April 2022

Data as at 31.03.22

BLUE WHALE GROWTH FUND

FUND FACTS

Fund	LF Blue Whale Growth Fund
Fund Launch Date	11 September 2017
Lead Fund Manager	Stephen Yiu
Co-Manager (October 2019)	Daniel Allcock
Fund Size	£1bn
IA Sector	Global
Fund Type	UK OEIC
Base Currency	GBP
Dividend Dates	End of February, August
ACD	Link Fund Solutions (LF)
Depositary	Northern Trust Investor Services
Dealing	Daily at Noon
Initial Charge	0.0%
Performance Fee	0.0%

PORTFOLIO FACTS

No. of holdings	27
Avg. market cap	>£100bn

Top 10 Holdings % 61.6

Alphabet	Mastercard
ASML	Microsoft
Atlassian	Nintendo
Charles Schwab	Nvidia
Lam Research	Veeva

Geographical Breakdown %

US	71.3
Europe	23.3
Asia Pacific	4.7
Cash	0.6

Sector Breakdown %

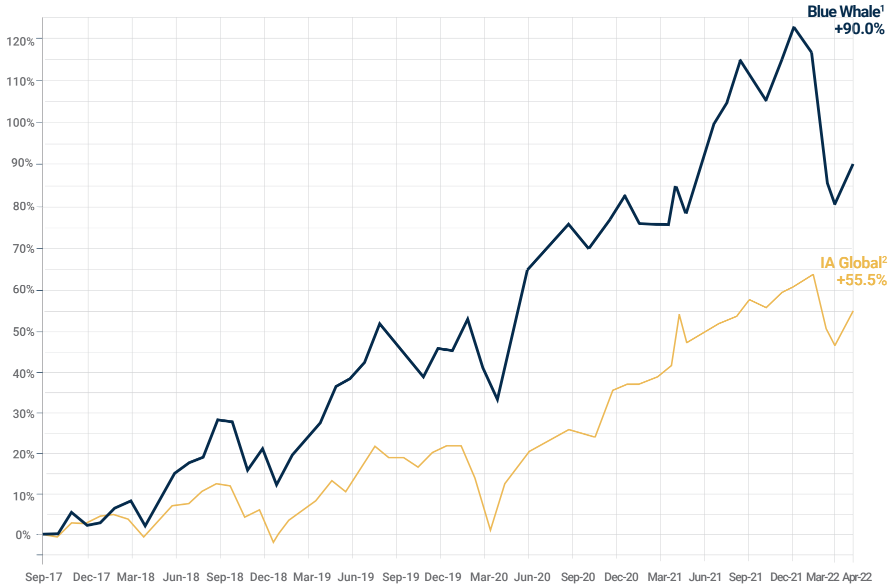
Technology	54.8
Healthcare	18.9
Communication Services	11.3
Consumer Discretionary	7.3
Financials	5.6
Industrials	1.4
Cash	0.6

SHARE CLASS DETAILS

Share Class	OCF	Minimum	ISIN
I Acc (GBP)	0.87%	£10m	GB00BD6PG563
I Inc (GBP)	0.87%	£10m	GB00BD6PG670
R Acc (GBP)	1.12%	£1,000	GB00BD6PG787
R Inc (GBP)	1.12%	£1,000	GB00BD6PG894
R Acc (EUR)	1.62%	€1,000	GB00BYVQ1C38

PERFORMANCE

"Committed to delivering consistent significant outperformance"



	To Date 2022	2021	2020	2019	2018	Since Launch	Annualised
Blue Whale[1]	**-12.7%**	**+20.8%**	**+26.4%**	**+27.6%**	**+8.6%**	**+90.0%**	**+15.1%**
IA Global Average[2]	-4.5%	+18.0%	+14.8%	+22.1%	-5.6%	+55.5%	+10.2%
Outperformance	**-8.2%**	**+2.8%**	**+11.6%**	**+5.5%**	**+14.2%**	**+34.5%**	**+4.9%**

Past performance is not a guide to future performance.

[1]I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. [2]IA Global Sector average, source: FE Fundinfo. Chart data plotted at monthly intervals; data as at the last day of the calendar month.

WHAT WE DO

- Aim to buy and hold high quality businesses at an attractive price.
- In-house research underpinning a high-conviction portfolio of 25-35 stocks.
- Significant resources dedicated to internal financial modelling and proprietary valuation metrics.
- Focus on a genuinely active, valuation-driven approach.

Investment Objective

The Investment Objective of the Fund is to achieve capital growth over any five year period, after all costs and charges have been taken.

Investment Strategy

In selecting investments for the portfolio, the Investment Manager will identify companies which, based on its analysis, meet the following criteria:

- have the ability to grow and improve profitability over the long term;
- have a current valuation that is attractive relative to their future growth and profitability.

The Investment Manager will select companies from a broad range of geographies and sectors with no particular sector or style bias.

Risk Management

- UK UCITS-compliant.
- Assessment of company specific risk factors, including those related to ESG, that might materially impact the business's sustainable return on investment.

AWARDS AND RATINGS

STAGFLATION - LOOK FOR THE HOLY TRINITY

by Stephen Yiu

When we look over the last few months there has been a plethora of news surrounding rising prices. From food to fuel, everyday essentials are costing more. Conversely, there has been little talk of rising wages to combat this. Some altruistic companies may offer to raise wages in line with the headline rate of inflation, but few will be offering rises beyond this as the possible squeeze on profits from rising costs of doing business, cause management to be more cautious.

Inflation, both good and bad

When we think about inflation, it is important to look at what is considered good and bad inflation – the Bank of England aims for a small amount of inflation of roughly 2% per annum, so it can't be all bad! Good inflation can simply be defined as wage increases. As people's disposable income increases, their discretionary spend goes up, and money is circulated round the economy delivering economic growth. Bad inflation is where the price of essential goods and services increases (usually due to a shortage of supply) decreasing the amount of discretionary spend for the consumer. Essential goods and services are quite often produced from outside one's home economy and therefore the essential spend is not recirculated internally leading to little or no economic growth.

Stagflation is the situation we find ourselves in presently – a triumvirate of economic malaise where bad inflation (essential price rises) is taking hold whilst good inflation (wage increases) is lagging at best (and lacking at worst), and economic growth is slowing.

Investors and savers will of course be worried. Those with high cash deposits will be seeing their savings eroded by a few percent a year (inflation is approaching 10% this year), whilst investors will be wondering what the best options are for their portfolio as companies struggle with the rising costs of doing business.

Look to the margin

As the cost of doing business rises, it would make sense to look at those companies whose external costs (that are out of their control) remain comparatively low compared to their total revenue. One way we can filter these companies is by looking at their gross margin – this is the total sales, less costs of production. Those companies with a high gross margin can produce their goods with relatively low uncontrollable external costs, thereby making them less susceptible to inflation.

Essential pricing power

Secondly, we need to look at how inflation impacts consumer spend (which accounts for roughly two thirds of a country's economy with industrial activity and government spending making up the remaining third). As prices rise, and wages remain flat, people's discretionary spend falls as they focus on the essentials – food and fuel. This means that investors could look for those companies that provide essential goods and services for individuals – one way to spot these companies is to look at their pricing power. The more essential a good or service, the higher the pricing power. If the price increases, the demand for the product is relatively unchanged – a product described as having inelastic demand.Herein lies the problem. Both food producers/sellers and natural resource companies have large costs of acquirement and production. This, combined with strong competition between the companies in the relative sectors leads to tight margins. So what should investors look for?

Structural growth drivers

With global growth not matching, or even coming near to inflation rates (a key characteristic of stagflation), it is important to look for those companies that are able to benefit from structural changes in the global economy that are not reliant on a buoyant macro-outlook. The most obvious of these is the theme of digital transformation.

Investors beware

One option is to look to those companies that consumers need in the modern world, whilst benefitting from global digital transformation – an interesting example of which is Amazon. But here we would urge caution for investors. The business seems unavoidable, offering the most comprehensive online shopping experience for both food and discretionary spend, whilst also powering many third-party systems and apps through its AWS (Amazon Web Services) cloud computing arm.

So far so good, but this is where a closer look at the fundamentals is important. Whilst AWS is undoubtedly a tick in the box, Amazon is watered down by the structural challenges facing its retail business. Inflation, already squeezing the margins of its products, also leads to demand from its workforce for increased pay. For what is considered a "tech" business, Amazon has an extraordinarily large low-skilled workforce, necessary for fulfilment in its warehouses. In addition, increased fuel costs affect the cost of delivering online orders. News of unionisation in one of its warehouses in New York should set further alarm bells ringing for potential investors. We would therefore not consider Amazon to be a good bet in this inflationary environment.

A new type of consumer staple?

Fortunately, there are companies in the tech space which contrast favourably with Amazon. One such company is Alphabet, parent company of Google. Like Amazon, Alphabet benefits from the structural growth drivers of digital transformation, where its products are becoming unavoidable in an increasingly online world.

When you consider the proliferation of services such as Gmail, Google Maps (used by Uber amongst others), Chrome web browser, YouTube and its simple search function, it is likely most people spend a considerable portion of their time interacting with the Alphabet ecosystem on a daily basis. In addition, it has its own cloud computing arm, powering an increasing number of apps and other web-based services – in fact, just the other day I reserved a table at a restaurant through a google booking service I had not seen before!

Where Alphabet differs from Amazon is key to what makes it a preferable investment. To start with it has 10% of the Amazon workforce (160,000 employees vs. Amazon's 1.6m) making wage inflation less of an issue. Second, its gross margins are about 70% vs. Amazon at about 40%. This makes Alphabet far less susceptible to external inflationary factors.

I would go as far as to say there is a new breed of "consumer staple" company that offers unavoidable essentials in an increasingly digital world – Alphabet is one such example, but Microsoft could also be included here thanks to its ubiquitous tools for both home and work computing.

STAGFLATION - LOOK FOR THE HOLY TRINITY

by Stephen Yiu

Opportunity abounds

Despite the defensive properties offered by companies such as Alphabet and Microsoft against stagflation, these companies have seen a fall in their share price over the past few months.

The fundamental reasoning behind buying these companies has not worsened – in fact, it has likely improved due to the reasons provided above. But, the contagion of economic malaise, and low-quality tech businesses seeing a deserved markdown, has tainted the tech sector as a whole. The resulting fall of high-quality tech companies' share prices is now offering brave investors an opportunity.

Whilst the share prices may have fallen back in the short-term, high-quality businesses such as Alphabet and Microsoft continue to forge ahead by providing unavoidable goods and services, generating reliable cashflow, and innovating to save costs for those people and companies that are looking beyond the economic malaise of the moment.

This holy trinity of providing essential goods and services (and therefore pricing power), with a high gross margin and benefitting from structural growth drivers is where we prefer to be invested in the LF Blue Whale Growth Fund.

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If you are unsure of the suitability of the Fund to your needs or if you feel that you do not fully understand the risks of investing in it, you should contact a reputable professional financial adviser.

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There are significant risks associated with investment in the Fund referred to in the document. Investment in the Fund is intended for investors who understand and can accept the risks associated with such an investment including potentially a substantial or complete loss of their investment. Past performance is not a guide to future performance.

The value of investments and any income derived from them can go down as well as up and the value of your investment may be volatile and be subject to sudden and substantial falls.

Investment in a Fund with exposure to emerging markets involves risk factors and special considerations which may not be typically associated with investing in more developed markets. Political or economic change and instability may be more likely to occur and have a greater effect on the economies and markets of emerging countries. Adverse government policies, taxation, restrictions on foreign investment and on currency convertibility and repatriation, currency fluctuations and other developments in the laws and regulations of emerging countries in which investment may be made, including expropriation, nationalisation or other confiscation could result in loss to the Fund.

Income from investments may fluctuate. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. Fund charges may be applied in whole or part to capital, which may result in capital erosion. The Authorised Corporate Director may apply a dilution adjustment as detailed in the Prospectus. The Fund is not traded on an exchange or recognised market.

The foregoing list of risk factors is not complete and reference should be made to the Fund's Prospectus, KIID and application form.

https://bluewhale.co.uk/documents

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