Trojan Income Fund

Protect and grow

www.taml.co.uk January 2022

Newsletter No. 2

Happy New Year and welcome to our second shareholders' newsletter on the Trojan Income Fund.

Since Troy launched the Fund in 2004, we have been providing investors with a balance of capital growth and income, predominantly from UK equities. Our aim at Troy is very simple: to preserve and grow investors' capital. The Fund is fully aligned with this philosophy and has the additional aim of delivering a growing dividend to investors. We look for businesses we believe can deliver highly resilient growth and generate strong cash flow to increase their dividends, and explicitly focus on high-quality, relatively non-cyclical companies that we believe will enable our shareholders to realise real growth in their capital.

As far as performance is concerned, 2021 was a year of distinct phases – Q1 was characterised by a continuation of the late 2020 'vaccine rally', to the stark benefit of more cyclical companies and leading your Fund to lag the market in H1. Market returns were broader for much of the remainder of 2021, with your Fund performing especially well in Q4 and better than the market overall in H2. Over the year to 31st December shareholders have received a strong absolute return of 15.6%, although this was behind the exceptional FTSE All-Share Index performance of 18.3%.

Paychex: sorting the boring stuff

We are pleased that some of the Fund's relatively newer investments have contributed meaningfully to returns in the past year. In 2020, we took advantage of volatile stock markets to add some high-quality companies to the portfolio. One such company is Paychex, which has been a leading performer in 2021. Paychex is a US company providing software and services to help small and medium-sized businesses administer employee payroll and numerous other HR functions such as clocking in and out of work, sorting health insurance policies, and employee hiring/on-boarding. Paychex makes the lives of employees and employers easier by digitising and removing friction from these functions. A combination of increasing regulatory complexity and the inexorable rise of software means Paychex has long enjoyed a favourable environment for growth, including a further boost through COVID. The company's utility and reputation were highlighted through the crisis, with the US government asking the company for help in administering financial aid programmes for businesses.

We sometimes refer to companies like Paychex as 'corporate staples' – playing a pivotal role in the daily lives of their corporate clients. The core product becomes deeply embedded in a company's operations, and leads to high switching costs.

We also like Paychex's combination of being a modern technology business but with the cachet of having a leading brand that stretches back 50 years. Software that persists over decades is no small feat given the rapid pace of innovation and competition we see in the digital world. The company has earned leadership through consistent innovation and broadening of its own products. Brand equity also counts for something; payroll is a sensitive and important function for which companies and employees have low tolerance for errors. Paychex has earned trust over a long and successful history since its charismatic founder (who still owns 10% of the business) opened the doors in the 1970s. Today the company is responsible for paying 1 in 12 US private sector employees, and that incumbency brings scale advantages.

With an eye to income, the attractive economics of this software business have supported a dividend that has never been cut since its introduction in the 1980s. We believe Paychex can drive both growth and income for shareholders long into the future.

Other new additions to your Fund in 2020 included Diageo and Croda, both of which have strongly contributed to returns in the past year. Readers will likely be familiar with many of the former's flagship brands, such as Baileys, Tanqueray, or Johnnie Walker. Meanwhile, we discussed Croda in detail in our last Trojan Income Fund newsletter.

Diploma: seals save the day

Over the past year, we have continued to invest in businesses we believe will go on delivering growth and rising dividends, adding CME, the futures and derivatives marketplace, Big Yellow, the storage provider, and Diploma. The last is a niche, service-led distributor of products such as rubber seals for industrial machinery, cabling for datacentres, and life science tools used in surgery.

While Diploma is a distributor, it does not rely simply on high volume trade and fast inventory turnover as many distributors do. It also enjoys considerably higher margins than most. This is because all of Diploma's businesses have a strong value-added service element. For example, following BP's Deepwater Horizon's oil spill in 2010, one of its businesses worked closely with the oil major and provided specially designed seals that helped to stem the leak. Similarly, in its life science division, highly skilled salespeople consult directly with hospital technicians and surgeons to provide precisely the right tools and technologies. Diploma also has a thriving business in wiring controls, where it provides bespoke custom-cut, colour-coded wiring in patented packaging formats.

Diploma has a remarkable history of double-digit growth over several decades, achieved from both organic sources and regular acquisitions. We are very excited about the company's future.

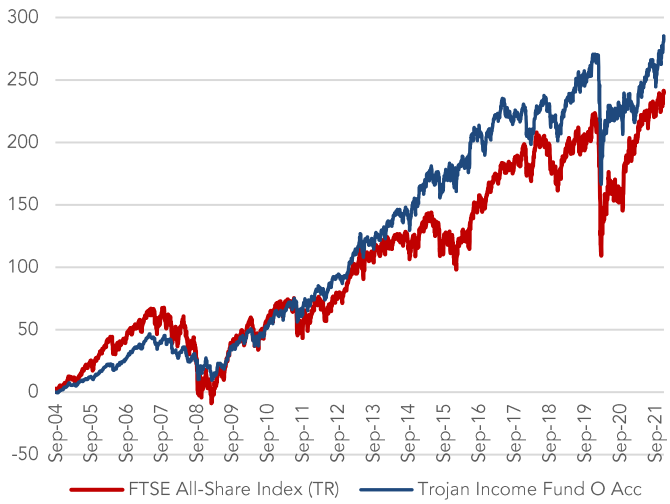
Income Investing

Income for us means investing in companies that demonstrate consistent, long-term dividend growth, which is itself indicative of sustained cash flow generation and value creation. By prioritising dividend growth in our search for income, rather than yield relative to an index, we enjoy the freedom to invest in stocks we think will be the dividend champions of the future.

Some readers may already know that over the last couple of years we have traded out of stocks whose business models we felt were less attractive, including oil, tobacco, and banks. We have shifted the portfolio towards stocks with a lower yield, reflecting our view that the quality of higher yielding British income stocks is declining and that many high yields are likely to prove unsustainable. This has enabled us to buy companies such as Paychex and Diploma, which we believe will firmly position the Fund towards both income and capital growth.

We recognise the last two years have been difficult for many UK income orientated

Trojan Income Fund - Percentage Growth Track Record



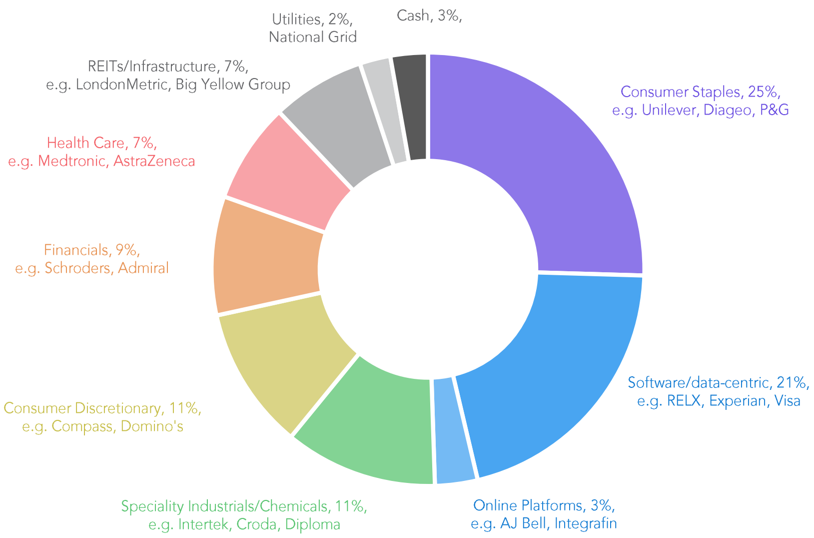
Past performance is not a guide to future performance.
Source: Lipper, performance net of fees, 30 September 2004 to 31 December 2021. All references to benchmarks are for comparative purposes only.

investors, but we are pleased to see most companies across the market are now growing their dividends again. This is very much the case within the portfolio as well and we expect this to translate to good future dividend growth for investors in the Fund.

We start the year by wishing Francis Brooke all the very best as he steps away from his role as co-manager of the Fund to become Troy's Executive Vice Chairman. Francis launched the Trojan Income Fund over 17 years ago with a clear objective from the outset to deliver above-average returns with below-average volatility. This goal has been achieved to date, and in the final days of 2021, the Fund reached its all-time high valuation on a total return basis. We look forward to continuing this record and thank all our investors for their support.

Blake Hutchins & Fergus McCorkell

Sector Breakdown (custom definition by Troy)



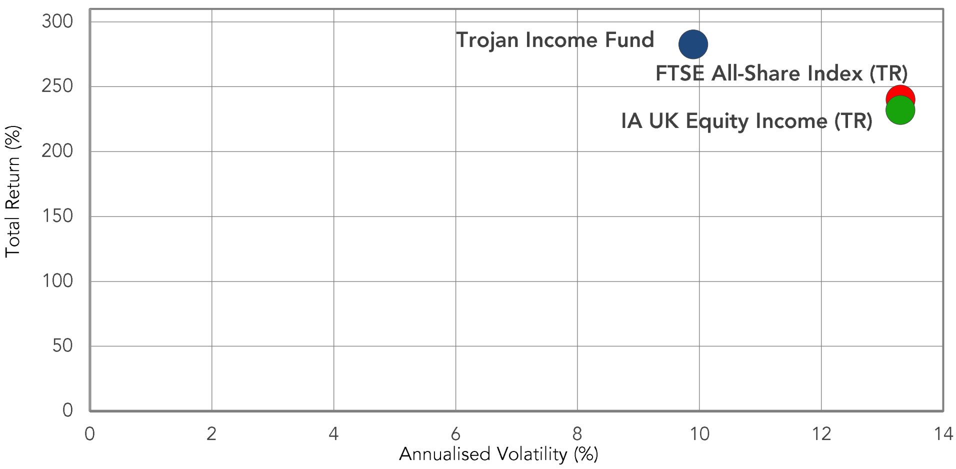
Source: Troy Asset Management, 31 December 2021. Asset Allocation and holdings subject to change.

Top 10 holdings

Diageo	
Experian	
RELX	
Croda International	
Reckitt Benckiser	
Paychex	
Unilever	
Nestlé	
GlaxoSmithKline	
Domino's Pizza	
Total top 10	47.3%
Other 29 holdings	49.9%
Cash	2.8%

Source: Factset, 31 December 2021. Holdings subject to change.

Risk and Return Since Inception



Source: Lipper, 31 December 2021. **Past Performance is not a guide to future performance**

Fund Ratings

For information on how to invest, please visit our [website.]

Ongoing Charges

'O' (ordinary) shares	1.01%
'X' (platform) shares	0.86%
'S' (charity) shares	0.76%

ESG

PRI Principles for Responsible Investment

Troy achieved the following scores from the UN PRI (July 2020) in relation to Direct and Active Ownership of assets.

Score	Topic
A+	Listed Equity – Incorporation
A	Listed Equity – Active Ownership
A	Fixed Income – SSA (Sovereign, Supranational and Agency)

Troy UK Income team


Blake Hutchins


Hugo Ure


Fergus McCorkell


Aniruddha Kulkarni

TROY
ASSET MANAGEMENT

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