Markit.

We saw that the scale of the merger reduces S&P's visibility, increases leverage and reduces the share of S&P's most competitive businesses, namely Ratings and Indices.

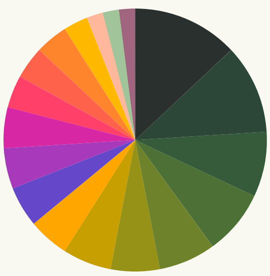
Safran's successful navigation has exceeded our expectations.

Safran (position increased)

Safran, the aircraft engine manufacturer, has been continously evaluated since the start of the pandemic, as both aircraft manufacturers and airlines have significantly scaled down their operations. While the pandemic and its effects on the civil aerospace industry are far from over, Safran's successful navigation of this extremely challenging environment has exceeded our expectations.

We believe Safran's exposure to the narrowbody aircraft segment, public sector customers, share in freighter engine programs, as well as government ownership and support of the civil aviation industry affords Safran sufficient resilience.

We therefore saw that the risk reward relationship available to us was attractive enough to increase our investment in Safran.



The Fund's Sector Allocation (31.3.2021)

Semiconductor Equipment **12.7%**
Semiconductors **11.4%**
Pharmaceuticals **8.5%**
Systems Software **7.8%**
Auto Parts & Equipment **6.8%**
Industrial Machinery **6.4%**
Financial Exchanges & Data **6.4%**
Interactive Media & Services **4.8%**
Restaurants **4.6%**
Data Processing & Outsourced Services **4.6%**
Railroads **4.6%**
Internet Services & Infrastructure **4.1%**
Hypermarkets and Super Centers **3.8%**
Trucking **3.6%**
Aerospace **3.5%**
Communications Equipment **2.4%**
Homefurnishing Retail **2.2%**
Food Retail **1.8%**

After careful six weeks of fundamental research, the Sifter team decided to invest in Nitori.

Nitori is sometimes called the Ikea of Japan but Nitori holds several advantages over its Swedish rival.

Nitori (new investment)

Nitori operates a vertically integrated home fashion business that covers manufacturing, distribution, and sales. Almost all revenue originates from Japan.

Nitori is the market leader (18%) in the stagnant and consolidating Japanese home fashion market, while holding a larger market share in the furniture market than the next four competitors combined. The company has achieved this position with an impressive over 30-year track record of consecutive revenue and profit growth. Circa 40% of revenue originates from furniture retail.

Nitori is sometimes called the Ikea of Japan but, in Japan, Nitori holds several advantages over its Swedish rival. We have identified at least four factors which support Nitori's competitive position against its competitors.

Nitori has achieved an impressive over 30-year track record of consecutive revenue and profit growth.

Four competitive advantages of Nitori

→ **First,** Nitori's vertical integration has been taken exceptionally far, extending to its own factories in South East Asia and improving efficiency & coordination. This approach is not easily replicated by smaller competitors. Meanwhile, the stagnant Japanese economy has made local consumers increasingly cost conscious, benefitting cost-competitive players like Nitori.

→ **Second,** Nitori's dense store & logistics network helps the company to offer delivery & assembly services at more affordable prices vs key competitors. For reference, Ikea operates just 12 stores in Japan, while Nitori operates over 500.

A competitive service offering is an increasing advantage in the ageing Japan. A physical store network is an advantage, particularly in furniture trade, where pure online sales are often not the most practical channel for the consumer.

→ **Third,** Nitori operates a much smaller store format than Ikea, which allows Nitori to expand into inner cities more easily than Ikea.

→ **Fourth,** Nitori's offering is localized for the Japanese market, in terms of both aesthetics and functionality.

Nitori still has underutilized growth opportunities.

→ **In Japan,** Nitori can expand further into 1) relatively underpenetrated prefectures 2) B2B market which currently generates just 1-2% of Nitori's revenue 3) new markets such as apparel retail and home centers, both of which Nitori entered in FY 2020. In these new categories, Nitori can utilize its efficient logistics & procurement capabilities as well as the broadly adopted loyalty point system (with 9m app members).

→ **Elsewhere in Asia,** Nitori should be able to leverage its procurement, manufacturing and logistics capabilities. However, we see that the most reliable growth path is in Japan.

18% ROIC is one clear indication that we own quality companies.

Sifter portfolio businesses health check

We never promise any stock price returns – However, we promise that we own quality businesses. For this reason, we closely monitor the four indicators of our companies' quality. We compare these indicators against the S&P 500 companies.

Portfolio businesses are in good health

→ **Return on Invested Capital** improved partly due to the divestment of Ain holdings.

→ **Operating margin** remained at a strong level, significantly above the S&P500, even during the pandemic.

→ **Sales growth** has temporarily stagnated, but looking back we are encouraged that the companies were able to achieve positive growth during the pandemic. Furthermore, we believe sales growth will accelerate sharply in the coming quarters.

→ **Net debt/EBITDA** increased slightly, mainly due to the divestment of Ain holdings and iRobot, which were both cash rich companies.

→ **EV/EBITDA** is currently elevated. This both reflects the pandemic-stricken trailing quarters (EBITDA), and the expectations of a forthcoming recovery (Enterprise value).

KPIs	2015	2016	2017	2018	2019	2020	Sifter T12M	S&P 500 T12M
ROIC	13%	14%	15%	16%	15%	15%	18%	8%
Operating margin	20%	22%	26%	26%	25%	24%	25%	15%
Sales growth	4%	8%	9%	9%	6%	3%	1%	-1%
Net debt/ EBITDA	0.6x	1.0x	-0.1x	0x	0.5x	-0.1x	0.1x	2.0x
EV/EBITDA							21.2x	18.5x

Table 2. Key Performance Indicators (KPI's) for Sifter businesses vs S&P 500. Trailing 12 months, median (31.3.2021)

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People behind the Sifter Fund

This report has been produced by Sifter's Investment Committee (IC) and Advisory Team.

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Do you need help?

If you have any question regarding our investment strategy or want to place an investment in Sifter, please contact Mr. Santeri Korpinen or check www.sifterfund.com

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