SHINING A LIGHT ON……
SVM WORLD EQUITY FUND

At a glance

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy can work but the reverse is also true with investors being disappointed because they haven't fully understood the strategy.

A global fund can give investors broader diversification but even within that care needs to be taken that the fund doesn't favour one country. The SVM Global Equity Fund has an unusually high weighting to the UK (24.95%) and also favours Europe (23.88%) and the US (37.30%). And therefore is more of a developed market fund.

The fund is not large (circa £25 million of assets) and currently holds around 40 stocks with the top ten holdings taking around 37% of the fund. The current manager took over the fund at the end of 2010 and in 2012, 2013 and 2014 he has outperformed the benchmark.

It has a large cap bias but is at the lower end of the large cap scale with the manager's experience being in small to mid-cap.

The update provides views from the manager on the economic outlook and how the fund is positioned as well an indication on how they invest.

Who are the team behind the fund?

The manager is Neil Veitch who took over the fund on 1 December 2010. Previously he worked for a Dutch Asset Manager managing mid and small cap funds. Since taking over the fund he has delivered consistent outperformance.

Investors need to be aware that SVM are a boutique provider and therefore resource is limited. This can be a plus or minus depending how you view it. The performance has been strong however it is possible that the bias to developed markets is because that is where the expertise lies and therefore there could be a cross over with any UK, European or US holdings.

Another point to consider is size, the fund is small and although there are many funds smaller there is always a danger that the fund is closed or merged if assets don't increase.

Fund highlights?

Where some funds have large weightings to the US this fund is underweight the benchmark and we wanted to understand why this was. Neil explained that since inception of the fund it has been underweight the US. He is positive about the US economy but simply can't find value.

He prefers the UK and Europe and the fund is tilted in this direction. Some Asian stocks have been sold and replaced with European stocks. Neil is very positive on Europe believing that not only are the core economies benefiting from the global upturn but also the peripheral economies.

As this is a high conviction fund of around 40 stocks Neil can be picky and favours the UK because he can see more opportunities. There are no stocks in Japan and he has just added a stock from India.

The sector bias of the fund is towards cyclical stocks (GKN, Prelli and Hitachi), defensives (Pfizer, Lorillard and Merck and Co) and financials (Danske Bank, Citigroup and Lloyds).

When looking at stocks they are looking at value but more importantly what will drive that stock forward. A stock can be cheap and remain cheap if there is nothing to drive it forward. The manager is also disciplined selling when the target price is reached.

Effectively investors are getting a developed market global fund with a bias to Europe and the UK. It is a high conviction portfolio with the top ten stocks being the real drivers of performance. This is one comparison that potential investors can use to compare to other funds and the second is the bias to the lower end of the large cap scale. There are global funds with a small cap bias but these tend to be much more volatile.

We touched briefly on concerns for investors and there were three take home points – investors are starting to move out of growth stocks to value as a result of tapering and this is likely to increase volatility in the market, the second point is deflation in the Eurozone but he feels if this happens the ECB will respond and finally slower economic growth can lead economies into geo political adventures and China is an area he is concerned about.

To conclude this is a small well managed global fund with a developed market bias towards small large cap stocks. It targets low value stocks with the potential for something to propel the stocks forward and it has a strict sell discipline. On the downside for investors who already hold US, Europe and UK they may find a crossover of holdings.

Fund performance

Performance for the past five years vs DB X-Trackers FTSE All World Ex UK is shown below:

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
SVM World Equity Fund	31.35%	16.55%	-13.61%	21.45%	24.53%	1.47%
DB X-Trackers FTSE All World Ex UK	22.37%	16.83%	-8.33%	9.75%	20.98%	-0.14%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

In the global sector this fund doesn't necessarily stand out as anything different but what it gives investors is a fund with a proven track record of outperformance.

The source of information in this note has been provided by SVM and is correct as at May 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.