

LF Blue Whale Growth Fund

June 2018

Data as at 31.05.18



FUND FACTS

Fund launch date	28.09.17
Fund type	UK OEIC
Fund managers	Stephen Yiu Robert Lloyd
Fund size	£50m
No. of holdings	25
IA sector	Global
Benchmark	MSCI World Index Net GBP
Base currency	GBP
Dividend dates	End of February End of August
Portfolio yield*	1.2%
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

- Adobe
- Alphabet
- Amazon
- Facebook
- Intuit
- Mastercard
- Microsoft
- PayPal
- Salesforce
- UnitedHealth

GEOGRAPHICAL BREAKDOWN

	%
US	69.3
UK	19.4
Europe	4.8
Cash	6.5

SECTOR BREAKDOWN

	%
Technology	41.5
Consumer Goods	15.6
Financials	12.4
Consumer Services	11.0
Health Care	8.1
Industrials	4.8
Cash	6.5

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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;

1. 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
2. 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	Sedol	ISIN
R Acc	BD6PG78	GB00BD6PG787
R Inc	BD6PG89	GB00BD6PG894
I Acc	BD6PG56	GB00BD6PG563
I Inc	BD6PG67	GB00BD6PG670

PLATFORM AVAILABILITY



www.bluewhale.co.uk

Disclaimer: *Portfolio yield reflects the weighted average 12 month estimated forward dividend yield of the portfolio assets. This may differ from the net yield which includes deduction of management fees, charges etc. A Key Investor Information Document and an English language prospectus for the LF Blue Whale Growth Fund are available via the Blue Whale website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Blue Whale Capital LLP does not offer investment advice or make any recommendations regarding the suitability of its products. This financial promotion is intended for UK residents only and is communicated by Blue Whale Capital LLP which is authorised and regulated by the Financial Conduct Authority. All data is sourced from Blue Whale Capital LLP unless otherwise noted.

MARKETS DEFYING THE GLOOMSTERS



Stock markets feast on doom and gloom. They are more obsessed with anguish than positive economic indicators. The fear factor is ever present! However, optimistically it is often stated that “markets climb a wall of worry”. When things look bleak on many fronts the one thing you can be sure of is that the price of markets are reflecting the uncertainty.

Today, as is often the case, there are a host of causes for concern, but the one often cited and to the forefront is the oil price. It seems the world is still very reliant on this source of energy. Some pundits I believe are unnecessarily obsessed with its fluctuations.

Oil prices have risen since last July in the region of 70% which seems a staggering figure. However, to put that in context the oil price is still currently around half the price it was just four years ago! If you look at the twelve month chart the graph looks to be heading for the stratosphere! Although unwittingly it is falling as I write this comment.

I postulate the oil price is no longer the key economic factor of the past and I concede it would be injurious if it climbed to the dizzy heights of the \$145 a barrel we experienced in 2008. But, as I write, the price is \$66 a barrel - hardly presaging Armageddon!

Things are however very different than 2008. There are big new sources of power in addition to the West's rush for renewables. As the oil price rises shale oils, fracking, deep sea wells etc. become increasingly economic and switch on their taps.

We must never forget that an enormous percentage of oil is produced in totalitarian regimes. Many of those regimes depend on oil flows to placate their disaffected populaces. OPEC no longer has the power to control its members who are universally desperate for oil dollars at any price.

In conclusion, you may feel stock markets are expensive but I believe the markets are actually being held back by fears relating to the oil price. As those fears evaporate markets will be cheered even beyond what many consider to be a high price. It strikes me as a good time to buy.

By Peter Hargreaves

Q&A

IF YOU HAVE A QUESTION FOR THE TEAM AT BLUE WHALE, PLEASE GET IN TOUCH BY EMAIL AT INFO@BLUEWHALE.CO.UK, OR ON TWITTER @[@BLUE_WHALE_AM](https://twitter.com/BLUE_WHALE_AM).

Why is EA no longer in the top 10?

For us to make an investment in a stock, our investment process requires that a company faces no “structural issues”. Structural issues, by our definition, refers to any emerging or current factor that threatens the status quo and profitability of the historic business model. For instance, we view many of the consumer staples stocks as being structurally challenged, because the emergence of private-label goods from food retailers, discount stores and online shopping has put pricing pressure on well-known brands you find in the supermarket such as Gillette. Previously, the “power of the brand” meant prices could be raised which helped grow sales and profitability but structural issues mean the historic status quo no longer applies.

It is very important to anticipate emerging structural issues early to avoid investment losses. With EA we have some concerns due to the outstanding success of the free-to-download game Fortnite, developed by Epic Games, a gaming developer backed by the Chinese tech giant Tencent. We did not previously anticipate that a game such as Fortnite could achieve such amazing levels of success in such a short space of time.

The status quo business model for EA is to charge their customers to initially download the game and then further monetise the customer “in-play”, for e.g., via their Ultimate Team game-play mode. With FIFA, one of EA’s most successful games, they make an additional \$0.75 through in-play monetisation for each \$1 they make from the customer paying to initially download the game. With the non-sports games, this is much lower at c.\$0.15 for each \$1 for download. Therefore, clearly EA’s business model relies heavily on customers being willing to pay to download games.

Given the success of Fortnite, we are unsure of how the industry may respond and what direction it may take. Each gaming franchise is only as valuable as the loyal base of gamers who continually play the game. If any pressure builds on the incumbent gaming companies to move to the free-to-download model, this would severely threaten the profitability of the business model. Due to these uncertainties, we made the decision to exit our investment in EA until the longer-term impact is clearer. It may be the case the industry remains largely unaffected and EA’s stock continues to perform well, however we believe the current risk for the fund is too high.

We think it is very important as active managers, to spot both opportunities and threats early and respond both quickly and appropriately. It is naïve to think that the world doesn’t change – a good investment today may not be a good investment tomorrow and as the pace of technological change in the world accelerates, the level and pace of disruption will grow. Buy and hold sounds nice, and if a company can remain undisrupted and good value then that’s what we will do, but when the world changes, so do we.

A final point on EA – longer-term they are keen to move to a streaming subscription model, similar to Spotify in the music industry. This will take a few more years to become a feasible model due to higher bandwidth requirements for streaming video games but once this model begins to emerge in the industry, the initial download will become less of a factor and the gaming companies may become structurally very attractive.

Why do you not report on performance of the fund - month and ytd? or am I overlooking it???

Thank you for your interest in the fund. For regulatory reasons, we are unable to show performance on our fact sheet until the fund is 12 months old – this will be in September and we look forward to sharing our performance metrics with you then. In the mean time you can track our performance yourself – our NAV is published on a daily basis and can be seen on any platform where the fund is available to purchase, such as Hargreaves Lansdown and AJ Bell. The fund prices are also available on the LSE website.

In addition, Rob Langston an FE Trustnet recently wrote an article about our fund which includes references to our performance so far – you can find this article at the following link <https://www.trustnet.com/news/813896/why-blue-whale-capital-is-giving-its-investment-research-away-for-free>

The fund is heavily weighted towards US stocks, I assume you judge that there is still comparative value to be found in the US market. I look forward to seeing some metrics in September.

Firstly, it is important to remember that most large-cap stocks have highly diversified global operations. Therefore, the location of where a company is listed on a stock exchange does not completely reflect the underlying investment exposure. Many of our holdings have significant operations across the world.

Secondly, it is true that we have found more investment opportunities on the US stock exchanges relative to Europe. This is primarily due to the abundance of investable opportunities in software and IT services companies in the US, a structural growth area we find very attractive. The number of listed technology companies in Europe in this area is very low. The dominance of the US exchanges is due to the success of Silicon Valley in providing an innovation hub from which these companies emerge and also due to the US tending to be a preferred listing venue for tech IPOs. In Europe you don’t find companies such as Adobe and Salesforce.

Thank you for your interest in the fund and we look forward to sharing our performance metrics with you in September.



Q&A

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I am concerned that your portfolio contains too few stocks for a diversified investment. Do you intend to increase your number of holdings or is there a good reason why you have less than 30 stocks in the portfolio?

Some level of diversification is important but a fund should not be over-diversified. If you were to construct a portfolio of a select number of FTSE 100 stocks, the risk falls sharply as the portfolio increases in number from just one stock up until it has reached 20-30 stocks. However, by the time it has reached 20-30, most of the reduction in risk that can be attained has already been achieved. Adding further stocks is problematic for two reasons.

Firstly, doing so fails to reduce risk much further but does require a compromise on conviction. This is because the more stocks you own, the less you know about each of them. Forcing yourself to invest in something where you have less conviction about future outperformance whilst achieving nothing in return is not a sensible strategy.

Secondly, the risk of becoming a closet index tracker grows. Active management is about trying to achieve superior returns to the overall market index. After 30 stocks, the more stocks a fund manager holds, the more likely they are to perform in-line with the overall index. In this instance, an investor would be better served buying a cheap passive ETF index tracker instead of paying a higher management fee to an "active" manager who achieves the same result. We believe investors should be very suspicious of managers who own more than 30 stocks.

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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.

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