

SHINING A LIGHT ON..... SABRE GLOBAL VALUE AND INCOME FUND

At a glance

I am always nervous about reviewing a fund with a limited track record.

We have recently met Ross Hollyman who is the manager of the Sabre Global Value and Income Fund. The fund was only launched in September 2014 however the manager has experience of running the strategy going to 2000 when he managed the Flemings European Strategic Value Fund and more recently the GAM European Systematic Value Fund.

The fund remains small (currently £6 million of assets) but is steadily gathering assets.

There are three reasons why investors may consider this fund:

1. Global Focus – the strategy is globally diversified, currently there is a fairly equal weighting across North America, Asia and Europe
2. Manager aligned to client interests – Ross invests all his money in the fund and takes no salary
3. Systematic, tested process of management

In this update we will focus on the style of management.

This is a pure equity fund, by its nature it is underweight more volatile stocks but it will go down if the market goes down i.e. there is no downside protection. Markets where it is likely to underperform are growth driven markets similar to 1999.

The starting point for the fund selection and management is the screening system. This works across 20 different style models and across 5 regions. The screening effectively is searching out the most favourable style characteristics.

As an example, his universe starts with 5,000 stocks and the first starting point is to remove low yielding and expensive stocks, next it looks to remove those stocks which are cheap but are still falling (falling knives) and finally it removes stocks which are not seen as quality stocks (looking at cash flow, profitability etc).

The system is hard wired to do this and reduces down the available universe to about 1,000 stocks. The discretionary element then comes into play. Depending on the cycle, different style factors will be more favourable in different areas. For example, price to book may be more favourable in Japan compared to North America etc etc. Rather than picking one factor it is about having multiple factors and then mixing them together to provide a stock list of about 300 funds.

It is from this list that Ross picks around 70 to 80 stocks.

We discussed how long holdings are in the fund and typically it is about 6 months which means the turnover is high and this felt like it was adding risk and cost into the fund.

Ross explained this further. Typically they run the screens every month, and rebalance every month. Where many listen to brokers they don't, they trade purely on fact. They are not chasing the next new idea, the movement of stocks is to do with style bias changing and changing the mix. Over the 15 years

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he has been running the strategy he has been able to demonstrate that via this route he has been able to reduce volatility without compromising returns.

The other part which plays to Ross' skills is that the system does the hard work and he is left to do what he likes. It is simply - does he like the company or not. One of simple tests is whether the management interests are aligned with the investors. The key to this is whether they have shares. Ross believes that those companies whose management own shares in the company are likely to be better than those that don't. And of course he practices what he preaches!

The long term proven track record is good, and although this fund has only been in operation since 2014 he does have that to fall back on. Clearly the ability to cleanse the data such that only the best come out is important. For those who know Ross and his process and style then investing in this would not be a leap of faith, however for those who haven't then it is just that. There is no guarantee as to what he can do but we do know the first six months have delivered very strong returns.

There are elements of the system we like, the focus on quality, the constant reviewing and the alignment with investor interests. The only area we would be nervous of is whether he can deliver and without a crystal ball to the future we don't know – that is the step of faith!

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