FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

# S&W REVERA UK DYNAMIC FUND
## AS AT 31 AUGUST 2019

FACTSHEET

## OVERVIEW

The majority of calendar year end companies have reported their interim trading results. Our general observation is that there is a lengthening list of businesses which are now reliant on no further deterioration in economic activity to achieve their full year forecasts.

Is that a realistic scenario? We are concerned about the emergence of an information gap, whereby official data lags what is happening on the ground by up to 3 months. This is especially important at a point when some of the key determinants of the likely trajectory of future economic activity are heading in the wrong direction. Earlier this year we were optimistic that calmer counsel would prevail in the trade dispute between the US and China. Instead, events moved in the opposite direction and, far from de-escalation, there has been a ratcheting up of punitive tariff measures, which looks set to continue. The latest incarnation saw the US announce plans to put tariffs on $300bn of Chinese goods. In response China is set to impose levies on $75bn of American goods, including autos and auto parts. Thus far, it has been easy to assert that trade policy has had little effect on the U.S. economy – this may now come under greater scrutiny. The US Bureau of Labor Statistics recently revised its estimate for job creation as of March 2019 downwards to the tune of 500,000. These newly presented figures would call into question the extent of the boost provided by President Trump's tax cuts and higher federal spending. They also signal the economy is weaker than previously thought and could give the Federal Reserve (the Fed) more to consider as it mulls whether to cut interest rates in September.

There was only a modest reaction from currency markets to Prime Minister Johnson's plan to suspend Parliament as a means of effecting the UK's departure from the EU by October 31. In our view UK equities continue to offer good investment value but accept there is a spread of potential outcomes courtesy of political uncertainty.

Portfolio cash was 7%.

## TRAFFIC LIGHTS

- HISTORIC EARNINGS VALUE (amber)
- EQUITY VS BOND VALUE (green)
- EARNINGS REVISIONS (red)
- APPETITE FOR NEW EQUITY (amber)
- SHARE PRICE MOMENTUM (green)

There is no change in the traffic lights. Earnings revisions have improved slightly, but remain in deep negative territory.

## KEY FEATURES

| | | |
|---|---|---|
| **FUND SIZE** | | £113M |
| **SHARE PRICE** | Founder Class | 205.5p |
| | Retail Class | 199.9p |
| | Corporate Class | 209.5p |
| **ISIN** | Founder Class | GB00B3BSKJ23 |
| | Retail Class | GB00B3BSKK38 |
| | Corporate Class | GB00B8350522 |
| **ONGOING** | Founder Class | 1.31% (1.25% AMC) |
| **CHARGES** | Retail Class | 1.56% (1.50% AMC) |
| | Corporate Class | 0.81% (0.75% AMC) |
| **STRUCTURE** | | UCITS V ICVC |
| **DEALING TIME** | | 12pm every business day |
| **TELEPHONE** | | 0141 222 1150 |
| **PLATFORMS** | EMX | Pershing |
| | Standard Life | AJ Bell |
| | Transact | Elevate |
| | Nucleus | CoFunds |

| PERFORMANCE | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years | Since Launch | MSCI UK All Cap Since Launch |
|---|---|---|---|---|---|---|---|
| **Founder Class** | -1.5% | 3.0% | 2.5% | 19.1% | 25.4% | 151.3% | 126.2% |
| **Retail Class** | -1.5% | 2.9% | 2.3% | 18.1% | 23.5% | | |
| **Corporate Class** | -1.5% | 3.2% | 3.1% | 20.9% | 28.6% | | |
| **MSCI UK All Cap (Gross)** | -3.8% | 1.3% | -0.1% | 19.7% | 29.4% | | |

S&W Revera UK Dynamic Fund does not have a formal benchmark. In order to aid understanding of historic performance, the MSCI UK All Cap Index (Gross) is presented as a comparator. It should not be inferred that the S&W Revera UK Dynamic Fund will be managed with any reference to this, or any other, comparator index.

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## COMPANY NEWS

Keller's results were largely in line with expectations, leaving full year forecasts unchanged. Keller has been significantly de-rated, to the extent that simply matching forecasts should drive material share price upside. In addition, if management can demonstrate strong organic cash generation and reduce balance sheet gearing, Keller will have the option of returning surplus cash to shareholders. At current levels repurchases are highly beneficial to investors.

Legal & General (L&G) saw further solid growth in operating profit from the divisions, and its dividend was increased by 7%. Over the remainder of this year, and into next, the Pension Risk Transfer (PRT) business in the UK will to continue to be the driver of growth for L&G. We believe that L&G has more than adequate capital resources to be able to capitalise fully on these opportunities.

Standard Life Aberdeen (SLA)'s results showed funds under management up and income and profits down due to falls in asset values in the previous six months. The dividend was held as promised. SLA's 30 % stake in HDFC Asset Management is of more interest. There is a huge rating differential between it and SLA, making it tempting for management to capitalise on HDFC's current popularity. SLA has no business need for the capital, giving management a strong incentive to return it to shareholders.

Morgan Advanced Materials overcame several headwinds in its interims, most notably the loss of contribution from previous disposals. Results were encouraging on a number of fronts – the improvement in group margin, the first signs that new product initiatives are being prioritised and having a positive operating impact and a sense that organisational improvements are starting to impact financial metrics. Any concerns we have relate to macro-economic trends rather than being company specific.

## WHAT DOES THE PORTFOLIO LOOK LIKE?

| TOP 20 HOLDINGS | MARKET SECTOR | % |
|---|---|---|
| Cobham | Aerospace & Defence | 5.6 |
| Smiths Group | General Industrials | 4.6 |
| Spirent Communications | Info Hardware | 4.5 |
| Oxford Instruments | Electronics & Electricals | 4.4 |
| First Group | Transport | 4.3 |
| Glaxosmithkline | Pharmaceuticals | 4.1 |
| Marshalls | Construction | 4.0 |
| Rio Tinto | Mining | 3.9 |
| Bellway | Construction | 3.9 |
| Melrose Industrials | Automobiles & Parts | 3.8 |
| **TOTAL FOR TOP 10** | | **43.1** |
| Keller Group | Construction | 3.8 |
| Diageo | Beverages | 3.7 |
| Hilton Food Group | Food Producers | 3.7 |
| Royal Dutch Shell | Oil & Gas | 3.7 |
| Morgan Adv Materials | Electronics & Electricals | 3.6 |
| Standard Life Aberdeen | Life Assurance | 3.6 |
| Next | Retailer | 3.5 |
| Jupiter Fund Management | Speciality Fins | 3.4 |
| Lloyds Banking Group | Banks | 3.3 |
| Sage Group | Software & Comp Serv. | 3.2 |
| **TOTAL FOR TOP 20** | | **78.6** |
| Other Equity Holdings | | 14.0 |
| Bonds and net Liquidity | | 7.4 |
| **TOTAL** | | **100.0** |

## WHAT SHOULD I BE WORRYING ABOUT?

*"History has not dealt kindly with the aftermath of protracted periods of low risk premiums."* Alan Greenspan.

We have indicated some of our concerns related to underlying economic activity. Hitherto, central banks have been able to 'keep the plates spinning' through loose monetary policy. However the challenge is whether this can be sustained. If the prognosis that recent economic data may understate the extent to which the economy is slowing is correct, given the lag between changes in interest rates and economic activity, then Central Banks, and the Fed in particular, may be tempted to ease rates and re-introduce QE.

We would question the efficacy of further QE given that asset valuations across various markets are elevated and corporate leverage is historically high. Hence, even with these additional cuts, there is an increased risk that economic growth could slow to a below-trend pace and drive a rise in unemployment. Upside, in a markedly weaker global economy, may no longer be a function of central banks' ability to keep performing additional monetary magic tricks to extend the cycle.

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## WHAT ARE THE KEY FEATURES?

The S&W Revera UK Dynamic Fund:

- Is designed as a UK Special Situations Fund, that has the capacity to invest in the UK equity market wherever the fund managers believe the best return can be made.
- Is a focused fund, with a target of 25 holdings. The fund managers believe that holding a smaller number of investments increases the time they can devote to monitoring each of them.
- Has a roughly even exposure to all of its investments, as the fund managers believe that this is more likely to achieve a better balance of risk and performance contribution.
- May at times have a higher than average exposure to small and medium sized companies, to utilise the fund managers' experience in this area.

## HOW DO WE SELECT INVESTMENTS?

Revera is a fundamental investor. We typically invest in businesses where:

- We are confident in the business's ability to generate attractive and increasing levels of cash.
- Where we are confident that the business model is sustainable.
- Where we see scope for cash generation to drive dividend payments or other returns to shareholders.
- Where we expect the compounding up of earnings to drive the increases in value.

Revera is also aware of the prevailing market environment, and uses its own "traffic light" framework to assess the overall risk to investing in the UK equity market at any point in time. This framework assesses valuation and momentum within their historic ranges, and the emergence of "red lights" suggests a heightened risk to capital by investing in the UK equity market at the point in time.

## WHAT IS REVERA?

Revera Asset Management Ltd is a UK equity boutique, based in Edinburgh.
Founded in 2003, Revera has focused its business on delivering investment funds backed by extensive due diligence and using independent judgement. Revera invests in businesses where the fund managers think they will make money - not because of benchmarks or because other people think it is a good idea.
Revera's business has also been built on high levels of engagement with investors and transparency over what we invest in, and why we have done it. This fosters trust between Revera and its clients, and has helped Revera grow with a low turnover of clients.
The portfolio is managed by Stephen Grant and Glen Nimmo, who have worked as part of the same team for 23 out of the last 25 years.
Stephen Grant has 35 years' experience in the UK equity market, with Scottish Mutual, Scottish Amicable and Ivory & Sime plc, where he picked up industry awards for performance in 2005 and 2006. Stephen has been with Revera since 2006, and joined its Board in 2007. He adds long experience in the capital goods sectors to the research expertise in Revera.
Glen Nimmo has over 25 years' experience investing in UK equities, and was a founder of Revera in 2003. He is also the company's Chief Executive. He has a background in food manufacturing, and brings that perspective to many of Revera's investment discussions. He is a long time analyst of the housebuilding and healthcare sectors.

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## STATUTORY PERFORMANCE PRESENTATION

| | 30 Jun 2018 - 30 Jun 2019 | 30 Jun 2017 - 30 Jun 2018 | 30 Jun 2016 - 30 Jun 2017 | 30 Jun 2015 - 30 Jun 2016 | 30 Jun 2014 - 30 Jun 2015 |
|---|---|---|---|---|---|
| Founder Class | -1.3% | 8.1% | 23.3% | -15.6% | 11.3% |
| Retail Class | -1.5% | 7.8% | 23.0% | -15.9% | 11.0% |
| Corporate Class | -0.7% | 8.7% | 23.9% | -15.2% | 11.9% |

Please remember that past performance is not a guide to future returns.

## RISK FACTORS

This fund is designed as a medium to long-term investment, for example, at least five years.

The value of this investment is not guaranteed and can go down as well as up. Investors may not get back capital originally invested.

There is no guarantee the investment objective of this fund will be met.

This fund is likely to be more concentrated than other funds and may be more volatile than other funds.

There will be times when this fund's performance will be unlike that of any stock market index. This may, or may not, be advantageous to investors.

**Before making an investment you should ensure that you have read and understood the Key Investor Information Document and the Prospectus. A copy of the Prospectus and Key Investor Information Document for the fund is available directly from our website at www.reverafunds.com**