

**SHINING A LIGHT ON THE.....
Overstone UCITS Smaller Companies Fund**

AT A GLANCE

Investment Objective
This fund attempts to achieve over the long term a total return in excess of that of the MSCI World Small and Mid-Cap Index (with net dividends reinvested) through investment in a concentrated portfolio of equity securities of small and medium sized companies selected from all the major markets, and to a lesser extent from emerging markets, worldwide.

Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000XVEN
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Management	
Manager Name	Start Date
Harry Fraser	1 st January 2012

FUND PERFORMANCE

Performance from 1st January 2016 to 31st August 2021:

	2016	2017	2018	2019	2020	2021
Overstone UCITS Smaller Companies Fund	17.50%	6.76%	-6.57%	30.20%	3.58%	13.54%
MSCI World NR	28.24%	11.80%	-3.04%	22.74%	12.32%	17.14%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since fund manager inception
Overstone UCITS Smaller Companies Fund	38.33%	25.56%	63.85%	202.70%
MSCI World NR	26.25%	43.50%	90.01%	261.32%

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.

Tracking Error	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
13.39	-	115.23	132.26	44.44	1.34	(4.00)	Small/Value

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Volatility Measurements	
3-Yr Std Dev (volatility)	26.82%
3-Yr Mean Return (average)	7.88%

Investment Style Details	
Giant	0.00%
Large	8.49%
Medium	43.34%
Small	32.82%
Micro	14.90%

Top 5 Holdings – 24 Equity Holdings		
Fairfax Financial Holdings Ltd S...	Financial Services	8.49%
Wetherspoon (J D) PLC	Consumer Cyclical	7.83%
IWG PLC	Industrials	7.45%
Draegerwerk AG & Co KGaA Partici...	Healthcare	7.18%
Allegiant Travel Co	Industrials	5.13%

Top 5 Sectors	
Consumer Cyclical	26.72%
Financial Services	20.50%
Industrials	16.88%
Healthcare	10.85%
Consumer Defensive	10.22%

Top 5 Regions	
United Kingdom	28.64%
Eurozone	21.20%
United States	16.27%
Canada	10.29%
Europe ex Euro	7.48%

UPDATE....

This was our first introduction to the strategy. The manager is a part owner of the business and has been managing this strategy since 2012. The aim is to invest in around 20 to 25 companies. They look to invest in double digit compounders and deep value. So, this is a mix of companies that are great and are growing but are at a discount to the market, and those companies that are profitable but need something to happen to change the outlook.

Because this has a small number of holdings there are greater risks if something goes wrong – there have been three main holdings which have hit the performance; one of these cost the portfolio 16% in performance. The outcome from this was to fine tune the process to cut anything where the loss is greater than 10%.

The primary aim is to find those undiscovered gems wherever they are growing. Often these are missed by the market until they grow to a certain size and at that point, if the value has been reached, they will sell out. An example of a current holding is the Warsaw Stock Exchange which is on 12 x

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earnings with a yield of 6%. Another example of a past holding was Blackberry, where there was unappreciated value in the business, and this returned over 100%.

They also benefit from takeovers with around one a year, although this year there have been three. In terms of the process the search is the key part, and they have 12 investment professionals looking for ideas, whether it is at conferences, studying annual reports, broker research or via screens. When they find something attractive, they then go deeper into the industry, looking at suppliers, social networks, what the management are like etc. From there they have a list of around 60 companies they have on the watchlist.

This is a totally bottom-up strategy and so currently they have a lower weighting in the US and more to the UK where they are finding better opportunities. However, this is not static. On the watchlist they have more US names than UK names, so they expect this to change over time.

The fund has underperformed the broader index, but they believe that a small change in interest rates and inflation will benefit this fund, especially the deep value element. Although there is a risk with the number of holdings, they don't carry the same valuation risk as other funds as the stocks they hold will be cheaper than the market.

Although this is classed as a value fund, they see the main areas of safety and opportunity lie in the focus on founders who really care about their businesses, balance sheet strength, products that ten years out will look the same, and valuation protection. A couple of holdings we touched on were Trigano, which is a motorhome leader in Europe. It has about 30% market share and about 80% in the low-end side. It is cheap compared to its US equivalent, with strong returns on capital. An example is IWG which is a leader in office space and a good example of the UK equivalent business being cheaper than its global alternative, WeWork.

In summary, the risk lies with the number of holdings and as they have indicated, some of these have hurt performance. But equally the opportunity lies in knowing the businesses well, learning from mistakes and being able to invest in good quality businesses at cheap prices. They believe that even a small shift in interest rates and inflation will be good for the fund and it is well positioned to benefit from this switch. We see this as perhaps a blend with more growth focused stocks. From our side we would be happy to add to the watch list.

The source of information in this note has been provided by Overstone and is correct as at September 2021. 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. We would also recommend that you receive advice before following up on any decision.