Lansdowne Developed Markets Fund – Investor Update

Dear Investor,

Throughout our careers we have adjusted our product sets when we felt opportunities had evolved. In 2001 this brought us to Lansdowne to launch a long/short UK fund and a decade later we adopted a global remit and added a long-only product. Looking forward, we believe today is another point where such an adjustment is warranted. Much has changed recently and prospects for some aspects of the Lansdowne Developed Markets Fund ("LDM") are enhanced and exceptionally attractive while others are more challenged. We set out below how we view these opportunities and outline the changes we are making to optimise returns going forward. These changes will result in a restructuring of LDM, the details of which are appended below.

a. Listed Long Book (market cap $500m+)

Our listed long book has never felt more compelling. Excessive short-termism has created valuations which are extreme, while focus on near-term newsflow has meant important structural changes to growth prospects are overlooked.

Aside from the magnitude of the opportunities, there are three aspects to them worth highlighting; first, these opportunities are spread across a wide range of sectors, geographies and company types. Second, the changes are likely to persist for a long period of time, via shifts in demand trends, such as plastics-to-paper, fiscal investment in infrastructure, or supply restraints from industry consolidation. Thirdly, although share price volatility has been high, the actual risk in companies we own is much lower than one would expect, with balance sheets far more conservative than in previous cycles and backed by assets which have clear, sustainable economic value. Such asset bases will be particularly attractive should a more inflationary environment ensue from current policies.

b. Early Stage Companies (private and public)

Recent months have shown clear evidence as to the potential and maturity of our work around early stage companies (both private and public), arguing for an increased investment of both time and capital. A good example is that relatively immature Oxford companies have been at the forefront of global vaccine and rapid testing development (notably Vaccitech and Oxford Nanopore) but is also evident in other sectors and locations (such as the fuel cells innovation from IP Group's work with Imperial College London and others).

The timing of this increased commitment also seems right. With investors more alert to the social impact of their decisions and governments seeking to boost the translation of scientific expertise to industrial strength, support for such investments should increase. This is also an area where the UK's latent strength has always offered enormous potential, and one where we feel our contribution to realising it can be both economically and socially rewarding for investors. We are confident our differentiation in the area will be meaningful given the depth and history of our involvement allied to our perspective from large cap investing.

c. **Short Book**

In contrast, it is much harder to see opportunities in the short book, either in terms of generating specific value or as a hedging offset to the long investments. This has been evident in our day-to-day decisions since March, where we have continued to close individual positions without replacing them with new ideas. We believe this situation is likely to persist for two reasons; first, although economic recovery from recent events is unlikely to be linear, it is hard to imagine operating conditions which will stress business-models more than those witnessed in recent months. Second, with interest rates likely to be close to zero for a sustained period, valuation parameters will be difficult to anchor, leaving risk assessment of such positions highly challenged.

Moreover, low bond yields threaten the effectiveness of such positions as hedges to our long book in two ways. First, high levels of basis (or factor) risk make quantifying the hedge much more difficult; indeed short positions may very well amplify long book risks in such conditions. Second, should a more inflationary environment ensue from current policies, the presence of such positions will not protect investors from real value-erosion.

Given the above, we believe that our exclusive focus going forward should be the listed long book and a more proactive approach to the early-stage investments, both private and public. These opportunities are ones which we think have distinct attractions, time horizons and risk profiles and therefore warrant separate investment vehicles.

This shift in focus will require a restructuring for LDM, which will become **effective October 1, 2020**.

Clients will have the choice of investing in the listed long book via the Developed Markets Long Only Fund ("DMLO"), investing either passively or actively in the early-stage investments (private and public) or a full cash redemption. Investors transferring to any of these vehicles will be able to carry their existing high water marks across. More detail on these options will be sent to investors in the next few days.

As noted above, iterating our mandates when investment conditions change is something we have done several times in our career and a discipline we have always felt very important. Not only do such moves ensure positions are structured to optimise returns for clients but they also allow our time to be focused on those areas where we can add most value. Adjusting in this manner now seems essential given an investing environment radically different from recent experience and is a very exciting move for us personally given the scale of opportunity.

We look forward to discussing these plans in more detail in the coming weeks and would like to take this opportunity to thank investors for their continued support.

LANSDOWNE
PARTNERS

Further Detail on LDM Restructuring

Options for Clients:

A shareholder circular will shortly be sent out by the Administrator asking investors to elect one or more of the following options:

a. **Lansdowne Developed Markets Long Only Fund**;

b. **LDM Opportunities Fund** – a new, actively-managed early stage investment vehicle. This vehicle will make c. 5-6 new early-stage investments for the next three years as well as retaining exposure to the existing private and less liquid public positions in LDM;

c. **LDM "Z shares"** – a passive wind down vehicle of the existing private and less liquid public positions in LDM;

d. **Cash** (or reinvestment in other Lansdowne funds);

e. A combination of the above.

Responses to the circular will need to be received by the Administrator by 5pm on **July 31, 2020**. Should no election instruction be received, a default option of a full cash redemption will be applied.

As always, should you have any questions, please do not hesitate to contact the Business Development & Investor Relations team at bdteam@lansdownepartners.com

Kind regards,

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