

FUND FACTS

Fund launch date	11 September 2017
Fund type	UK OEIC
Fund managers	Stephen Yiu & Robert Lloyd
Fund size	£79m
No. of holdings	28
IA sector	Global
Base currency	GBP
Dividend dates	End of February, August
Portfolio yield*	0.9%
Authorised Corporate Director (ACD)	Link Asset Services
Depository	Northern Trust Global Services
Initial Charge	0.0%
Performance Fee	0.0%

TOP 10 HOLDINGS

		Top 10	%
• Adidas	• Microsoft	Top 10	55.8
• Adobe	• Salesforce	*FAANGs	14.7
• Alphabet*	• UnitedHealth		
• Amazon*	• Veeva		
• Guidewire	• Visa		

GEOGRAPHICAL BREAKDOWN

	%
US	66.6
UK	13.6
Europe	8.6
Asia	1.3
Cash	10.0

SECTOR BREAKDOWN

	%
Technology	38.6
Consumer Discretionary	15.1
Health Care	13.4
Communication Services	9.8
Financials	7.2
Consumer Staples	6.0
Cash	10.0

SHARE CLASS DETAILS

Share Class	OCF	SEDOL	ISIN
I Acc (GBP)	0.92%	BD6PG56	GB00BD6PG563
I Inc (GBP)	0.92%	BD6PG67	GB00BD6PG670
R Acc (GBP)	1.17%	BD6PG78	GB00BD6PG787
R Inc (GBP)	1.17%	BD6PG89	GB00BD6PG894
R Acc (EUR)	1.67%	BYVQ1C3	GB00BYVQ1C38

PLATFORM AVAILABILITY



PERFORMANCE



	Blue Whale ¹	MSCI World ²	FTSE 100 ³	Peers ⁴	Rank ⁵
2018	+11.9%	+3.4%	-3.9%	-0.4%	Top 2%
Since Launch	+15.1%	+7.5%	+0.4%	+3.9%	Top 3%

¹ class Acc shares, net of fees priced at midday UK time, source: Bloomberg. ²MSCI World Index (E Net) priced at close of business US time, source www.msci.com. ³FTSE 100 Total Return Index (E). ⁴IA Global Sector, source: Lipper. ⁵vs. approx. 300 funds in IA Global Sector, source: Lipper. Data is plotted as at the last day of each calendar month. Past performance is not a guide to future performance.

WHY 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;
 - 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.

THE FED HAS GONE A BIT "LOCO"



In the review of our first year, we noted the considerable ongoing geopolitical events but concluded that the biggest threat to stock markets was that the US Federal Reserve raised interest rates too quickly. Indeed, since our analysis in September, this very risk has played out somewhat as an incredibly hawkish "Fed" has indicated a highly aggressive stance on raising interest rates. This caused a mini-tailspin in equity markets in October which saw both our Fund and benchmark fall by high single digits.

Donald Trump has been widely condemned for his criticism of the Federal Reserve for raising rates so quickly or "going loco" as he put it. Whilst his challenge to central bank independence is unwelcome, we believe he is not wrong on the point he makes.

So how is the world currently set-up for a more restrictive monetary policy?

In the US there has been a strong recovery from the financial crisis in terms of jobs growth and asset prices. However, government debt has swelled to help fragile households deleverage whilst wage growth and core inflation have been subdued for a long time and only recently seen a meaningful pickup. A sustained period of strong wage growth is desperately needed, even if it means living with slightly above target inflation in the short-term, to recapitalise poorer households and counter populist feelings.

Across the Atlantic, since the financial crisis the Eurozone has never really ceased being a toxic mess. The current framework of monetary union without fiscal union together with nation state democracies is completely unsustainable and those in power seem extremely unwilling to enact significant reform. Italy is just the latest chapter in a saga where a permanent solution is difficult to envisage. Mario Draghi gave the region some breathing space in 2015 through the ECB QE programme but the EU have largely squandered this and the ability to act in a similar manner again is now greatly diminished. The EU institutions are world-class "can kickers" so they may be able to fudge their way along for now, but the bloc remains extremely fragile and tighter monetary policy is certainly not needed at present.

Over in China, to understand where they are now it is worth recalling their role in the global recovery from the financial crisis. Pre-2008, China had a booming export-driven economy which feasted on the exuberant growth in consumption in the west, driven by an unsustainable housing boom. A sharp drop in demand for exports during the crisis severely dented this Chinese engine of growth so they quickly found a new one in the form of a massive debt-driven investment boom. This put Chinese men and women back to work, continued to drive prosperity and provided a big boost to global growth just when it was needed. However, as China attempts to transition their economy once more, away from investment and towards consumption, the legacy of historically wasteful investments and bad debt together with political conflicts with the west provides multiple speed bumps ahead. To ease this transition, monetary accommodation is needed. It certainly does not need tightening.

Japan, once a pillar of the global economy, has wasted away in prominence. An extremely old population is a drag on demand which overall is terrible and needs constant life support from the Bank of Japan.

So, in the face of all this, the Federal Reserve has decided it's a good idea to pursue a "restrictive" monetary policy by aggressively raising short-term interest rates in the US. We believe this is bonkers. By the Fed's own current predictions short-term rates in the US will be nearing 3% by the

end of 2019. This would be very negative for global growth for two obvious reasons:

- Longer-term nominal GDP growth expectations are very low, epitomised by the virtually flat yield curve in the US. If the Fed continues to raise short-term rates, not only will they further drive down longer-term growth expectations, but they will also crush the relative attractiveness of longer-term riskier assets vs. short-term treasuries. As a result, the longer-term investments needed for growth will disappear.
- Rising short-term rates in the US drains liquidity from other short-term lending markets around the world. In other words, rising short-term rates in the US can be transmitted to rising short-term rates everywhere. For instance, in Australia the 3m bank-bill swap rate has spiked over the last year despite the Reserve Bank of Australia keeping their cash rate flat. This has squeezed Australian banks who heavily rely on the interbank market for funding and has led to them passing on this increase in the form of higher mortgage rates in Australia when households can least afford it. In summary, nearly every other part of the world is trying to maintain accommodative monetary policy in response to fragile economic conditions, but this is being undermined by the Federal Reserve who are putting the squeeze on both domestic and international growth. If short-term rates in the US reach 3%, this will be significantly higher than short-term rates anywhere else in the developed world, which will drain significant liquidity out of the system and provide what could be an insurmountable obstacle to growth.

We hope the Fed can appreciate the response of financial markets in October and that their current forecast course for interest rates is far too aggressive. If they acknowledge these facts, then we should see a distinctly more dovish tone which can help to relieve the market volatility we are currently seeing.

Indeed, in the face of similar volatility and stock market turbulence in early 2016, Janet Yellen, the former Federal Reserve Chair acknowledged the situation and reversed her hawkish stance which calmed financial markets.

However, we currently have little confidence that Jay Powell, the current Chair, will follow suit any time soon. As a result, the current market volatility we have seen may continue throughout November and into December. As a result, we currently hold an above-normal level of cash to protect the portfolio in case of further volatility in the short-term. We are closely monitoring the US mid-term elections and the Federal Reserve meetings for potential game-changing events with regards to the path of short-term interest rates and risk appetite and will act accordingly in terms of our cash position if they materialise.

Asides from this, our stock picking process remains unchanged and we were encouraged by strong earnings reports and outlooks in October from many of the companies we hold in the portfolio. Microsoft, Visa, PayPal and Facebook all delivered both good earnings results and bullish predictions for future growth, Adobe provided guidance for 2019 which was better than the market was expecting and Smith and Nephew, a very recent addition to the portfolio, provided an extremely encouraging trading update. Amazon and Google both delivered earnings reports and outlooks which we felt were solid if not spectacular, although both stocks did ultimately get entangled in the deleveraging by market participants during the elevated October volatility. We remain confident in the ability of all the companies in the portfolio, given reasonable economic conditions, to achieve strong growth and profitability in the years ahead.

The Fund Managers

Stephen Yiu and Robert Lloyd

Please remember that past performance is not a guide to future performance and that your capital is at risk. Please note also that references to portfolio companies do not constitute investment recommendations.



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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 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.

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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.