

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	£850m
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	56.4
Canadian Natural Resources	Nvidia	
Charles Schwab	Sartorius	
Lam Research	Veeva	
Mastercard	Visa	

Geographical Breakdown %

North America	64.7
Europe	30.0
Asia Pacific	2.5
Cash	2.8

Sector Breakdown %

Technology	38.3
Financials	15.9
Healthcare	14.8
Consumer Discretionary	9.8
Industrials	6.0
Communication Services	5.9
Energy	4.9
Consumer Staples	1.6
Cash	2.8

SHARE CLASS DETAILS

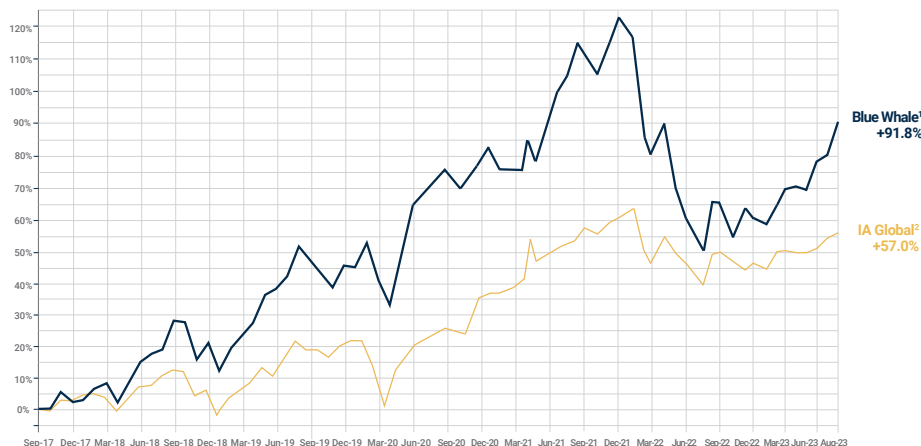
Share Class	OCF	Minimum	ISIN
I Acc (GBP)	0.83%	£10m	GB00BD6PG563
I Inc (GBP)	0.83%	£10m	GB00BD6PG670
R Acc (GBP)	1.08%	£1,000	GB00BD6PG787
R Inc (GBP)	1.08%	£1,000	GB00BD6PG894
R Acc (EUR)	1.58%	€1,000	GB00BYVQ1C38

AWARDS AND RATINGS



PERFORMANCE

"Committed to delivering consistent significant outperformance"



	To Date 2023	2022	2021	2020	2019	2018	Since Launch	Annualised
Blue Whale¹	+21.6%	-27.6%	+20.8%	+26.4%	+27.6%	+8.6%	+91.8%	+11.7%
IA Global Average ²	+8.5%	-11.1%	+18.0%	+14.8%	+22.1%	-5.6%	+57.0%	+8.0%
Outperformance	+13.2%	-16.5%	+2.8%	+11.6%	+5.5%	+14.2%	+34.7%	+3.7%

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

THE EXPENSIVE ERA

by Stephen Yiu



The story of Blue Whale has been to invest according to the environment we see before us. Having launched in 2017, we had no track record to speak of. Instead, we focussed on what we saw as the potential our investment philosophy could deliver for early investors. At the time our lack of long-term performance meant many were cautious about investing, but a brave

few joined us at our £1 launch price, sold on our vision for how best to invest for the future.

Fast forward five and a half years and the fund has been through a global pandemic, a war in Ukraine, the UK leaving the EU, four prime ministers, two presidents, two monarchs, trade wars and myriad of other global events.

Whilst we could not have predicted much of what has transpired since the fund's inception, our investment philosophy held strong. But it was not the key global events that shaped our fund and its subsequent performance, it was the characteristics of the era in which we found ourselves that informed how we chose our portfolio companies, and the ensuing outperformance the portfolio has delivered during this time. As I write, the fund stands at £1.78 a unit*, delivering a 78% return for our initial investors to date, although past performance is not a guide to the future.

Cheap money

Following the financial crisis of 2007, the world entered a new era, in part characterised by "cheap money". The credit crunch of 2008/09 saw central banks around the world start reducing interest rates. Having sat at around 2-3%, they were suddenly cut down to negligible levels, with certain economies even offering negative rates for a time.

This undoubtedly stimulated spending amongst consumers the world over. Those that were of the age and financial means to buy property were able to secure mortgages at record-low rates, sparking an investment in property. Property prices subsequently rose to dumbfounding heights as everyone scrambled for a piece of the property boom.

In the UK, anecdotal stories of studio flats in prestigious parts of London selling for seven figures and comparisons of tiny city dwellings on offer for the same price as sprawling Highland estates abound.

Cheap goods

Another key characteristic of this era was that of cheap goods. Here, it is worth considering the effect China has had on the world economy over the past 15 years.

Under Xi Jinping China has become a powerhouse of industrial productivity. There is a good chance that any electrical goods you buy, the clothes you own or the furniture you have in your house is made in China.

Whilst this has come at a cost – an undermining of democracy and freedom and a questionable human rights record in China – the "benefit" to the western world was the ability to buy products cheaply, taking advantage of the low labour costs of producing goods in China.

Cheap energy

The final characteristic of the post-financial crisis era was that of cheap energy. Despite the price of crude oil reaching an all-time high in 2011, energy costs for the consumer remained manageable as governmental pressure was placed on energy companies to keep prices low in the wake of the credit crunch. This combined with relative political stability among oil producing nations kept energy prices at manageable levels.

This was therefore the era of cheap money, cheap goods, and cheap energy.

The changing environment

But as is often the case following a significant event – in this case global pandemic – the world has now changed. The days of cheap money, cheap goods and cheap energy are over. At least for the time being.

In the current inflationary environment, central banks are raising interest rates to try to keep inflation under control. Many are reluctant to make the hard decision to drive rates to a point at which inflation will be under control due to the politically unpalatable risk of recession. The knock-on effect is that borrowing money is far more expensive than it has been for the past 15 years, and cash reserves are being eroded as inflation takes hold. Mortgage repayments will be higher for homeowners, and for those that rent, prices have been increased to cover these higher repayments levied on the owner.

The pandemic was a wake-up call for western economies. Over the past couple of years, it has become clear that off-shoring key industry, inadequate spending on infrastructure and aggressive globalisation leaves you incredibly open should any economy you depend on to create things decide to stop producing - even worse if that economy becomes politically and diplomatically harder to trade with. This has been the case with East Asia, with production slowed during the pandemic on everything from everyday consumer goods to complicated high-tech components such as semiconductors. Political tensions between China and the US only serve to exacerbate this problem. An equilibrium currently exists where the West relies on the East's producers, and the East relies on the West's consumers - but that could quickly change.

Finally, a global underinvestment in energy production, combined with a political unease of nuclear power usage and a now geopolitically unpalatable relationship with Russia has left Western economies with a problem of how to deliver cheap energy. Whilst solutions will be sought, there will be considerable time lags as new energy provision, through the building of nuclear reactors for example, takes considerable time to get up and running.

We have seen the effect on Germany being hand-tied by a reliance on Russian oil and gas.

As such an effort to re-shore key industries is under way. Whilst this will take time, the effect will be an increase in the price of goods and services as western economies can no longer take advantage of the cheap labour supplied by the Far East.

The new era

This environment of high interest rates, high energy costs and high price of goods serves to reduce consumer discretionary

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spend. For investors, the fallout from this is most likely to affect those companies that are consumer facing businesses – advertisers, retailers, and producers of discretionary goods. This is therefore a huge shift for investors – stock market darlings since the mid 2000s, such as the FAANGs, now look far less attractive given their reliance on a buoyant consumer base.

Inflation

Coming to terms with inflation is something equity investors may struggle with. One way to look at this, however, is to consider some key company fundamentals – namely balance sheet health, cash on deposit and reliability of earnings given a consumer base spending more money on necessities, and less on discretionary goods. The two key inflation plays in the portfolio are Visa and Mastercard. Sitting at a fortunate confluence of finance and tech, this makes them a great inflation hedge. The companies not only benefit from the structural changes to the world's payments systems, and the move to a cashless society, but they are also to benefit as inflation forces the consumer to ramp up their spend. With prices up across the board, when consumers go to top up their car with fuel, or buy their weekly groceries, Visa or Mastercard will take their percentage of each inflated debit/credit card payment. In addition, as people look to maintain their current standard of living, they may be forced to put more on their credit card, where these two companies will levy their interest charges.

As tech businesses they hold another ace up their sleeves with extremely high gross margins, meaning they are less affected by inflationary pressures on the external costs of doing business.

Reshoring beneficiaries

To say that an inflationary environment benefits home-grown industry is putting the cart before the horse. Instead, it is the fact that more goods will be produced in the West (due to complicated geopolitical circumstances following the pandemic) and this will be an inflationary event, given the higher price of labour in the West. However, beneficiaries here are those companies which facilitate renewed industry and those that are already producing key items in benign territories.

To play this reshoring theme most comprehensively, we started to build our positions in two railroad companies in North America – Union Pacific and Canadian National Railway. With a comprehensive rail network between the two, they provide key infrastructure for North America to drive this era of reshoring.

Energy

Finally looking at energy more closely, renewed investment in this area and a supply shock caused by Russia attacking Ukraine has led to a revitalisation of the sector. When we started the fund in 2017, nothing was further from our minds than investment in energy stocks. But as the situation has changed, so has our outlook for this sector, and now we are selectively exploring energy stocks with potential to deliver outperformance for the portfolio.

Currently sitting in our top 10 holdings is Canadian Natural Resources. We have written about this [stock here](#), but in short, as a North American energy stock, benefitting from an increased oil price, reshoring themes and delivering on the level of quality we look for in portfolio companies, it is thoroughly deserving of its place in the portfolio.

Interest rates

High interest rates are a symptom of inflation. Inflationary events such as “quantitative easing,” supply disruption due to the pandemic, and re-shoring of industry to the West, have all led to central banks raising rates. But in here, there are two winners – first are those that benefit from higher interest rates, the second are those that benefit from a reshoring of industry.

The stock best positioned in our portfolio to benefit from higher interest rates is Charles Schwab, simply due to earning higher rates of interest on cash on deposit. For anyone watching this stock over the past few months, you will have seen the share price take a sizeable hit following news of bank solvency issues in the US and Switzerland. Here we would draw comparisons to the tech sell off in 2021/22, where indiscriminate selling took place across the sector, regardless of the quality of the underlying business. Where Schwab differs, however, is that it can be seen as a beneficiary of consolidation in the banking space, as customers of smaller, riskier depositories reallocate their cash into Schwab and similar larger institutions. Accordingly, over \$130 billion was brought into the investment platform in Q1 2023, and new customer signups topped one million – March being the strongest month for both inflows and new clients. Management has described Schwab as a “safe port in a storm,” and with over 80% of deposits covered by FDIC insurance, we are inclined to agree.

Where there was concern with Schwab was in the movement of uninvested client cash into money market funds. However, this “cash sorting” exercise slowed in Q1, and management have reported a further “meaningful” slowdown in April. We would have preferred Schwab not to have taken a nosedive in March, however, with the stock now trading on a low double-digit multiple of normalised earnings, and with management expecting to expand its net interest margin (NIM), we expect the resumption of healthy earnings growth. Put simply, now would not be the time to sell – quite the opposite, we see it as an attractive opportunity given the lack of impairment to the franchise following the solvency issues seen in the banking industry.

Some things never change

Above we have shown how we are investing according to some key structural changes to the global economy. Those themes account for about a quarter of the portfolio.

Making up the majority of the portfolio, including many of our top 10 holdings, is a theme that has run since we started the fund in 2017. We believe digital and technological transformation still offers the greatest growth opportunity for investors. But the structural changes highlighted above have influenced where the best places are now going to be to invest in the tech space.

Prior to and during the pandemic consumer-facing technology proved to be a place of bounty when it came to investment returns. The FAANGs epitomised this, through their leveraging of technology to provide consumer goods and services, and the advertising and social platforms to promote them.

The rate of change during the pandemic drove a technological boom that saw investors make healthy returns as digital transformation accelerated due to a consumer base sat at home, freer to explore the online world rather than the physical one.

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by Stephen Yiu

With pressure now on consumers' discretionary spend, investors need to look to different pockets of opportunity to drive investment returns.

At Blue Whale, we have been especially interested in the technology that will drive an increasingly digitised world, beyond that of just consumer-facing tech. Of particular interest are companies like Nvidia, ASML and Lam Research. As producers of key high-tech components (semiconductors, processors, microchips, and the machinery used to create them) they offer incredibly exciting growth potential through their inevitable involvement in the next phase of technological development and discovery - AI (Artificial Intelligence), the metaverse and automation.

What is before us

Investors in the fund will have read over the past year how our portfolio has changed. Many of the things we have mentioned have demonstrated a broadening of our sector exposure into areas previously ostracised from growth portfolios – namely railroads, energy stocks and financials. These new sectors, we believe, will take a greater share of global GDP over the medium to long term.

There has also been a clearing out of large tech names that have experienced growth to a point where investors now need to be wary of their long-term prospects – especially given the pressure now on consumer spending. We have mentioned before that we no longer hold any of the FAANGs in the portfolio.

What has not been mentioned is that we believe the fund leads the way in finding new pockets of incredible opportunity in the technological space. Recent results from Nvidia serve to vindicate our belief in this fantastic business (and sector more broadly), especially given the rough ride the stock endured in 2022.

For investors in the fund, whilst the investment landscape has changed considerably in the nearly six years since our inception, it is important to note that our investment objectives have not changed. Our mission has always been to deliver significant outperformance for our investors, through investment in high quality companies, at attractive valuations.

This new era represents different opportunities, challenges, and traps. We are cognisant of this and will invest, as always, according to the landscape we see before us.

*LF Blue Whale Growth I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. Data as at 11/09/17 to 31/05/23.

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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.

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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

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.

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PLATFORM AVAILABILITY

