

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	£780m
IA Sector	Global
Fund Type	UK OEIC
Base Currency	GBP
Dividend Dates	End of February, August
ACD	Link Fund Solutions (LF)
Depository	Northern Trust Investor Services
Dealing	Daily at Noon
Initial Charge	0.0%
Performance Fee	0.0%

PORTFOLIO FACTS

No. of holdings	29
Avg. market cap	>£100bn

Top 10 Holdings %

ASML	Microsoft	52.9
Charles Schwab	Nvidia	
Dexcom	Sartorius	
Lam Research	Veeva	
Mastercard	Visa	

Geographical Breakdown %

North America	63.7
Europe	27.5
Asia Pacific	2.4
Cash	6.3

Sector Breakdown %

Technology	44.2
Healthcare	16.5
Consumer Discretionary	9.5
Financials	6.7
Industrials	6.5
Communication Services	5.6
Energy	4.7
Cash	6.3

SHARE CLASS DETAILS

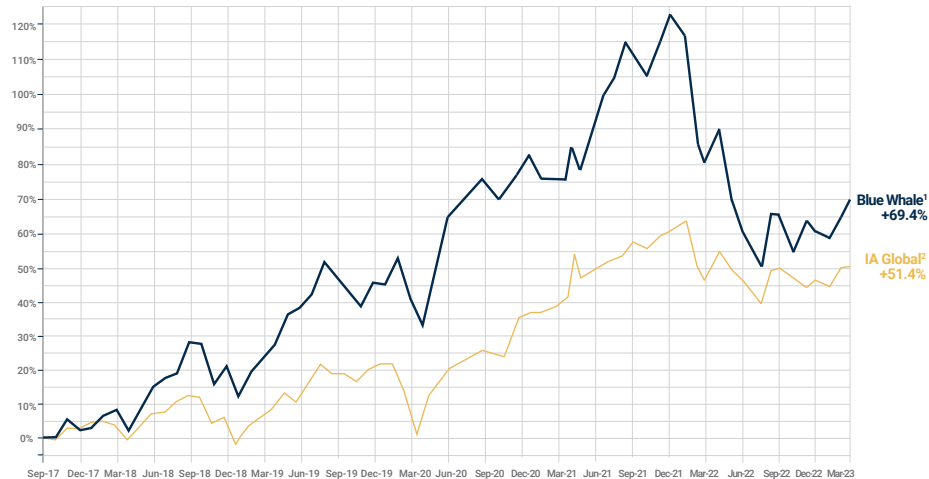
Share Class	OCF	Minimum	ISIN
I Acc (GBP)	0.83%	£10m	GB00BD6PG563
I Inc (GBP)	0.83%	£10m	GB00BD6PG670
R Acc (GBP)	1.08%	£1,000	GB00BD6PG787
R Inc (GBP)	1.08%	£1,000	GB00BD6PG894
R Acc (EUR)	1.58%	€1,000	GB00BYVQ1C38

AWARDS AND RATINGS



PERFORMANCE

“Committed to delivering consistent significant outperformance”



	To Date 2023	2022	2021	2020	2019	2018	Since Launch	Annualised
Blue Whale¹	+7.5%	-27.6%	+20.8%	+26.4%	+27.6%	+8.6%	+69.4%	+10.1%
IA Global Average ²	+4.6%	-11.1%	+18.0%	+14.8%	+22.1%	-5.6%	+51.4%	+7.9%
Outperformance	+2.9%	-16.5%	+2.8%	+11.6%	+5.5%	+14.2%	+18.0%	+2.2%

Past performance is not a guide to future performance.

¹I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. ²IA 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. Blue Whale is a signatory to UN Principles for Responsible Investment (UNPRI).

BLUE WHALE COMMITMENT

- **Peter Hargreaves (Chairman)** – in excess of £150m across the Blue Whale Growth strategy
- **Stephen Yiu (CEO & CIO)** – only invests in LF Blue Whale Growth Fund (holds no other fund)
- **Blue Whale Capital** – follow our £120,000 phased investment into the LF Blue Whale Growth Fund

2022 - YEAR IN REVIEW

by Stephen Yiu



After two tumultuous years in 2020 and 2021, all those looking forward to 2022 being blissfully uneventful were sorely disappointed.

To start the year, the spectre of Russian aggression in Ukraine became a reality. After months of tensions on the border between the two countries, Russia invaded Ukraine in February 2022. It quickly became apparent that this

invasion would not only affect those in the conflict areas, but shockwaves would be felt around the globe as one of the world's largest energy exporters became persona-non-grata on the global political stage and sanctions were put in place.

Accordingly, the place to be invested at the start of 2022 was in energy stocks. In fact, this was the only sector that saw positive returns in the year.

Putting aside geo-political tensions, as we left 2021 the world was precariously positioned as we cautiously emerged from the end-days of the pandemic. Having spent two years in fluctuations of lockdowns, travel restrictions and general freedoms being limited, global supply chains were strained to the limit. The strain was caused as demand remained surprisingly high (in part due to generous governmental furlough payments and assistance cheques), but supply was harder to come by as large numbers of businesses shut down or ceased to trade entirely during the pandemic. Economics 101 would tell us that as supply falls against demand, prices rise.

The world was faced with two inflationary problems – 1. energy inflation owing to Russian aggression, and 2. a dearth of supply in goods owing to a world forced into lockdown.

As investors faced this new inflationary environment, and the prospect of central banks raising interest rates, long-duration stocks (typically growth orientated businesses with high P/E ratios) were hardest hit. The sell-off resembled that of early 2020 at the outset of the pandemic, in that entire sectors were sold-off indiscriminately. However, what was different was that quality stocks did not bounce back quite as quickly afterwards.

Technology, being the best performing sector over the previous few years, was the hardest hit. Investors looking for liquidity turned to their best performers to take profits or move into "value" propositions that offered perceived security with their lower P/E ratios.

The "rotation to value" had long been predicted. But we would argue that even a broken clock is right twice a day. In 2022 steadfast value investors finally had their day in the sun – or more accurately, were not as put into the shade as growth investors. Either way, lower rates of portfolio decline was thin gruel for those who had suffered a decade of underperformance relative to those holding a growth orientated portfolio.

Much of the gain driven in said value portfolios was off the back of a resurgent energy sector. Nearly all other elements making up the "value" basket saw annual declines, admittedly not to the same extent of their "growth" counterparts.

It is important to note the changes that were made to the portfolio given the economic landscape we saw in front of us. We have always said we are not afraid to make substantial changes to the portfolio in search of the best opportunities of the moment.

At Blue Whale we had foreseen much change in the world following the rebound rallies of 2020 and 2021. Chief of which was the playing-out of the digital transformation narrative of many of our once-favoured stocks. Businesses such as Amazon, PayPal and Meta were all removed from the portfolio either late 2021 or early 2022 in recognition that they no longer offered the upside potential we required to deliver outperformance for our investors. Those decisions were proved correct as these stocks were down over 50%, 55% and 60% respectively from the point at which we sold them, to the end of 2022. Alphabet was another position in which we sold out in 2022 – being the last of the famed FAANG stocks to leave the portfolio.

However, also in the "tech" sector, we remained convinced in the long-term prospects for companies such as Microsoft and Nvidia. Microsoft still represents the highest-quality business we can find in terms of underlying fundamentals, and Nvidia, despite its challenges, we believe will be the next trillion-dollar company off the back of its omnipresent processing chips, powering everything from machine learning to online gaming. That said, sentiment was not on our side with these two stocks.

Microsoft was a particular disappointment in the year, not least because we saw it as a potential beneficiary of the inflationary environment. Due to its high gross margin and its announced price rises on its key products, we believed Microsoft would weather the inflationary storm, and come out the other side in even better shape than it had entered 2022. As for the share price, we were incorrect. The fundamentals of Microsoft did indeed improve over the year, but sentiment played its part in ruining the party with the stock down nearly 30% in 2022. The good news for investors is that you can now buy the best company in the world at a sizeable discount to its previous highs of 2021.

Our steadfast belief in the merits of these two stocks demonstrates one thing that will not change in the management of the portfolio – the requirement for high quality businesses. Chasing short term trends and stock exuberance can leave you in trouble – we would argue investing in low-quality tech such as Tesla and Peloton during their bumper years was as foolhardy as buying into low-quality value prospects whilst their star was shining in 2022. We have been proven correct in our views on Tesla and Peloton, only time will tell whether value's day in the sun is over (for another decade at least!).

Given the inflation narrative that dominated in 2022, there was a handful of stocks that produced positive returns for the portfolio – nearly all of which were plays on interest rates and inflation. These were payment titans Mastercard and Visa, and US retail stockbroker Charles Schwab.

Further, given the supply chain issues seen around the world, a new structural trend presented itself – deglobalisation and reshoring of key industry. Accordingly, positions in Canadian National Railway and Union Pacific also held up as investors saw their merits in offering key infrastructure for the reshoring of industry to North America.

With hindsight it is fair to say the place not to be invested at the start of 2022 was the tech sector, and "growth" more generally. As a high-conviction growth fund, we saw the sort of markdowns you would expect in the portfolio, with most of the portfolio malaise concentrated into the first half of 2022. The fund was down 30.3% in H1 2022¹, vs. the sector down 14.5%². The second half of 2022, whilst not offering the rebounds seen

2022 - YEAR IN REVIEW

by Stephen Yiu

following the selloff in early 2020, offered flatter markets with the fund up 3.9%¹ vs the IA Global sector average of 4%². It is worth pointing out that from 30 June 2022 to 6 February 2023, the fund is up 16.2%¹ vs the sector up 12.5%² - so things are moving back in the right direction (we remind you that past performance is not a guide to future performance). For investors that only started investing in the LF Blue Whale Growth Fund in late 2021 or early 2022, you should know that 2022 was the first year since the Fund's inception that we failed to outperform our sector – we hope it will be our last.

I will finish this review in much the same way as I finished the last in pointing out our truly active approach to managing the LF Blue Whale Growth Fund means we can adapt to the world as it changes. Our robust process continues to evolve, but is based on two key elements:

1. We continue to invest in high quality companies: the ability of companies to exhibit fundamental outperformance is constantly in flux and our team of investment professionals will continue to chart these changes.
2. We maintain a strict valuation discipline: the market is a dynamic beast and prices often diverge from what we see in the fundamentals – but we will never invest into low quality companies (or businesses) that may be at the mercy of cyclical economic gravity.

Looking forward, the portfolio is positioned to take advantage of what we see as the key issues of the year to come – select digital transformation, reshoring and deglobalisation, and a resurgent energy sector. We predicted last year that the inflation narrative would be displaced by that of a recession narrative. Whilst inflation remains a key risk factor, we cannot ignore the spectre of recession and have therefore made investments into new sectors, and increased our exposure in geographies which we believe will take a greater share of global GDP over the next 5 years.

¹LF Blue Whale Growth I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. ²IA Global Sector average, source: FE Fundinfo. Data as at 11/09/17 to 06/02/23.

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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.

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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>

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

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PLATFORM AVAILABILITY

