



FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

S&W REVERA UK DYNAMIC FUND

AS AT 29 FEBRUARY 2020

FACTSHEET

OVERVIEW

Blasé is probably too unkind a description of investors' initial response to COVID-19 but, as share prices climbed during early February there was little to suggest that investors viewed COVID-19 as anything other than a minor irritant. That perception altered dramatically towards the end of February as investors recognised that efficient modern travel was an ideal means for the virus to spread. The belief that COVID-19 could be contained within China was superseded by fears that it would prove to be a significant disruptor of global economic activity. Markets recognise that if COVID-19 doesn't develop into a global pandemic, the economic impact will still be significant, if difficult to quantify. Global stock markets moved sharply into reverse, posting significant falls in the last week of the month. The traditional defensive safe haven, gold, climbed higher, reaching levels not seen since 2013.

In China the authorities are likely to act decisively to ease monetary policy and boost growth. Globally, Central Banks will be under pressure to mitigate the risk of a recession and reduce rates. The yield on the US 10-year Treasury has dropped to record low levels as investors anticipate a series of rate cuts in the coming months. The Fed is not due to meet until March and, although perhaps hoping that the virus will have peaked by then, may still be bounced into offering markets a conciliatory gesture.

We are comfortable with the portfolio's positioning, particularly in respect of its UK domestic exposure as these earnings are likely to be more insulated should COVID-19 prove to be more protracted i.e. run beyond the first quarter of 2020. In hindsight, markets were initially wrong to ignore the threat of COVID-19 but, equally, there are growing signs of share prices over reacting on the downside. We are happy to increase exposure to areas that we believe have been unfairly targeted, such as UK housebuilders, or areas with quick recovery potential and which have caused us some recent pain, such as oils, where we believe there is scope for investor sentiment to reverse rapidly.

TRAFFIC LIGHTS

- HISTORIC EARNINGS VALUE
- EQUITY VS BOND VALUE
- EARNINGS REVISIONS
- APPETITE FOR NEW EQUITY
- SHARE PRICE MOMENTUM

The sharp fall in equity prices has reinforced the valuation imperative in UK equities, but momentum has taken a turn for the worse.

KEY FEATURES

FUND SIZE		£113M
SHARE PRICE	Founder Class	204.7p
	Corporate Class	209.2p
ISIN	Founder Class	GB00B3BSKJ23
	Corporate Class	GB00B8350522
ONGOING CHARGES	Founder Class	1.30% (1.25% AMC)
	Corporate Class	0.80% (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
	Hargreaves Lansdown	Aviva
	Novia	

PERFORMANCE	1 Month	3 Months	1 Year	3 Years	5 Years	Since Launch	MSCI UK All Cap Since Launch
Founder Class	-8.5%	-7.7%	9.3%	12.3%	20.1%	150.4%	112.8%
Corporate Class	-8.4%	-7.6%	9.9%	14.1%	23.1%		
MSCI UK All Cap (Gross)	-9.0%	-9.2%	-2.3%	3.5%	17.8%		

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.

COMPANY NEWS

Finals from Spectris showed a flattish sales performance but an improvement in operating returns following a profit enhancement programme designed to simplify and improve day to day business practices. Management has also exited individual business units as part of the process of simplification. Spectris also announced that, in addition to the ordinary dividend, it would pay a special dividend of 150p per share – in essence, paying the sale proceeds from disposals back to shareholders. Thus far it has seen a limited impact from COVID-19 and expects that self-help measures will drive further progress in 2020.

Likewise, Hargreaves Lansdown produced a solid first half. Total assets under administration (AuA) were £105.2bn, a 22% increase on the comparable period last year. Of this increase in AuA since the end of the last financial year, 40% was driven by new business flows, and 60% by market movements. Whilst there was some Woodford-related impact on revenues, the reality is that it has not derailed this business. It still brings on clients, they still add more to their pensions and ISA accounts, and the rise in markets in 2019 also helped on a number of levels. The medium and long-term drivers of personal saving in the UK are unlikely to change any time soon.

Diageo issued a trading update with respect to COVID-19 which indicated meaningful disruption to personal spirits consumption in China, which is expected to last into March. There was a similar pattern in several other Asian nations. It has also seen a reduction of international passenger traffic in Asia and is assuming a gradual recovery. The impact on net sales and operating profit was of the order of 5%. We do not see any need to alter our stance on Diageo.

WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
Bellway	Construction	5.0
Forterra	Construction	4.7
Spectris	Electronics & Electricals	4.5
Oxford Instruments	Electronics & Electricals	4.6
Spirent Communications	Info Hardware	4.2
Marshalls	Construction	4.2
Smiths Group	General Industrials	4.1
Spirax-Sarco Engineering	Engineering	4.1
Standard Life Aberdeen	Life Assurance	3.9
Royal Dutch Shell B	Oil & Gas	3.9
TOTAL FOR TOP 10		43.2
Crest Nicholson Holdings	Construction	3.8
Ashmore Group	General Financials	3.8
First Group	Transport	3.8
Glaxosmithkline	Pharmaceuticals	3.7
Hilton Food Group	Food Producers	3.7
Legal & General	Life Assurance	3.7
Next	General Retailer	3.6
Hargreaves Lansdown	General Financials	3.5
QinetiQ Group	Aerospace & Defence	3.4
Diageo	Beverages	3.4
TOTAL FOR TOP 20		79.6
Other Equity Holdings		11.3
Bonds and net Liquidity		9.1
TOTAL		100.0

WHAT SHOULD I BE WORRYING ABOUT?

With the reporting season in full swing, a number of companies have attempted to quantify the impact of COVID-19. Whilst welcome, any information carries the proviso that corporates are no better placed than us to call the efficacy of remedial measures currently being implemented, and data is backward looking. Most estimates assume some disruption for the duration of the first quarter but thereafter a relatively quick normalisation in business conditions. A number of industrials have stated that their Chinese facilities outwith Hubei province are operating, albeit at reduced capacity. Diageo quantified what it believes will be the extent of the hit to earnings.

Should COVID-19 not be contained relatively quickly, all these estimates will be subject to further downward revision.

As advocates of investing on the strength of business fundamentals, our approach has essentially been to ask, in the event of a short-term earnings hit, do we believe that the long term earning potential has been compromised?

Clearly, the global health crisis is an unwelcome distraction, adding uncertainty to the economic outlook. The scenario with the greatest probability attaching is a recovery in global activity, aided by central banks, in the second and third quarters.

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 24 out of the last 26 years.

Stephen Grant has 36 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 26 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.



STEPHEN GRANT



GLEN NIMMO

STATUTORY PERFORMANCE PRESENTATION

	31 Dec 2018 - 31 Dec 2019	31 Dec 2017 - 31 Dec 2018	31 Dec 2016 - 31 Dec 2017	31 Dec 2015 - 31 Dec 2016	31 Dec 2014 - 31 Dec 2015
Founder Class	33.0%	-14.2%	14.8%	0.8%	7.7%
Corporate Class	33.7%	-13.7%	15.3%	1.3%	8.2%
MSCI UK All Cap (Gross)	18.4%	-9.7%	13.2%	17.4%	0.2%

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

Shareholders may compare the performance of the fund against the MSCI UK All Cap (Gross) Index. The ACD has selected this comparator benchmark as it believes this benchmark best reflects the fund's asset allocation. The benchmark is not a target for the fund, nor is the fund constrained by the benchmark.

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

Revera is authorised and regulated by the Financial Conduct Authority (FCA). Revera's registered office is at 8 Rutland Square, Edinburgh EH1 2AS. S&W Revera UK Dynamic Fund is a sub-fund of S&W Revera Fund, which is an open-ended investment company with variable capital (ICVC) incorporated in England & Wales, with registration number ICO00692 and authorised by the FCA with effect from 12 August 2008.

The information in this factsheet does not constitute an offer or invitation for the sale or purchase of any units or shares in S&W Revera UK Dynamic Fund, in any jurisdiction, is not intended to form the basis of any investment decision and does not constitute or contain any recommendation by Revera, its shareholders, directors, employees, agents or advisers.

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