Sifter Global Fund

Quarterly Report Q2/2020

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During Q2 Sifter Fund outperformed the index by 0.6 %.

Fund Performance

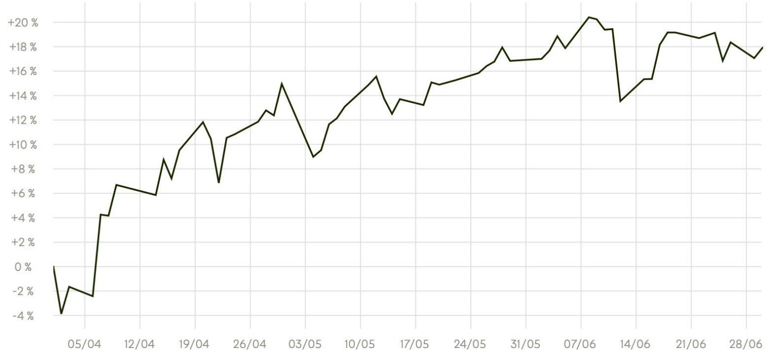
During Q2 2020, Sifter Fund's total return was 17.1% vs 16.5% for the Index, as depicted in table 1.

→ Annualized return since inception of the Fund is 8.5% (2003/6 – 2020/6).

→ The Fund has performed better than the comparison index (MSCI ACWI) which has an annualized return of 7.7%. On an annualized basis, Sifter Fund has been 0.8% better than the Index.

→ Since Inception, Sifter Fund R class has returned 302.3% in total, which is 47.3% better than the index.

In 17 years time Sifter Fund has outperformed the index by 47.3 %.



Graph 1. Sifter Fund Global NAV changes Q2/2020 (I-class)

	June 2020	Q2 2020	YTD	2019	2018	2017	Annualized since inception (2003-)
Sifter Fund Global	0.9 %	17.1 %	-1.3 %	31.3 %	-4.1 %	8.5 %	8.5 %
Benchmark index	2.2 %	16.5 %	-6.3 %	28.9 %	-4.9 %	8.9 %	7.7 %
Difference	-1.3 %	0.6 %	5.0 %	2.4 %	0.8 %	-0.4 %	0.8 %

Table 1: Sifter Fund performance vs Index (MSCI ACWI, Total return EUR).

Our most recent investment, iRobot, appreciated 62.4 % in Q2.

Best & Worst performers in Q2

TOP CONTRIBUTORS*

iRobot	+62.4%
Autoliv	+37.0%
North West	+36.8%

TOP DETRACTORS*

Hexcel	-16.7%
Costco	-3.6%
Mohawk	-0.9%

*total return

The best performers of the quarter were iRobot, Autoliv and North West. iRobot, the maker of Roomba robotic vacuum cleaners, has benefitted from recent tariff exclusions and change in investor sentiment. Autoliv, the Swedish car safety company, has managed its costs well in a difficult market. North West, a Canadian retail chain, has benefitted from government support programs and changes in purchase behaviour during the pandemic. The company recently sold most of its Giant Tiger stores which did not fit its niche of operating in remote areas.

The worst performers of the quarter were Hexcel, Costco and Mohawk. Costco is one of our newest investments. The company's latest quarterly result was in line with our expectations and we see Costco as a solid long-term investment. We sold most of our shares in Hexcel and Mohawk already in Q1 2020. As a result, their negative impact on the overall portfolio was greatly mitigated in Q2. We eventually sold the remaining shares in Hexcel and Mohawk while investing the money in iRobot.

Why are you fully invested?

We are often asked why we don't keep more cash so we could take advantage of crises like this and thus improve returns.

There are two clear reasons for this. First, crises rarely come but when they come, no one knows when. Market timing is a losing long-term strategy. Second, we do not want to keep our investors' cash. You can place your money under the pillow and wait for the right moments to buy when it suits you. Sifter is fully invested in all market situations.

We invested in four new companies during Q2.

Portfolio changes in Q2

During the quarter, we invested in four new quality companies. We expect these companies to generate attractive risk adjusted returns over a five-year period. The investments also reduced the average indebtedness of the portfolio.

New investments in Q2

→ **Varian Medical Systems** is an American medical equipment company that has the world's largest (~55% of total) installed base of linear accelerators - equipment that destroy cancer cells with radiation. The company earns steady service revenue and has maintained a stable market share, likely supported by technological entry barriers, training needs and disruption risks.

→ **Old Dominion Freight Line** operates an efficient network of trucks and terminals in the US and has demonstrated superior performance over its peers. The company's long history of high-quality service and excellent on-time performance, partly thanks to its dense network of terminals, has allowed it to maintain favourable pricing during contract negotiations.

→ **iRobot** is an American manufacturer of consumer robots and is best known for its Roomba robotic vacuum cleaners. It was the first company to successfully bring a commercial robovac to the market and is still today the industry leader with a market share exceeding 50 %. The company's competitive leadership is protected by an extensive patent portfolio and global name recognition which is supported by outsized scale advantages in R&D and marketing.

→ **Costco** operates the leading warehouse club in the United States, Canada and a select few other countries. The company has a differentiated earnings model where the income to the business is derived from annual membership-fees rather than actual retail sales. The company has a loyal customer base in all countries it operates as the prices on retail goods are the lowest in the sector.

We decided to sell five companies during Q2.

Companies exited in Q2

To make room for the above-mentioned candidates, we sold five portfolio companies.

→ **Hexcel,** an American composites manufacturer, was partially sold already in Q1 2020 due the company's risky merger plans with Woodward. Currently, the aerospace industry is facing a tough operating environment and high uncertainty regarding future demand for air travel. Hexcel's earnings model and exposure to large passenger capacity aircraft makes the company especially vulnerable.

→ **Marr,** an Italian food distributor, had an ownership structure that was too concentrated for our taste. Meanwhile, the share was not liquid enough. We sold most of the shares already at the turn of the year, just before COVID-19 turned into a global pandemic.

→ **Stryker** is an American medical device company. We sold our position due to Stryker's reliance on debt financed acquisitions. The investment was very profitable: The shares appreciated 360% since the first investment in August 2009.

→ **Check Point,** an Israeli information security company, was sold because it faced intensifying competition, eroding market share and weakening profitability.

→ **Mohawk,** the American flooring manufacturer, was sold due to its high leverage and tough competitive environment. We believe that the competitive advantage tailwinds caused by import tariffs on Chinese flooring products are unsustainable in the long term.

During the quarter, we also reduced our position in **North West** and **Ain Holdings.** Ain has not executed on its growth strategy as quickly as we would have liked, and its profitability has lagged expectations. Meanwhile, North West's liquidity was not high enough to support the earlier position. We also increased our position in **Starbucks,** as the pre COVID-19 same store sales growth and margins surpassed our expectations.

10 largest holdings

Representing 52.3% of total portfolio (30.06.2020)

Microsoft Corp	NORTH AMERICA
Lam Research Corp	NORTH AMERICA
Taiwan Semiconductor-SP ADR	ASIA-PACIFIC
S&P Global Inc	NORTH AMERICA
Intel Corp	NORTH AMERICA
Deutsche Boerse AG	EUROPE
Atlas Copco AB	EUROPE
Alphabet Inc	NORTH AMERICA
Cisco Systems Inc	NORTH AMERICA
Texas Instruments Inc	NORTH AMERICA

Sifter companies are better than the S&P 500 on average with these metrics.

SIFTER INSIGHT

The strong become stronger

One of the hypotheses of Sifter's investment strategy is that strong quality companies will strengthen during a recession.

For this reason, we closely monitor the four indicators of our companies' quality and one measure of valuation (Table 2.) We compare these indicators e.g. against the S&P 500 companies.

Another assumption is that stock prices follow cash generation capacity. Since we don't have a crystal ball to tell us where stock prices are going, we continuously monitor the key KPIs of the Sifter companies.

KPIs	2014	2015	2016	2017	2018	2019	Sifter Current	S&P 500 Current
ROIC	14%	13%	14%	15%	16%	15%	15%	7%
Operating margin	20%	20%	22%	26%	26%	25%	24%	15%
Sales growth	2%	4%	8%	9%	9%	6%	4%	1%
Net debt/ EBITDA	0.4x	0.6x	1.0x	-0.1x	0x	0.5x	0.1x	2.5x
EV/EBITDA (Current)							12.6x	12.4x

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

ROIC is one measure of a quality business

15% ROIC is one clear indication that we own quality companies.

High-quality business operations generate high returns on invested capital (ROIC). ROIC is calculated by dividing net operating profit after taxes by the average of invested capital.

The average ROIC of the Sifter portfolio has been well in the double digits during the last five years. The current median ROIC for Sifter companies is 15 percent, which compares favourably with the S&P 500 median ROIC of 7 percent.

We like companies that are efficient and have high margins.

Operating margins

The operating margin measures how much profit a company makes on a dollar of sales, after paying for cost. For example, Sifter companies sell their products for € 10, use € 7.6 to make them and make a profit of € 2.4 before taxes. Table 2 shows that the Operating margins of Sifter companies are clearly better than that of S&P 500 companies.

Growth is important, but ability to make money is more important

The problem with fast-growing companies is often the promise of future profits.

We don't look for super-growth companies, but our investees show healthy growth that exceeds the average rate of market growth as well as GDP growth.

In many cases, profits come only when the company has reached a certain number of users or market share. If the growth targets are not met, the money-making will not be achieved either. Because of this, we want to own companies that primarily make a profit and, in addition, grow slightly above the average for their own industry.

Low debt and healthy balance sheet

On average, the indebtedness of Sifter companies is very low.

The companies we invest in have strong balance sheets. This is reflected in fairly low net debt relative to EBITDA, for example.

Low indebtedness and preferably ample cash are a lifeline for many companies in times of crisis. For us, it is the norm when choosing companies for a portfolio. We don't like leverage for growth. Especially if it leads to a large amount of goodwill on the balance sheet through acquisitions.

The low leverage of Sifter companies is highlighted when we compare them to S&P500 companies: The median net debt / EBITDA of S&P500 is about 5 times higher than the median for Sifter companies.

CONCLUSION If the Sifter Fund were a listed company, its key figures would make it a very profitable and high-quality business. In addition, the company's valuation is in line with the market.

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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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