

**SHINING A LIGHT ON THE.....  
LF Lightman European Fund**

**AT A GLANCE**

Investment Objective
The fund aims to provide long term (in excess of 5 years) capital growth. The fund will invest at least 80% of its assets directly in the shares of companies listed and domiciled in Europe (excluding the UK). The fund may also invest, directly or indirectly, in non-European companies (which may include UK Companies), unlisted companies (both European and non-European) and hold cash and near cash. Indirect exposure will be via collective investment schemes (which may include those managed by the ACD or its associates). Not more than 5% will be invested in UK Companies. UK Companies are those companies that are domiciled, incorporated or have a significant portion of their business in the UK.

<b>Inception Date</b>	29 <sup>th</sup> March 2019
<b>Fund Factsheet Link</b>	<a href="https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000011TMH">https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000011TMH</a>

Management	
<b>Manager Name</b>	<b>Start Date</b>
Rob Burnett	29 <sup>th</sup> March 2019

**FUND PERFORMANCE**

Performance from 29<sup>th</sup> March 2019 to 31<sup>st</sup> August 2022:

	2019	2020	2021	2022
<b>LF Lightman European Fund</b>	6.16%	6.43%	17.20%	-3.24%
<b>MSCI Europe Ex UK NR</b>	12.45%	7.49%	16.73%	-12.96%
<b>iShares Edge MSCI Europe Value Factor UCITS ETF</b>	9.02%	-3.41%	18.83%	-5.24%

Performance over 12 months, 3 years and since launch:

	1 year	3 years	Since launch
<b>LF Lightman European Fund</b>	-0.18%	27.95%	28.13%
<b>MSCI Europe Ex UK NR GBP</b>	-11.73%	11.31%	22.80%
<b>iShares Edge MSCI Europe Value Factor UCITS ETF</b>	-2.93%	15.66%	18.33%

*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
13.38	89.71	122.76	102.95	63.89	1.26	4.28	Value/Large

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## Volatility Measurements

<b>3-Yr Std Dev (volatility)</b>	23.61%
<b>3-Yr Mean Return (average)</b>	8.56%

## Investment Style Details

Giant	16.28%
Large	33.23%
Medium	39.15%
Small	7.49%
Micro	0.00%

## Top 5 Holdings (41 holdings)

Svenska Handelsbanken AB Class A	Financial Services	4.92%
CaixaBank SA	Financial Services	4.86%
ABN AMRO Bank NV	Financial Services	4.42%
Equinor ASA	Energy	4.34%
Danske Bank A/S	Financial Services	3.83%

## Top 5 Sectors

Financial Services	32.13%
Energy	18.88%
Basic Materials	17.58%
Industrials	12.86%
Healthcare	7.15%

## Top 5 Regions

Sweden	13.77%
Spain	13.14%
France	13.01%
Netherlands	10.85%
Norway	8.47%

## Fund Benchmark

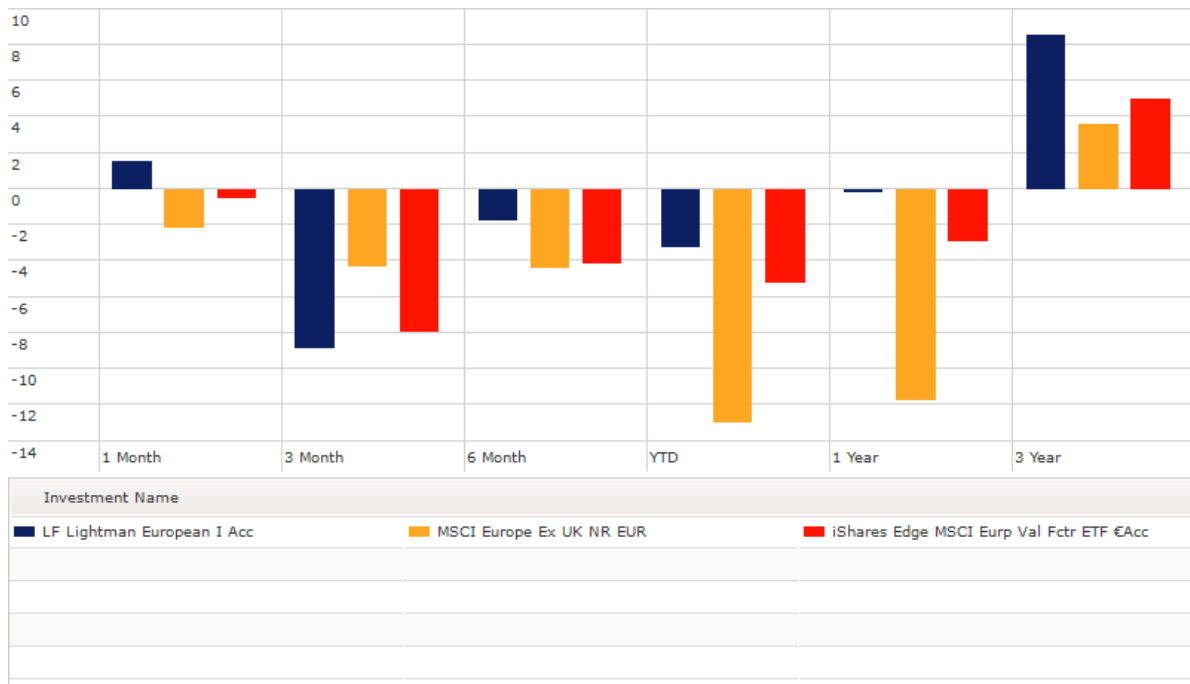
<b>Fund Benchmark</b>	MSCI Europe Ex UK NR GBP
<b>Fund size (Mil)</b>	GBP 440.84
<b>Ongoing Charge (share class R)</b>	Capped at 0.80%

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Bull points	Bear points
Value tilt but strong focus on balance sheets and positive operational momentum Nearly 50% of the fund focused on green economy including oil transitioning (area excluded by many funds due to ESG concerns) Manager feels that most of the negativity is already factored into prices Significant overvaluation of US growth equities remains, European value stands out in absolute terms and compared to its own 27-year valuation average	Value can be cyclical. You can have periods when it performs well, but longer periods when it underperforms The performance may have been distorted due to the events in the Ukraine and more of a focus on fossil fuels ESG factors could still be a negative factor on fossil fuels and with a large weighting towards the energy transition this could be negative for the fund

## UPDATE....

The strategy has just reached its 3-year anniversary. Since launch the fund has outperformed its benchmark and the passive equivalent, as the chart below demonstrates.



It is important to understand that in terms of the MSCI index the make up of holdings have been out of favour during this period and it has favoured the style run by Rob. However, this shouldn't take away what he has achieved since he launched the strategy in what has been a challenging market.

It is also worth understanding that in periods like 2020, this strategy will struggle. At the low point on 21<sup>st</sup> March 2020 this fund was down -31.76% vs the benchmark which was down -12.70%. So if this fund was to be added it would need to be as a blend.

We last reviewed this strategy in 2020. We have now moved this fund to our watchlist. Our principal reason is the focus on the green economy and energy transition. Much of the market is focused on green energy whereas this is more about the transition. Oil transition as an example makes up around 20% of the fund. It is not just oil. We discussed SSAB, who would not be seen as the best company

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now. However, they aim to be the first to market with true fossil free steel (from mine to finished product) by 2026. For many this would not even enter their funds, for Rob this is a perfect example of what he is looking for and plays at the other side of the green economy.

We discussed how the US has been the only place to be over the last 10-years, and Rob feels the world is changing. With higher inflation and interest rates it leads to a place where valuation matters. He still believes there are considerable downside risks to US Value and Growth. European Value and Growth are about half the valuations of the US equivalent. If you also consider general sentiment, it feels there is not much more that can be factored in. The market has fully priced in the worse case scenario. Those companies with the most risk exposure are Italy, Germany, and Eastern Europe. The fund has around 8% positioned to Germany, and 2.5% to Italy so it is a relatively small part of the fund.

When you consider what else can happen it really has already happened! Putin has played his major card. The real risk now for Europe is interest rates. This fund invests in quality businesses. They are looking for those businesses with net cash, they are profitable and they like companies who pay dividends and / or are doing share buy backs.

They are overweight banks but like regions such as Spain, Ireland, Sweden, and Denmark. Also, around 50% of the fund is directly connected to the clean energy story. This isn't necessarily about renewables but a mix across oil, low carbon steel, low emission shipping, mining equipment etc. This is an interesting way to gain exposure to a long-term theme. The point Rob was making was that few people hold these companies because they do not fit within their ESG models. When everyone wants to hold them will be when Rob is ready to sell. The crowded trade as he calls it, is when there is limited upside and that is the time to leave.

When we look at the top ten there are names such as Metso Outotec (they are a frontrunner in sustainable technologies, end to end solutions and services for the aggregates, minerals processing and metals refining industries), Repsol (multinational energy and petrochemical company) and Volvo (their truck businesses is moving to use carbon free steel). This fund has very different names to the index and other funds.

In summary, the last 12-months have been hard and yet the fund hasn't lost money. Many discount these strategies, but the reality is that this is invested in high quality companies with strong balance sheets and it could be these that do well over the coming years. As a balance this may be a strategy that investors consider as a long-term investment. We discussed what could go wrong for the strategy as the main areas are deflation, negative interest rates and de-globalisation. If we think that is the world we face, then this fund is not the place to be.

Rob thinks European companies are ahead of the world in terms of CO2 emissions, where not being clean is a tax for the company. There are also great companies trading at massive discounts and the markets are priced for the very worst and he thinks that has already happened.

*The source of information in this note has been provided by LF Lightman and is correct as of September 2022. 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 decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.*