

FUND PROFILE

RSMR

**LF BLUE WHALE
GROWTH FUND**

February 2022



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FUND PROFILE – LF BLUE WHALE GROWTH FUND

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an ‘under the bonnet’ view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

The **LF Blue Whale Growth Fund** has been an RSMR rated fund since December 2021. The fund offers investors exposure to a concentrated portfolio of global companies which generate strong returns on capital. Companies that are classed as low quality are excluded, this includes sectors such as banking, oil and gas, commodity and materials. The process removes those companies which have cyclical exposures as the focus is on high quality companies which can generate sustainable returns on invested capital irrespective of the macro environment. The portfolio companies are often embedded within the day-to-day activities of their customer which allows for stronger margins and an entrenched customer base, often with low levels of customer turnover and high and recurring revenues.

The fund's aim is to invest in the best companies from around the world through a bottom up stock picking approach and aims to outperform the IA Global sector average.

The fund has shown its ability to meet its objective since launch and we are confident that this can continue.



Naeem Siddique, Investment Research Manager

Naeem graduated from Sheffield Hallam University having read Accounting and Financial Management and began his career in financial services as a Trainee Dealer with Fyshe Horton Finney in 2010. Naeem went on to work for Redmayne Bentley, firstly as an assistant to two investment Managers and subsequently as an Investment Manager to clients. Naeem assisted private clients with their investment needs, constructing portfolios to service clients’ requirements. As a member of investment committees in the Alternatives, Property and Fixed Income asset classes, Naeem also contributed to the firms’ expanding research efforts by undertaking face to face meetings for collective and direct equity investments, expanding the range of assets researched and distributed on a firm-wide basis. Naeem has provided analysis to regional, national and international media outlets with appearances on BBC News, Sky News, Reuters TV, BBC World Service and other international tv and radio news sources. Naeem joined RSMR in 2021 and is a Chartered Member of the CISI and holds the Chartered Wealth Manager Qualification (Level 7).

IA GLOBAL SECTOR

Funds within the IA Global sector must invest at least 80% of their assets globally. Funds will generally be diversified on a geographic basis and the sector will also include thematic funds which are focused on a single sector but invested geographically.

With over 200 funds to select from, investors have a multitude of choices in the sector, this includes index trackers as well as specialist funds and trackers in the healthcare and climate related areas.

Global equity markets have experienced a volatile start to the year with the rhetoric from central banks rising on the direction for interest rates. This has led to a change in market leadership in the short term, with a focus on supply and demand dynamics. Energy and material markets have performed strongly relative to the technology sector, which has seen market participants reassess the future valuation of companies, predominantly those which are loss making. This has led to a sector wide aversion from investors, creating opportunities for investors who are able to withstand the volatility in markets and take advantage of the detachment between investor sentiment from company fundamentals.

BLUE WHALE CAPITAL LLP

Blue Whale Capital LLP is a London-based boutique asset management firm set up in 2016 by Stephen Yiu who acts as Chief Investment Officer and Peter Hargreaves, Chairman of the boutique. The pair have known each other for over 20 years. Early in Stephen's career, he worked at Hargreaves Lansdown, where Peter held him in high regard due to his superior work ethic.

The firm is committed to delivering significant outperformance for investors. The LF Blue Whale Growth Fund, launched in September 2017, is a long-only global equity fund, focusing on large-cap stocks in developed markets. The investment team embraces a high conviction, valuation-driven approach to stock selection. This is the firm's sole strategy, meaning that it gets the team's undivided attention.



LF BLUE WHALE GROWTH FUND

Managers	Stephen Yiu (Lead Manager since inception), Daniel Allcock (Co-Manager since October 2019)
Structure	UK OEIC
IA Sector	Global
Launched	11th September 2017
Fund Size	OEIC – £1.1bn (December 2021) ICAV – \$177m (December 2021)

Fund Manager

Stephen Yiu CFA Chief Investment Officer, Lead Manager

Stephen has been the lead manager of LF Blue Whale Growth Fund since inception. Having started his working life in the Hargreaves Lansdown investment team, Stephen left the company in 2007 to pursue his interest in asset management. Working at New Star (now Janus Henderson) and Artemis with Tim Steer, and most recently under Martin Taylor and Nick Barnes at Nevsky Capital, Stephen has gained broad and varied experience within the investment industry over the past 20 years.

Fund Objectives & Targets

The fund aims to generate significant outperformance against the IA Global sector average.

Investment Philosophy & Process

The central tenet of the fund's investment process is to analyse companies from a fundamental perspective. The team are seeking companies with high margins, and a captive customer base which are benefitting from structural tailwinds. High visibility of earnings offers a clear advantage to a business and investors and is reflected in a company's valuation. The team weigh up the market valuation of a company against their own projected valuation, in order to assess whether the company should be included in the portfolio. The five-strong team monitor around 100 stocks on an ongoing basis, this is out of an opportunity set of around 1,500 companies in the world stock market.

The size of the team is purposefully larger than would be expected relative to the assets they manage, with five team members all undertaking research and contributing to the investment appraisal of investee companies and new ideas. Having a large number of highly skilled and experienced investment professionals allows the team to cover stocks in greater depth. Each company that is analysed has a bespoke financial model created for it, with the findings from the fundamental work encompassed into a company's projected sales and earnings growth and free cash flow, to arrive at a valuation for the business. The principal metric used to determine the quality of a business and assess whether value is being generated is the return on invested capital.

Forward valuations are based on three-year and five-year earnings, free cash flow and the growth trajectory of a business. These metrics are assessed against industry peers, market consensus on the business and wider market metrics. The team do not engage with external broker research, preferring to do their own analysis. This allows for forward estimates to be collated for a period of five years, as opposed to shorter time frames used within investment bank research notes. The team see the absence of longer-term estimates as an inefficiency in the market, especially when a company can continue to grow at a higher rate and for longer than consensus estimates may suggest. This leads to a difference in the potential valuations for a company between the market and Blue Whale. The longer-term estimates are calculated in-house and are assessed against a range of free cash growth projections for regional markets which correlate to where a business is listed.

The team's investable universe is made up of approximately 100 stocks. These are closely monitored and considered for investment if they meet the team's quality criteria and are attractively valued. Some of the key quality characteristics which the team look out for in potential holdings are; strong competitive positioning, low risk of disruption, potential for significant growth, low sensitivity to macro-economic events, robust capital structures and effective management teams. The stocks are actively monitored and reviewed on a quarterly basis.

Sourcing of new ideas takes place at the same time as the fundamental analysis of companies and one idea can often lead to a sector wide assessment, or to a supplier to an industry being identified as a potential idea. The bulk of the team's time is spent on updating financial models around quarterly reporting cycles and debating stocks. The team operate a flat structure in which they all participate in discussions on stocks and they will challenge the thesis on portfolio companies and potential inclusions, as well as incorporating any new information from quarterly earnings.

Portfolio Construction Parameters

The portfolio seeks to offer investors exposure to a diversified range of global companies. This is reflected in the spread of holdings, sectors, geographic and industry revenue generation within the fund.

The fund excludes more cyclical areas of the market, companies the team deems to be price takers, or where there is financial engineering which makes the balance sheet opaque. The fund manager has been historically vocal on avoiding investment in Chinese companies, due to governance and transparency concerns. This does not preclude revenues being earned by portfolio companies in Asia, indeed around a quarter of revenues come from this area. The natural exclusions include oil & gas, pharmaceutical, biotech, banking and mining sectors.

PAST & CURRENT POSITIONING / STRATEGY

A number of companies have been held in the fund since inception. These include Microsoft and Adobe. Both of these companies have taken advantage of the move from physical product sales to cloud based updates and subscription models. Each has their own moat, with the software they sell becoming ever more necessary for end users, thereby rendering them critical to a business. Both companies are classified in the technology sector, but Adobe's fortunes are more attuned to the creative and media sector as it offers creative professionals the ability to create and edit videos and photos which are shared via social media companies. End users can also create adverts and marketing and sales campaigns for the various platforms. There is a mix of professional and amateur users for the product which has driven the adoption and growth of the product. Adobe recently issued guidance in line with that of the market, causing some disappointment amongst investors around the growth trajectory of the business. The team continue to believe in the core thesis that the company is becoming more critical to users and continues to be a high-quality business. It also has the ability to raise prices of its products to deliver greater top line growth and expand gross margins. This could ease market apprehension on earnings growth.

Microsoft's utility is in its operating system and office tools, which are used globally. The company successfully transitioned to a cloud-based operation and has invested in improving and increasing the products it bundles together and sells to companies. The outsized user adoption of Microsoft Teams is a prime example of Microsoft's ability to adapt to competition and bring products to market. Although Teams is included in the monthly charge a company pays, there is scope to separately monetise the product in the future. Microsoft also announced an increase in its subscription fee to users and with demand for its product relatively inelastic those additional revenues should serve to increase its already appealing margins. Microsoft has been a key player in the cloud market, where it continues to gain market share.

Moncler, a premium clothing brand, had been held in the fund based on the team's assessment of it being undervalued by the market. The company has a niche in luxury outerwear, having started out making

jackets for employees that could withstand freezing temperatures. The team identified the company as being undervalued by the market post the Covid-19 sell-off across equity markets. With the team constantly reassessing the investment case for companies, they identified a more appealing investment opportunity in Kering, a larger, multi-brand competitor in the luxury goods sector. The investment in Moncler, although short lived, was successful, with market estimates closing in on the team's own valuation as the share price rose. The team decided to capitalise on the profits from Moncler and take a position in Kering, as they felt they had an edge over the market, based on their internal valuation.

Amazon is another name where the team held a position for a long period of time. The company was a beneficiary of the Covid-19 pandemic and saw growth in its retail and cloud-based operations. The team felt that cost pressures would impact the already small margins in the retail business, with employee and transport costs rising. The cloud operations were not growing as fast as previously, as competitors continued to grow market share. Whilst the team like the AWS cloud business, exposure to this segment via Microsoft and Alphabet is much more appealing, so the position was sold from the portfolio.

Meta Platforms, formerly Facebook, was another highly rated company which was sold down over the final quarter of 2021. The company's move to the metaverse was deemed by the team to be a capital-intensive project with no certainty around the size of the investment required or the time it would take for any meaningful revenue and profit to be generated. The quarterly results reported in early February 2022 proved the team's thesis right, with the company splitting out the unit and disclosing \$10 billion of spending relating to the metaverse in 2021. Changes within the Apple ecosystem are also set to cost the company around \$10 billion in lost revenue, further impacting the share price. This was compounded by data that the team track which showed an increasingly competitive social media environment, with other platforms showing growth in the hours spent on the platforms.

The exit from Paypal was based on a weakening corporate strategy as the company embarked on a potential bid for Pinterest, an increasingly

competitive environment for payments and the wish to become a super app for users. The competitive landscape for payments has increased through and post the pandemic, as previously marginal operators in this space have gained more traction. Mobile handset makers have payment services embedded into their devices and competition from Shopify and Amazon has led to more options for consumers and sellers. The desire to become a super app and offer additional services has been viewed as a potentially dilutive to returns. Finally, there remains a question mark on succession planning with the CEO Dan Schulman having led the business since its demerger from eBay.

These sales from the portfolio exemplify the discipline of the team in maintaining a strict valuation focus. When companies stray from their core competency or make what are deemed to be value destructive pivots, the team are not afraid to go against the consensus and sell companies which are loved by the market. The sales in Paypal and Meta were based on deteriorating fundamentals and action was taken prior to the sell-off that occurred in each of these stocks. The decisiveness of the team and the deep fundamental work undertaken meant fundholders avoided the share price reactions experienced by both companies.

A relatively new name in the fund is Charles Schwab, which has been held since September 2021. The team were attracted by the company's strong customer retention and superior average portfolio metric, which runs at some 100 times that of Robinhood, who operate in the same space. The demographics of the customer base reflected an older and more affluent clientele. Additionally the purchase of TD Ameritrade, previously a competitor, solidified its standing in the direct to customer wealth management sector. Alongside the firm's high-quality book of business, there are synergies to be extracted from the acquisition of TD Ameritrade. Finally Charles Schwab should enjoy a tailwind in a rising interest rate environment, which should see revenues continue to grow. A positive economic environment should also assist in asset growth and is viewed as a structural benefit.

The fund is well diversified, with companies often classified in sectors that have no bearing on their economic exposure or the utility to an end user.

For instance, financial giants Visa and Mastercard are classified in the technology sector but the team believe that these are financial services companies, as they facilitate payments across the world. Adobe is included in technology, but its exposure is to the media and content creation sectors. Several of the companies held are listed in the US, but their geographic exposure is global, with approximately a quarter of their revenues coming from Asia. Investing in western listed companies does not preclude the fund from benefitting from the faster growing regions of the world.

ESG

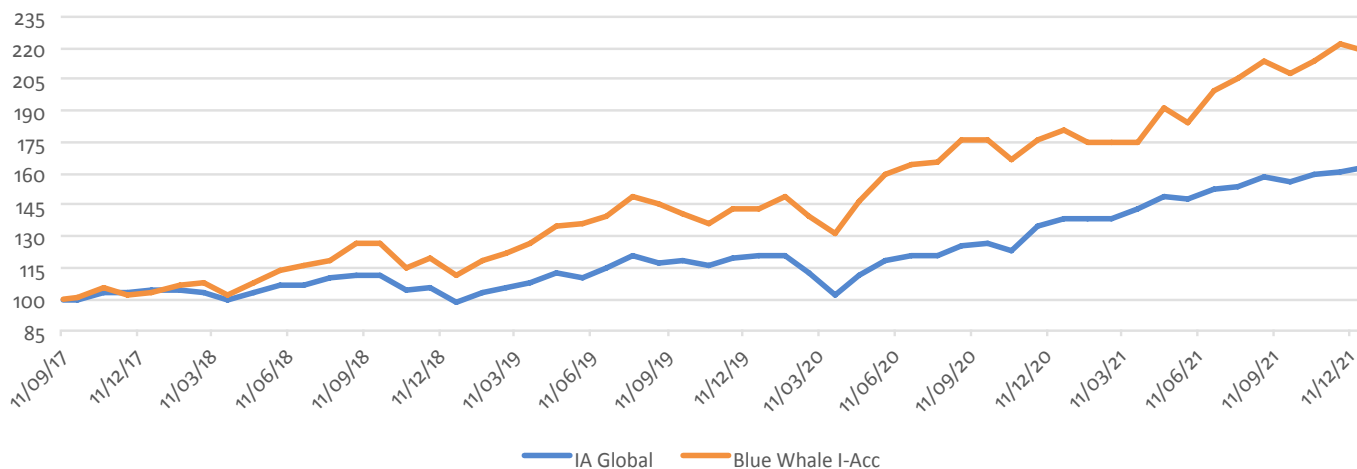
The team incorporate ESG factors into the fundamental analysis it undertakes when assessing a business. The team view ESG factors as risks to a business; not complying with changes in regulation or being deaf to changes in an operating environment could lead to issues in future years. In summary, the team view businesses that are not aware of their ESG risks as lower quality and of little interest to the portfolio.

The fund does not have an ESG remit and cultural change does not drive their investments decisions, but they are aware that these factors can pose a business risk. Companies which go against ESG issues such as tobacco companies, or energy extraction businesses which are causing harm to the environment, could face increased regulation, leading to greater future costs. These are also companies that are naturally excluded from investment as they operate in more cyclical sectors.

The nature of the portfolio's constituents means that businesses are aware of their responsibilities towards their many stakeholders. The size of these businesses means that they will adhere to evolving social and regulatory standards and will ensure that personnel with direct accountability lead the efforts on becoming compliant. Microsoft appointed their first Chief Environmental Officer to lead, develop and execute the company sustainability Plan. Atlassian operate a foundation with the founders having always been passionate about giving back to society. In partnership with others, the company created the Pledge 1% movement, where the company contributes 1% of company profits, employee time, equity and products to social impact organisations.

PERFORMANCE

Performance Since Inception



Source: Blue Whale, rebased to 100 since inception.

The fund has performed strongly since its inception in the third quarter of 2017, having doubled investors' capital over the life of the fund against a c.63% average return for the IA Global sector average. The fund has shown strong and continuous outperformance against the IA Global sector average, including through the tough market conditions during the final quarter of 2018 and first quarter of 2020. During the 2018 sell-off, the fund consolidated its outperformance, having strongly outperformed the IA Global sector average for much of the year. There was a similar outperformance through 2019, where the fund's focus on fundamentals meant that investee companies continued to perform strongly. During the first quarter of 2020 the fund did not escape the sell-off in equity markets, but it protected fundholders from the volatility in markets to a much greater degree. The fund's valuation discipline meant it was holding a sizeable cash weighting, as the manager viewed the opportunities coming into 2020 as underwhelming. This discipline meant that when market sold off in February and March 2020 the team could put to work the cash held in the fund and buy high quality businesses at much more attractive valuations. The result was a shallower drawdown over February and March

2020 at around half that of the IA Global average. Since the inception of the fund, the sector was 1% ahead at the end of March 2020 whilst the fund had grown by 31%. The sector did not recapture its opening level of 2020 until June 2020 whilst the LF Blue Whale Growth fund returned 15% in the opening six months of 2020. The deployment of the fund's cash holding, and the increased opportunity set meant that 2020 was a very strong year in terms of performance for the fund and cemented its outperformance against sector peers.

The value rally in the opening quarter of 2021 held back returns, with the strongest performers not held by the fund as they were deemed to be lower quality. This reflected a rare moment of underperformance for the fund, however by mid-year 2021 the fund had closed the gap against peers and a strong second half to 2021 led once again to outperformance. During 2021 the fund had doubled investors' capital since inception and had outperformed in each calendar year of its existence.

SUMMARY & EVALUATION

Since its inception, the fund has offered investors exposure to global companies that are able to deliver solid revenues and margins, leading to strong free cash flow metrics. The evolution of the fund moved it towards businesses with strong competitive moats and high levels of visibility on revenues, whilst offering investors the ability to benefit from growth in Asia and emerging markets, via investee companies with multinational operations. For instance, Kering generates around 46% of revenues from markets outside North America and Europe – with almost half of sales coming from the Asia Pacific region. There is also diversification at sector level with the inclusion of the financial services names Charles Schwab and Mastercard. Other businesses that include back catalogues of Intellectual Property include Nintendo with its archive of famous games and Nvidia which is constantly evolving its product offering and reaching into newer markets with more efficient semiconductor chips. There are businesses which enjoy scalability advantages which can drive stronger margins and cashflows at a faster rate than the market, thereby entitling these companies to a premium rating against the market. The team have also shown that there is no room for complacency with a constant monitoring of portfolio companies and an evolving and deeper list of companies that is monitored across the team.

The fund continues to own companies that are viewed to be undervalued against their longer-term potential, and the team have been successful in finding this kind of value in markets, driving performance against sector peers. Sector and factor rotation may occur over time in markets, but the team believe this offers opportunity to buy more of what they like at cheaper valuations, as ultimately the stock specific fundamentals will come to the fore and drive value creation in companies and their share price.

The team have shown they can achieve their objectives of strong growth against the IA Global sector average with multi-year outperformance, even in challenging markets. The focus on company fundamentals and the discipline in buying and selling companies has meant they have captured opportunities when the markets have been weak and also sold companies when the investment thesis has been broken or the valuation became less attractive. The fund should continue to offer investors a collection of the strongest, value creating companies in the world.

ABOUT US

RSMR

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.



Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research. Your success.

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All opinions included in this document and/or associated documents constitute our judgement as at the date indicated and may be changed at any time without notice and do not establish suitability in any individual regard.

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NOTES

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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.

The document does not constitute an offer by Blue Whale to enter into any contract/agreement. The contents are aimed at all categories of client including Eligible counterparties, Professional clients and Retail clients. As the Fund is a concentrated equity fund with international exposure, Blue Whale's preference is that less experienced Retail clients gain exposure to it through the professional advice channel (Blue Whale does not advise retail investors itself) or the discretionary management channel. The Fund (as a UCITS and hence non-complex) is available to retail investors on an execution-only basis. Blue Whale believes that whilst better suited to a more experienced audience, the Fund represents a suitable investment for those new to equity investing. You must be aware that unlike holding cash in a bank account, your capital is at risk of market movement and you should not assume that your investment will be profitable. Equity investment should be seen as a long term investment normally of at least 5 years. The value of your investment can fall as well as rise so you could get back less than you invested, especially in the shorter term.

The contents of this document are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and, Blue Whale, its members, officers and employees do not accept any liability or responsibility in respect of the information or any views expressed herein. All data is sourced from Blue Whale unless otherwise stated.

The document may include or may refer to documents that include forward-looking statements that are based upon our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements. Please note that the views we express on companies do not constitute Investment Recommendations and must not be viewed as such.

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>

Complaints

Blue Whale maintains a complaint handling policy and procedures in accordance with which it handles complaints, including complaints made by complainants who are eligible to bring a complaint to the Financial Ombudsman Service, the independent statutory dispute-resolution body for the financial services industry in the United Kingdom.

Advice

No information contained in this site should be deemed to constitute the provision of financial, investment, taxation or other professional advice in any way. You should consider obtaining professional financial advice before proceeding with any investment.

Taxation

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