

**SHINING A LIGHT ON THE.....**  
**Tellworth UK Income and Growth Fund**

**AT A GLANCE**

<b>Investment Objective</b>
The Fund's objective is to achieve income and capital growth net of fees over the medium-term. The Fund invests at least 80% of its assets in shares of companies domiciled, incorporated, or have a significant portion of their business in the UK.

<b>Inception Date</b>	
<b>Fund Factsheet Link</b>	-

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Mark Barnett	

**UPDATE....**

This is a brand-new fund launch from Tellworth. Mark Barnett previously worked at Invesco with a track-record stretching back to 1996, having previously worked at Mercury Asset Management. Mark left Invesco in 2020 and clearly the last few months have been a time for reflection and a chance to start afresh. The key difference between Mark and another high-profile ex Invesco Manager is that he appears very humble and excited about the new launch. Speaking to him, he seems excited about working for a boutique, something he enjoyed about Perpetual (Invesco) back in 1996.

He is also keen to take on board lessons from the past. The fund will be capacity restricted at around £1 billion. He believes there is evidence which shows the larger the fund, the poorer the performance can get. He wants to go back to his routes and deliver to investors the performance he was able to deliver in the past. This strategy will also only invest in listed securities and has a smaller number of holdings, between 40 and 60 compared to his previous strategy. The other area of change will be on the sale discipline.

He does not want a fund where there are lots of small holdings that are not contributing to the performance, so everything must earn its place. If he reduces a holding, then to continue to hold must have a good reason behind it.

In the previous strategies he managed they had large number of assets (around £8 billion), with illiquid holdings and persistent outflows which meant it became almost impossible to manage this. This is not something he plans to repeat.

It feels that Tellworth is a good fit for him. It was founded by Paul Marriage and John Warren who worked at Cazenove, and then Schroders, before setting up the company. The company is part owned by Bembridge and the aim over time is for some of those shares to go back to other members of the team, so the team will have a direct stake in the business.

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The strategy is all-cap, and they will look out the best opportunities irrespective of where the benchmark is sitting. As an example, in his model portfolio he only holds 3 to 4 of the top 10 dividend players in the UK. To invest he wants good quality companies that can generate cash and for some of that cash to come back to shareholders.

We talked about valuation and he explained this is important. He used the example of Dunelm which has good cash flow, and excess cash which he believes can come to shareholders, and even at 16 times earnings this company is fairly valued.

Of the companies he is looking to add to the portfolio, twenty five have resilient dividends and were not impacted in 2020, and only three have not paid a dividend, although one of those is likely to start paying dividends.

In terms of size, although this can hold small cap companies, there are boundaries. He doesn't necessarily want to have much cross over with the smaller cap funds the company runs, so he will be mindful of this when making investments. They have also set a 15% limit on the shares they can hold in company, and no more than 20% can be invested in companies with a market cap below £500 million. This is about ensuring this can be a highly active and liquid strategy, with investors at the centre of everything that he does. The model is currently skewed towards mid and large cap as this is where he sees the greatest value.

In terms of process, he starts with the macro view. They have developed their own system called thermostat, which acts as a heatmap for the UK. This looks to identify what is happening now rather than what has just happened. Once he understands the macro side, he can look at companies and the fundamentals of those businesses and then the price to pay for them.

In terms of analysing companies, he believes the sweet spot is 2 to 3 years. Beyond that is almost impossible to do. We talked about ESG, and he explained as an example that he would hold Shell and BP because they are important part of the change needed. These are not only enablers of change, but also with the current oil prices they are generating excess cash and yet they are unloved by the market. They do their own ESG analysis which means they can actively engage with companies, but they are not exclusionary.

Based on the current model, around 65% of the fund is large cap, 29% mid cap and the balance small cap. The estimated yield is 4.2% with 48 holdings.

An example of potential holdings includes:

UK Domestic Value – Next, Drax, SSE, Berkeley Group, Cranswick and Breedon  
International Growth – AngloAmerican, BP, Novo Nordisk, BAE Systems, Puretech Health and Weir  
Financials – Legal and General, NatWest, Derwent London, Chesnara and R&Q

In terms of the macro position, Mark believes valuations are low. There is political stability, and money available. So, he feels the UK is a sweet spot to do well.

In summary, we do not know the background to Mark leaving Invesco but clearly he is excited about this opportunity, and he has a good team around him. The fact that he has set barriers around the fund shows that he doesn't just want what he had before. He wants to come back and do what he is good at. We wouldn't invest at the launch date but would certainly add to our watchlist to see how this develops over the coming months.

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*The source of information in this note has been provided by Tellworth and is correct as at October 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.*