TT INTERNATIONAL

Q2 2022

TT UK EQUITY FUND

Fund Performance

	Fund Gross	FTSE All Share
June	-6.0	-6.0
Q2	1.9	-5.0
YTD	1.7	-4.6
1 Year	6.0	1.6
3 Year (ann)	15.6	2.4
5 Year (ann)	10.8	3.3
Incep. (ann)	10.4	6.9

Returns are gross of fees in GBP

Inception 01/04/04

Q2 2022 Attribution

Sector Allocation	6.7
Security Selection	0.4
Currency Effect	0.2
Management Effect	**7.3**

Markets

Source: MSCI/ TT International. Fund return is Gross of Fees. Index return is the Total Return with Gross Dividends reinvested.

Sector Allocation

Health Care	18.1 ↑
Consumer Staples	16.3 ↑
Industrials	15.9 •
Consumer Discretionary	14.2 ↓
Energy	10.1 ↓

Top Five Active Overweights

AstraZeneca	2.4
Pernod-Ricard	2.4
DCC	2.4
Serco Group	2.3
Phoenix Group	2.2

Global equities sold off during the quarter as concerns continued to grow about rising inflation, exacerbated by the ongoing conflict in Ukraine, with the market worried that central banks were behind the curve in tackling inflation, and that this could lead to a hard landing. The fund outperformed its benchmark.

Performance

The fund outperformed the benchmark with strong contributions from Financials, Basic Materials and Utilities.

Market Background

Equities across the globe, including those in the UK, sold off during the quarter as concerns continued to grow about rising inflation with the market worried that central banks were behind the curve in tackling the problem which resultantly could lead to a hard landing.

Outlook

We have been of the view for some time that the economic outlook was set to become tougher as we went through 2022 and into 2023, and that this was likely to cause increasing volatility in equity markets. It has been evident since the end of last year that consumers, especially in the UK, but also across the globe, were likely to be facing an increasing squeeze on disposable income as the cost of living rose sharply due to the increase in food, energy and utility prices. The Russian invasion of Ukraine has exacerbated this inflationary pressure, as well as leading to further dislocation in global supply chains. In turn this rising inflation is causing interest rates to increase across the world, and this tightening of financial conditions is adding further pressure to the economy, and the market is concerned that central bankers may be behind the curve and will end up causing a hard landing.

These pressures on the global economy are coming at a time when the Chinese economy is suffering from the ongoing restrictions that are being implemented as part of China's adherence to its zero -Covid policy. This not only is another brake on global growth, but is also leading to significant disruptions of the supply chains in many industries.

Consumer confidence metrics are already reflecting this tougher outlook with consumer confidence indices in the UK, US and China all reaching levels below those seen in the GFC - and indeed in all three cases all-time lows.

Thus far the drop in markets has largely been explained by a derating, rather than earnings downgrades, which is consistent with the higher discount rates investors should now be applying. Thus far we have seen relatively little in the way of downward earnings revisions, but we believe these will come through in H2 and most mostly likely in the autumn as expectations for Q3 earnings start to be firmed up. We anticipate the slowdown will move beyond consumer spending into corporate opex and capex as companies respond to weakening consumer sentiment, deteriorating financial conditions and pressures on their cost bases.

So against this backdrop, we have continued to position the portfolio relatively defensively. We have been running with a beta at or below 1.0, and have maintained slightly higher than usual cash balances in order to protect capital through the volatility and deploy the cash as and when some of our preferred names reach compelling valuation levels.

In terms of sector positioning, we remain overweight some of the re-opening themes within Consumer Discretionary, where the momentum is very strong, but have continued to reduce the overweight given the deteriorating outlook for the consumer. Within Industrials, we are skewed to defensive growth names, and we are overweight Healthcare and Utilities. We continue to be underweight Financials as we believe the deteriorating macro backdrop will ultimately more than offset the near-term positive from rising rates, and we are now underweight commodities.

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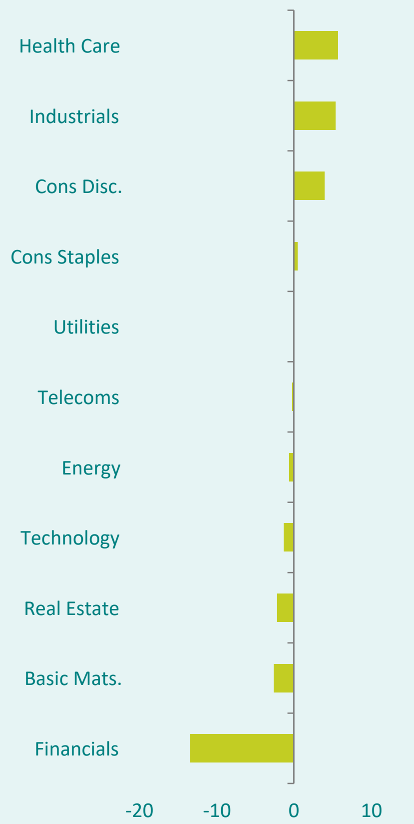
Sectors relative to Index %



Portfolio Positioning

During the quarter we significantly increased our weighting in the Healthcare sector. We have established a new position in GSK, where we think the forthcoming demerger of the consumer healthcare business Haleon will highlight the undervaluation of the core healthcare business, which has recently published very encouraging data for its RSV vaccine. We have also bought Bayer, where there is a compelling valuation combined with improving prospects for both its Healthcare and Crop Science businesses.

We have also added to some of our preferred Consumer Staples names, including CCH and Reckitt Benckiser. Following the sharp correction in CCH earlier in the year on concerns about its Russian and Ukrainian exposure, we believe the market has become overly cautious with the shares at one point having fallen 40%. This fall came despite Russia and Ukraine combined only being 20% of the business and the momentum in the rest of the business remaining strong. We also added to Reckitt Benckiser on weakness, partly funded by a reduction in Beiersdorf which had performed strongly.

We have also reduced some of the more cyclical exposures within the portfolio. As above, after a strong period of performance we have reduced commodity exposure primarily through taking profits in Anglo American and Shell - we are now slightly underweight both Mining and Energy. Both sectors have done well, but will not be immune from the slowing economy. We have also sold out of Melrose where despite the management continuing to do an excellent job restructuring the old GKN business, they continue to be hampered by supply chain issues in the auto industry. We also reduced our exposure to the Irish housebuilders through reducing Cairn Homes and exiting Glenveagh, as well as taking profits in Irish hotel company Dalata after a strong period of performance.

Stocks

Below we highlight a major winner and a major loser:

Telecom

Telecom Plus is a multi-utility company operating in the UK under the brand Utility Warehouse, which offers a range of services across energy and telecoms. The company has performed well as they are seeing a significant acceleration in net new customer growth. This is a result of the long overdue shake-out in the energy supply market which has seen a significant number of loss-making and unsustainable business, which were pricing very aggressively, either going bankrupt or exiting the market. Telecom Plus, which takes no commodity price risk, is now in a position where its stable and predictable tariffs are highly competitive, and this is leading to significant share gains.

Watches of Switzerland

Watches of Switzerland is the leading global authorised dealer for some of the world's most prestigious luxury watch brands e.g. Rolex, Audemars Piaget and Patek Phillippe. They have a commanding retail presence in the United Kingdom, and a rapidly expanding footprint across the USA which is a market with high demand for luxury timepieces, but one that has been poorly served historically. Whilst the company has seen significant upgrades to earnings expectations over the last year, the shares have been severely derated recently as the market worries about a deteriorating outlook for the luxury watch industry. We recognise this risk but given a significant part of the business is wait-listed, we believe this gives a sizeable buffer against any demand weakness, and given the medium-term growth story we think the valuation is very attractive.

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Performance Attribution Q2 2022

On this page we identify where your portfolio added or subtracted value, relative to the benchmark.

Sector Selection (%)

Sector	Sector Allocation	Security Selection	Currency Effect	Management Effect
Total Portfolio	**6.7**	**0.4**	**0.2**	**7.3**
Equities	**0.7**	**0.4**	**0.3**	**1.4**
Financials	0.2	0.4	0.0	0.6
Real Estate	0.3	0.1	0.0	0.4
Basic Materials	0.2	0.2	0.0	0.4
Telecommunications	0.0	0.4	0.0	0.4
Utilities	0.0	0.3	0.0	0.3
Energy	0.3	-0.2	0.0	0.2
Technology	0.1	0.0	0.0	0.1
Consumer Staples	0.0	0.1	0.1	0.1
Industrials	-0.3	0.2	0.0	-0.1
Health Care	0.4	-0.6	0.1	-0.2
Consumer Discretionary	-0.4	-0.4	0.0	-0.8
Non Equity	**6.0**	**0.0**	**-0.1**	**5.9**
Cash	6.0	0.0	0.0	6.0
Foreign Exchange	0.0	0.0	-0.1	-0.1

Highlights

- The fund outperformed the benchmark by 1.6% in Q2.
- Financials was the largest positive contributor due to strength in Bank of Ireland, Standard Chartered and NatWest.
- Basic Materials was also a large positive as we moved underweight as the sector topped out and our core holding of Glencore significantly outperformed the sector.
- The contribution from Utilities was also strong as our holdings in the waste sector Biffa & Renewi both performed well, with the latter benefiting from continued upgrades.
- The positive in Telecoms came from Telecom Plus, which performed well as it reported a strong acceleration in new customer growth.
- Serco was a significant positive as it materially raised guidance during Q2.
- The largest negative came from Consumer Discretionary. Watches of Switzerland derated significantly as the market worried about a downturn in luxury spending, while travel names such as Jet2 and Whitbread also struggled despite strong recovery momentum post-Covid and positive earnings momentum, as again the market worried about the medium-term impact of weak consumer spending.
- Healthcare was also a negative, as initially we were underweight GSK and Roche was impacted by weak data in one of its potential drugs.

Stock Selection (%)

	Stock	Country	Sector	Management Effect (%)	TT Held
Top Contributors	Telecom Plus	UK	Telecommunications	0.55	√
	Serco Group	UK	Industrials	0.48	√
	Rio Tinto	UK	Basic Materials	0.41	×
	AstraZeneca	UK	Health Care	0.31	√
	Coca-Cola Hellenic	UK	Consumer Staples	0.27	√
Top Detractors	Watches of Switzerland	UK	Consumer Discretionary	-0.64	√
	Unilever	UK	Consumer Staples	-0.53	×
	Kingspan	Ireland	Industrials	-0.52	√
	HSBC	UK	Financials	-0.37	√
	GSK PLC	UK	Health Care	-0.34	√

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Sector Allocation (%)

	TT UK		FTSE All Share
	31 Mar	30 Jun	30 Jun
Basic Materials	8.9	5.1	7.7
Consumer Discretionary	20.8	14.2	10.2
Consumer Staples	14.0	16.3	15.8
Energy	11.7	10.1	10.7
Financials	8.5	8.9	22.3
Health Care	11.5	18.1	12.4
Industrials	16.1	15.9	10.5
Real Estate		0.9	3.0
Technology	0.0		1.3
Telecommunications	1.7	2.2	2.4
Utilities	4.1	3.6	3.6
Cash	2.7	4.8	
Total	**100.0**	**100.0**	**100.0**

Top 10 Active Overweights

March 31, 2022 Security	Absolute Position %	Active Weight %	June 30, 2022 Security	Absolute Position %	Active Weight %
Pernod-Ricard	2.8	2.8	AstraZeneca	9.8	2.4
Shell	9.2	2.6	Pernod-Ricard	2.4	2.4
AstraZeneca	9.0	2.6	DCC	2.6	2.4
Glencore	5.2	2.5	Serco Group	2.4	2.3
Phoenix Group	2.6	2.4	Phoenix Group	2.4	2.2
Watches of Switzerland	2.4	2.3	Telecom Plus	2.2	2.1
Compass Group	3.2	2.0	Compass Group	3.2	1.9
Anglo American	3.7	1.8	Glencore	4.5	1.9
CRH	2.6	1.6	Reckitt Benckiser	3.6	1.9
British American Tobacco	4.0	1.0	Coca-Cola Hellenic	1.9	1.8
Top 10 Positions		44.6	Top 10 Positions		47.0
Top 20 Positions		65.4	Top 20 Positions		66.8
No. of stocks		46	No. of stocks		48

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