

## 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	£520m
IA Sector	Global
Fund Type	UK OEIC
Base Currency	GBP
Dividend Dates	End of February, August
ACD	Link Fund Solutions (LF)
Depository	Northern Trust Global Services
Dealing	Daily at Noon
Initial Charge	0.0%
Performance Fee	0.0%

## PORTFOLIO FACTS

No. of holdings	25
Avg. market cap	>£100bn

Top 10 Holdings %		54.5
Adobe	Mastercard	
Autodesk	Microsoft	
Boston Scientific	SAP	
Dassault Systèmes	Stryker	
Facebook	Visa	

Geographical Breakdown %	
US	72.2
Europe	20.3
UK	2.0
Asia Pacific	1.6
Cash	4.0

Sector Breakdown %	
Technology	60.8
Healthcare	14.8
Communication Services	8.2
Consumer Staples	7.2
Consumer Discretionary	4.0
Industrials	1.1
Cash	4.0

## SHARE CLASS DETAILS

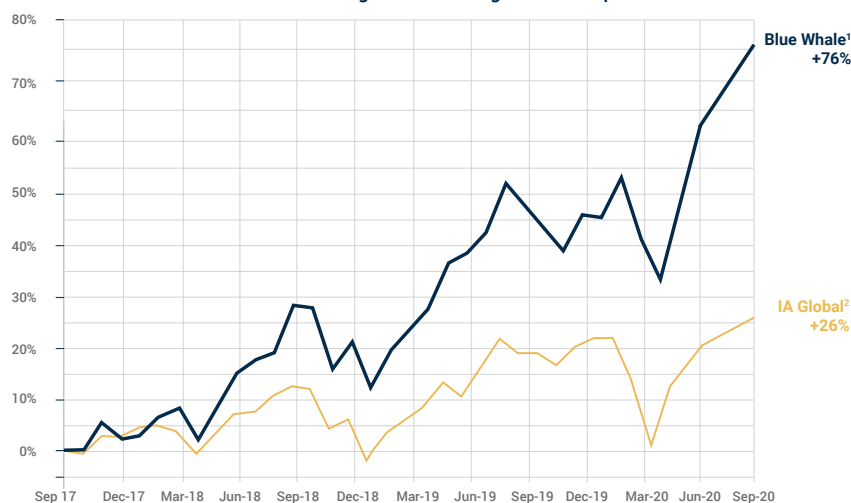
Share Class	OCF	Minimum	SEDOL	ISIN
I Acc (GBP)	0.89%	£10m	BD6PG56	GB00BD6PG563
I Inc (GBP)	0.89%	£10m	BD6PG67	GB00BD6PG670
R Acc (GBP)	1.14%	£1,000	BD6PG78	GB00BD6PG787
R Inc (GBP)	1.14%	£1,000	BD6PG89	GB00BD6PG894
R Acc (EUR)	1.64%	€1,000	BYVQ1C3	GB00BYVQ1C38

## PLATFORM AVAILABILITY



## PERFORMANCE

"Committed to delivering consistent significant outperformance"



	To Date	2020	2019	2018	Since Launch	Annualised
Blue Whale <sup>1</sup>		+23.4%	+27.6%	+8.6%	+75.9%	+21.0%
IA Global Average <sup>2</sup>		+4.5%	+22.1%	-5.6%	+25.7%	+8.0%
<b>Outperformance</b>		<b>+18.9%</b>	<b>+5.5%</b>	<b>+14.2%</b>	<b>+50.2%</b>	<b>+13.0%</b>

Past performance is not a guide to future performance.

<sup>1</sup>I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. <sup>2</sup>IA Global Sector average, source: Lipper. <sup>3</sup>Performance of I class Acc shares relative to funds in IA Global Sector, source: Lipper. 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

- UCITS-compliant.
- Assessment of company specific risk factors, including those related to ESG, that might materially impact the business's sustainable return on investment.



## VALUATION – OUR KEY TO GENERATING CONSISTENT SIGNIFICANT OUTPERFORMANCE BY STEPHEN YIU



### The Importance of Valuation

In 1941, Einstein famously declared that “science without religion is lame, religion without science is blind”.

In the world of investing, this holds just as true if you replace “company research” with “science” and “valuation” with “religion”: the most detailed and accurate research is useless unless you also have a buy or sell decision based on valuation; similarly, an

investment decision without a fundamental understanding of a business is no better than investing on the roll of the dice.

In previous articles, we’ve shared our research, including the [themes we like](#) and our best ideas – the [top ten holdings](#). However, identifying good companies is not enough. To succeed as a fund and successfully deliver consistent significant outperformance for our investors, we must convert insights gleaned from our [hard work](#) into action – and an important component of that process involves how we approach valuation.

### Our Approach to Valuation

*“Price is what you pay, value is what you get.”*

This was what Warren Buffett reminded investors in his 2008 letter to shareholders. When we talk about valuation, we are laser-focused on the value that we’re paying for. Specifically, it’s the cash flows and the certainty of those cash flows coming from a business which give it value. This makes valuation intimately linked to our research process.

The research process is scientific: we can model a business based on detailed analysis of structural trends in the end market, the level of competition within the industry, and company-specific factors, then test our assumptions for projected cash flows against what the company delivers.

This takes a lot of hard work – it involves going to primary sources and industry publications to understand the dynamics of the sectors we’re looking at, trawling through company filings at the exchanges to build our own models and, most importantly, exercising good judgement when making assumptions for our own forecasts. We have [dedicated significant resource](#) to guarantee the quality of our research from day one.

Based on the conviction of our fundamental research, we often find opportunity where the market systematically underestimates longer term growth. This happens when the market price reflects consensus estimates of future growth rather than what’s implied by our research. This is when we buy.

For the same reasons, when the market is getting ahead of our expectations, we will sell or find more attractive alternatives. This is why we reduced our positions in Amazon and PayPal in Q3 2020 and why we held more cash at the end of 2019 – putting us in an excellent position to top up our highest conviction holdings during the sell-off in 2020. This is how we exercise a strict valuation discipline.

### What about macro?

We are often asked about our views on “macro” – encompassing both geopolitical and macroeconomic events. We do not take a view on how events will necessarily unfold – that requires predicting the unpredictable which is [a fool’s errand](#) – but we do take a view on how events could impact our portfolio at the company level, specifically, how it would impact the expected future cash flows of our portfolio holdings.

This again is where our research process is intimately linked to our valuation framework: only with a sound understanding of a company’s business model can we reliably assess how it performs in adverse conditions. We stress test a company’s cash flows and earnings and if, even with conservative assumptions, the company fares better than consensus estimates, then we can have conviction that value is there. The

majority of companies in our portfolio have passed such a “macro stress test”, and this was why our portfolio fared better than the broader market over the course of the last three years, through all the macroeconomic and geopolitical turmoil which we go through at the end of this article.

### We are Value Investors!

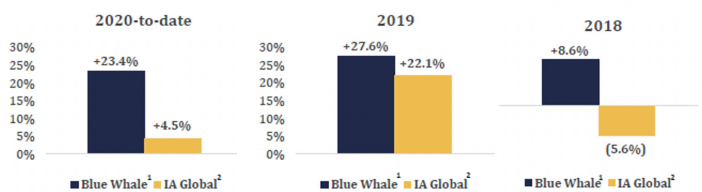
We see things differently. We treat “value” as a verb, not a noun. To value a company involves a process of understanding the worth of its future cash flows beyond its present state. To make money doing so involves finding companies where the value we see is significantly greater than the price we have to pay. That is why we focus on high quality businesses with structural growth drivers (as outlined earlier), instead of lower quality, low-growth, structurally declining (and often cyclical) businesses – [the usual hunting grounds](#) for many self-styled value investors.

In doing so, we are following in the footsteps of the greatest value investors. Warren Buffett, having delegated a portion of his investment responsibilities to younger fund managers, last year defended their decision to buy Amazon, noting that they were “absolutely [as] much value investors as I was when I was looking around for all these things selling below working capital years ago.” Even Benjamin Graham, the father of value investing, concluded in his seminal work, “The Intelligent Investor”, that the majority of his post-World War Two fund returns came from a high quality, high growth insurance company, Geico – a company which Buffett would eventually absorb into Berkshire Hathaway.

### How has our Valuation Approach fared in practice?

Our first three years have been a “baptism-by-fire”, with unprecedented macroeconomic and geopolitical events rocking the investment landscape. In 2018, we had [questionable monetary policy](#) from the US Fed and we saw President Trump initiating a trade war on multiple fronts. Trade tensions continued in 2019 while uncertainty from Britain leaving the EU lasted throughout the year. Now in 2020, the global economy is still reeling from the worst global pandemic since the Spanish flu more than a hundred years ago.

Nevertheless, we have managed to deliver positive returns each year with a combination of our in-depth research process and strict valuation discipline. The graphs below show how we fared in 2018, 2019, and in 2020-to-date.



<sup>1</sup>LF Blue Whale Growth 1 class Acc shares, net of fees priced at midday UK time, source: Bloomberg; <sup>2</sup>IA Global Sector average, source: Lipper. Data as at 31/12/17 to 31/08/20. Past performance is not a guide to future performance.

We have relished the opportunity to test our approach under adverse market conditions and we are glad that we have been able to deliver consistent significant outperformance to our investors during both market rallies and sell-offs. This is what active management is all about, and this is only just the beginning for Blue Whale!

Please note that the information provided in this article is not to be construed as advice and any views we express on holdings do not constitute investment recommendations and must not be viewed as such. If you are unsure as to the suitability of an investment for your circumstances, please seek independent financial advice. Investments can go down in value as well as up so you may get back less than you invested. Your capital is at risk. Past performance is not a guide to future performance.

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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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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

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### 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.