

# LF Blue Whale Growth Fund

March 2018

Data as at 28.02.18



## FUND FACTS

Fund launch date	28.09.17
Fund type	UK OEIC
Lead Fund Manager	Stephen Yiu
Fund size	£44m
No. of holdings	30
IA sector	Global
Benchmark	MSCI World Index Net GBP
Base currency	GBP
Dividend dates	End of February End of August
Gross yield	1.4%
Authorised Corporate Director (ACD)	Link Asset Services
Depository	Northern Trust Global Services

## CHARGES

Retail AMC (OCF) 1.0% (1.17%)	Institutional AMC (OCF) 0.75% (0.92%)
Initial charge 0.0%	Performance fee 0.0%

## TOP 10 HOLDINGS

- Alphabet
- Microsoft
- Electronic Arts
- Facebook
- Starbucks
- PayPal
- Adobe
- UnitedHealth
- Mastercard
- Cognizant

## GEOGRAPHICAL BREAKDOWN

	%
US	67.0
UK	21.1
Europe	5.1
Cash	7.0

## SECTOR BREAKDOWN

	%
Technology	35.8
Consumer Goods	22.2
Financials	14.4
Health Care	7.1
Consumer Services	7.1
Industrials	6.4
Cash	7.0

## WHY LF BLUE WHALE GROWTH FUND?

- Hand-picked by Peter Hargreaves to run a substantial portion of his family's wealth
- Concentrated, best ideas portfolio avoids index hugging and enables material outperformance of the market
- A truly active, two-pronged investment process focused on both bottom-up fundamentals and valuation
- Able to choose from a global universe of stocks
- Provides high US exposure which helps UK investors diversify their portfolio

## INVESTMENT OBJECTIVE

The investment objective of the fund is to achieve capital growth over the long-term by investing in equities on a global basis, with a focus on developed markets.

The portfolio will be concentrated, generally comprising between 25 to 35 stocks.

In our view investments must fall into the below criteria in order to qualify for selection within the portfolio;

- The business must be fundamentally attractive, this means
  - it has the ability to grow and improve profitability over the long term
  - it must not face structural or imminent cyclical issues
- The business must have an attractive price;
  - the business must have a current valuation that is attractive relative to its future growth and profitability
  - we expect the business to receive favourable revisions of medium-term consensus growth and profitability expectations

These criteria enable the Investment Manager to select investments from a broad range of geographies and sectors with no particular sector or style bias.

The Investment Manager will conduct detailed bottom-up fundamental research on each potential investment and in most cases produce their own financial model and forecasts of future performance.

## SHARE CLASS DETAILS

Share Class	ISIN
R Acc	GB00BD6PG787
R Inc	GB00BD6PG894
I Acc	GB00BD6PG563
I Inc	GB00BD6PG670

## PLATFORM AVAILABILITY



### ALL THE WORLD'S A BEAR



The experts are out in force again, the same ones who didn't forecast the financial crisis in 2008 and forecast financial meltdown post the Brexit vote.

Stock markets are expensive but interest rates are still historically low and whilst there will be much forecasting of an imminent rise they will nevertheless remain low.

Commodities and property are also very expensive, but even they are cheap in comparison to such items as bitcoin, art and classic cars. \$100 million for a piece of canvas with a bit of paint on it that doesn't provide an income; if you want to find bad value look no further.

Investors should take great comfort that "the experts" are forecasting Armageddon. The doom and gloom is factored into the only really liquid market - the stock market. In essence markets have shrugged off the avalanche of negative sentiment.

I am confident about stock markets because certain very positive things are happening in the only economy that really matters. I am no great aficionado of Donald Trump as a business man or person. But he has championed two very beneficial policies: the cutting of taxes and the reduction of regulation (regulation in the main is no more than a tax on the law abiding). I would have liked him to cut government spending too but two out of three is two more than any other modern industrialised economy.

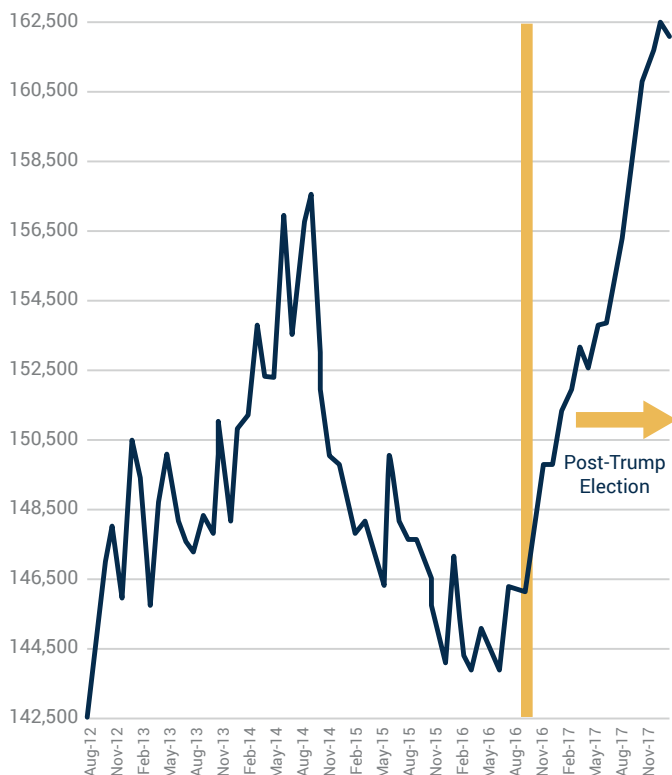
**I am confident about stock markets because very positive things are happening in the only economy that really matters.**

The world depends on the great American machine. The experts in their normal out of touch mode and distaste for Trump have missed this tonic to the world economy. They will only forecast the euphoria when it has happened and the sheep who have followed them will have missed it.

*By Peter Hargreaves*

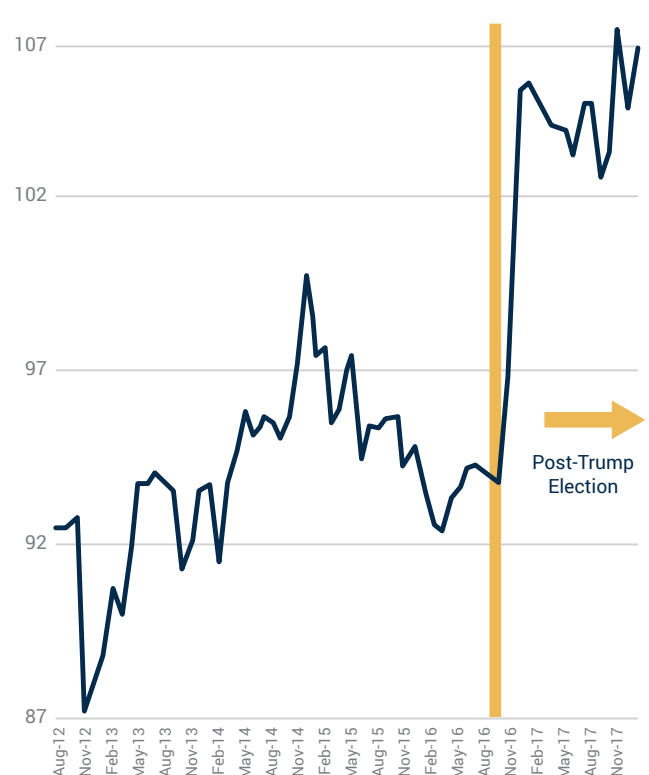
### US Durable Goods Order

Source: US Census Bureau (ex Transportation)



### US Small Business Optimism

Source: National Federation of independent Business ("NFIB")



Please note that this information is for informational and illustrative purposes only. It is not an investment recommendation.

### Q&A

**Jeremy (info@bluewhale.co.uk): What is your view on the outcome of the Italian election and the implication for the stock market?**

The result was initially worrying as 5 Star Movement and Northern League (both anti-establishment populists) have enough votes to form a government. However Matteo Salvini, leader of the Northern League, has revealed little desire to be a junior partner in a coalition with the 5 Star and retains his own ambitions of becoming Prime Minister which makes a hung parliament most likely which is a good result for equity markets. However, this election is a continuation of growing support for populists in the Eurozone which provides an ongoing threat to long-term stability.

**Hawkryption on Instagram: What is the average annual ROI With Blue Whale?**

The LF Blue Whale Growth Fund is a global long-only fund. We run a highly concentrated portfolio of 25-35 stocks, with an aim to outperform our benchmark, the MSCI World Index Net GBP. This benchmark has delivered an average annual return of 10% per year for the last 10 years. Since inception, the Fund has outperformed the benchmark

**Yasir Khan on Twitter: Would you consider increasing your allocation to Asia and EM equities? How concerned are you about the high valuations of US equities at the moment? How are current valuations influencing your investment strategy for the fund?**

The Fund currently focuses predominantly on developed markets due to better corporate governance, accounting standards and more transparent political systems. We will consider investing into Asia and EM, if /when we identify a company that fits our investment criteria, taking into accounts this risk.

Equities are only ever expensive or cheap relative to bonds. We believe equities are priced fairly relative to bonds and bonds are now priced more fairly after the recent sell-off. However, we do not see significant medium-term “re-rating” potential for the market (where the market moves to trade on a higher earnings multiple) which plays into the hands of our stock-picking approach.

**Mark (info@bluewhale.co.uk): I am very interested in the recent launch of this new fund offering. I feel reluctant to invest at present, due to the fact that we have been in upward trend in markets since 2011 without any real correction. Would I be correct in my assessment that this fund is investing in quality growth? If the fund is investing in these types of businesses, it appears that although over recent decades these sorts of companies that produce a high return on capital employed have excelled, the future market movements could be quite different. Quantitative Easing has appeared to totally distort markets and the safe stocks of yesterday could turn out to be the very ones that have the greatest risk in them.**

Most investors are backward-looking and assume what has done well in the past (high ROCE), will continue when technology disruptions often mean this is not true. A good example is consumer staples companies, like Reckitt Benckiser, who now face structural issues in developed markets and are seeing declining returns on capital. Such companies would not meet our investment criteria and we go to great lengths to continually reassess our holdings for any potential disruption.

You are also right that buying “quality growth companies” offers no guarantee you will outperform the market. As with any investment, the absolute key to outperformance is getting an attractive price which is why our investment process is very stringent on valuation.

Finally you express concern about the lack of a correction in stock markets since 2011, a view certain market participants share. However, in the US, a key driver of the global economy, households have materially deleveraged from the credit bubble built up before the financial crisis in 2008 and debt service ratios currently sit near 40 year lows. High levels of financial stress for households is often a key signal of an imminent correction in equity markets and this is not currently the case. In addition there is significant stimulus following Donald Trump’s tax cuts. Peter Hargreaves, our Chairman, has written a very good article about the “experts” who are bearish about the stock market and makes very good arguments on reasons to be bullish – you can find this article attached with this release.

**Andrew Mullinger on Twitter: I see you’re bullish on PayPal. How concerned are you that gp by pmt vol went from 2.4-1.8% over last 4yrs? If this continues what happens? Surely continuing to flatline product spend is a losing strategy in a ever more competitive market?**

The decline in gross profit as % of payment volume is simply a function of changing payment mix as opposed to declining “take”. Historically PayPal operated as the wallet on eBay and received consistent fees at consistent margins but PayPal has been experiencing rapid growth in new areas such as Venmo (peer-to-peer payments) where the model is different – many payments are processed for free and fees are charged only on certain transactions. Therefore the overall take-rate in a peer-to-peer payments model is lower which dilutes the gross profit as % of payment volume during this period of exceptionally high Venmo growth, but will not last forever.

**Yasir Khan (info@bluewhale.co.uk): I would like to ask whether you still hold PayPal as it does not appear in the top 10 holding in your January Factsheet Please could you shed some light on the holding?**

Valuation is a crucial component of our investment process and is an ongoing process. PayPal was a top-10 holding since inception of the fund and performed very well until the middle of January 2018. However, the valuation reached a level we considered expensive and subsequently we decided to reduce our position. After the company reported earnings on 31st January, the share price fell > 10% due to an announcement regarding PayPal’s future relationship with eBay – we felt this was unjustified and rebuilt our investment in PayPal at a much more attractive price, bringing it back to a top-10 holding in Feb-18. This is in contrast to most investors, which generally employ a buy-and-hold approach, with less emphasis on valuation.



### IMPORTANT NOTICE - REGULATORY INFORMATION AND RISK WARNINGS

This document is issued Blue Whale Capital LLP ("Blue Whale") which is authorised and regulated by the UK Financial Conduct Authority.

**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 3 to 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.

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.

#### 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

Taxation will depend on individual financial circumstances and the country of residence. You should consider obtaining professional advice on taxation where appropriate before proceeding with any investment.