

MI Chelverton European Select Fund – June 2023

LWM FUND SPOTLIGHT MI CHELVERTON EUROPEAN SELECT FUND

INVESTMENT OBJECTIVE

The objective of the fund is to achieve long-term capital growth. The fund will invest primarily in a portfolio of fully listed companies that trade on Continental European stock exchanges. The policy will be to select a focused portfolio across all ranges of capitalisation, business sectors and countries of Europe. The asset classes in which the fund may invest includes transferable securities, money market instruments, warrants, convertibles, cash and near cash and deposits as permitted for UCITS schemes under COLL and in accordance with the Sub-fund's investment powers.

INCEPTION DATE

6th March 2018

FUND FACTSHEET

<https://www.trustnet.com/factsheets/O/o9un/mi-mi-chelverton-european-select/>

MANAGEMENT

Manager Name

Start Date

Gareth Rudd

6th March 2018

Dale Robertson

6th March 2018

RATIO DATA (3-years)

Alpha	Beta	Max Drawdown	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
6.29	0.95	-22.45	24.81	-10.52	64	92	5.14

OTHER DATA

Benchmark	IA European Excluding UK
Fund Size	£179.15 million
Fees	0.93%

BULL POINTS (PRO)

- Worked together previously, came together to set up this strategy.
- Unconstrained all-cap strategy with a bias towards small cap.
- Strong performance vs peers since launch.
- Focus on good quality businesses with no bias towards value and growth.

BEAR POINTS (CONS)

- Can underperform due to less exposure to pure growth.

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FUND PERFORMANCE

Performance from 6th March 2019 – 31st May 2023

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



06/03/2019 - 31/05/2023 Data from FE fundinfo 2023

Cumulative Performance (GBX)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	-2.19%	5.76%	11.39%	48.09%	48.97%
Sector	1.04%	6.36%	17.12%	26.22%	31.09%
Relative to Sector	-3.21%	-0.57%	-4.89%	17.33%	13.64%
Rank in Sector *	98 / 109	86 / 107	77 / 105	9 / 88	11 / 81
Fund Quartile *	4	4	3	1	1

Performance by Calendar Year in (GBX)

	YTD	2022	2021	2020	2019
Fund	4.27%	-7.07%	26.56%	11.54%	30.14%
Sector	6.44%	-9.56%	15.74%	10.74%	20.55%
Relative to Sector	-2.04%	2.75%	9.35%	0.72%	7.95%
Rank in Sector *	85 / 108	46 / 100	2 / 91	29 / 88	7 / 81
Fund Quartile *	4	2	1	2	1

Discrete Annual Performance to Last Quarter End (GBX)

	0-12m	12m-24m	24m-36m	36m-48m	48m-60m
Fund	6.24%	9.29%	60.13%	-9.62%	-4.49%
Sector	5.14%	4.35%	39.64%	-8.80%	-1.48%
Relative to Sector	1.05%	4.73%	14.67%	-0.90%	-3.06%
Rank in Sector *	54 / 105	12 / 91	5 / 88	55 / 84	69 / 81
Fund Quartile *	3	1	1	3	4

Fund Price Movement (GBX)

12 Month High	159.58 (Pence)	12 Month Low	122.32 (Pence)
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Annualised Ratios Over 36 Months

	Alpha	Beta	Sharpe	r ²	Volatility
Fund	4.50	1.12	0.66	0.92	17.89
Fund Quartile *	1	1	1	3	4

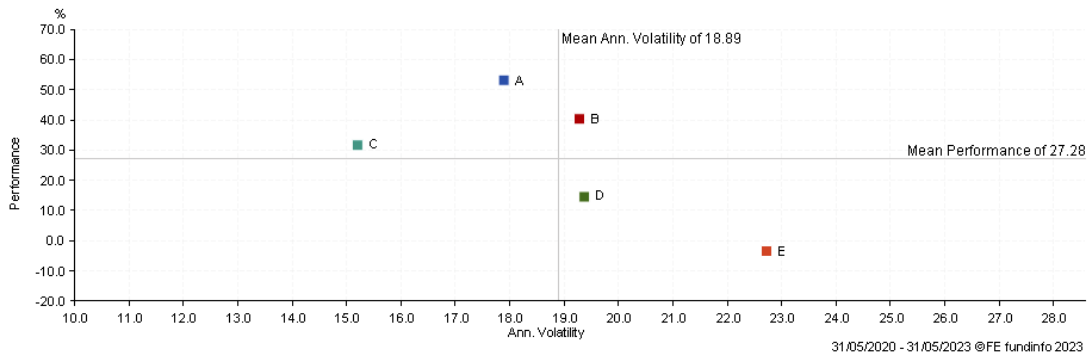
*Ranks & quartiles shown are for the primary share class, MI MI Chelverton European Select B Inc

Please 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.

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VOLATILITY / RISK SCORE

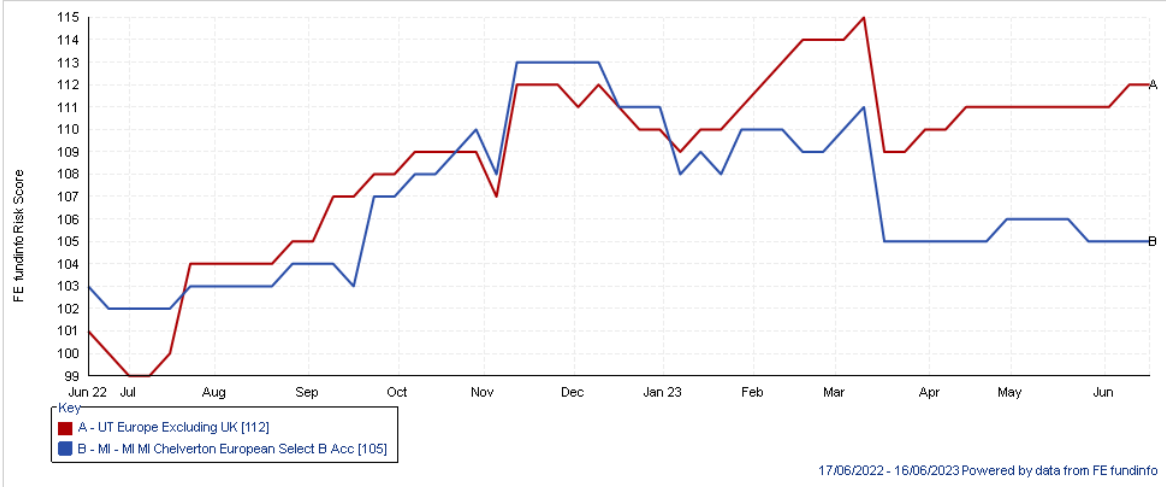
Pricing Spread: Bid-Bid • Currency: Pounds Sterling



Key	Name	Performance	Annualised Volatility
A	MI - MI Chelverton European Select B Acc in GB	53.19	17.89
B	BlackRock - European Dynamic A Acc in GB	40.39	19.28
C	IA Europe Excluding UK TR in GB	31.66	15.20
D	Premier Miton - European Opportunities A Acc GBP in GB	14.56	19.37
E	Baillie Gifford - European B Acc TR in GB**	-3.42	22.72

** The history of this unit/share class has been extended, at FE fundinfo's discretion, to give a sense of a longer track record of the fund as a whole.

FE fundinfo Risk Score Chart Over 1 Year



17/06/2022 - 16/06/2023 Powered by data from FE fundinfo

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MARKET CAP

Style Measures

Measures

Market Cap

Avg Market Cap

780.02 Mil

Category Avg Market Cap

48.52 Bil

Index Avg Market Cap

60.91 Bil

Size	Investment %	Cat. Average %	Index %
Giant	5.65	30.86	33.35
Large	3.93	40.71	48.91
Mid	18.06	21.81	17.71
Small	22.00	1.05	0.03
Micro	47.84	0.07	0.00

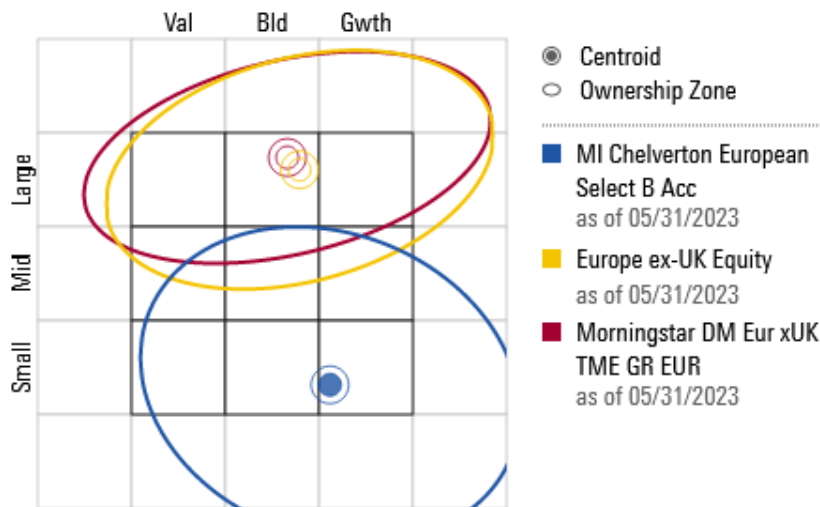
GBP | As of 31 May 2023 | Category: Europe ex-UK Equity | Index: Morningstar DM Eur xUK TME GR EUR | Data is based on the long position of the equity holdings.

Stock Style

Map

Weight

Historical



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STYLE MEASURES

Style Measures

Measures

Market Cap

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	11.12	13.73	13.38
Price/Book	2.15	1.93	1.87
Price/Sales	0.90	1.22	1.18
Price/Cash Flow	6.09	7.86	7.59
Dividend Yield %	3.22	3.44	3.38
Long-Term Earnings %	11.12	11.53	12.29
Historical Earnings %	4.83	15.13	16.42
Sales Growth %	2.80	10.44	10.57
Cash-Flow Growth %	-11.71	9.47	8.53
Book-Value Growth %	3.77	6.69	6.87

As of 31 May 2023 | Category: Europe ex-UK Equity | Index: Morningstar DM Eur xUK TME GR EUR | Data is based on the long position of the equity holdings.

SECTOR WEIGHTING

Sector	% of Portfolio
Technology	32.6%
Industrials	28.1%
Consumer Discretionary	10.7%
Energy	9.5%
Health Care	5.3%
Basic Materials	4.7%
Financials	2.1%
Utilities	1.6%
Telecommunications	1.6%
Consumer Staples	1.2%

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GEOGRAPHIC WEIGHTING

Country	■ Investment %	■ Category %
Netherlands	15.63	11.12
France	15.21	24.63
Germany	12.98	14.87
Sweden	11.66	5.33
Italy	11.66	4.47
Norway	8.53	1.35
Belgium	7.81	1.56
Finland	4.20	2.53
Austria	3.96	0.39
Switzerland	3.44	15.73

HOLDINGS

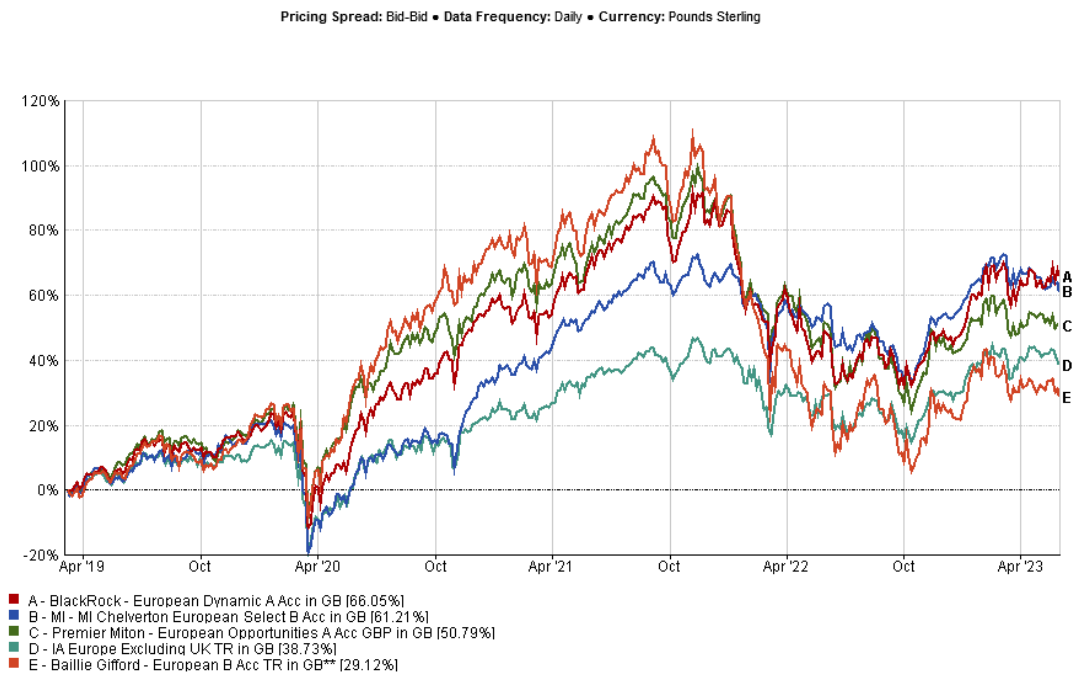
Top 20	% of Portfolio
Brunel	2.7%
OX2	2.6%
AMG	2.3%
Cyberoo	2.3%
Infotel	2.3%
Visiativ	2.2%
Ordina	2.2%
Sword	2.1%
TGS-NOPEC	2.0%
Rheinmetall	2.0%
Siili	2.0%
Deme	2.0%
TXT	2.0%
Roche	1.9%
EuroGroup Laminations	1.9%
Limes	1.9%
Imerys	1.9%
Assytem	1.9%
BE Semiconductor	1.9%
ASM International	1.8%

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LWM FUND ANALYSIS

This was our first introduction to the fund. It was set by Dale Robertson and Gareth Rudd, who had previously worked together at Edinburgh Fund Managers. They took different paths, with Dale managing European assets and Gareth running a boutique research house. They joined Chelverton in 2017 and this fund was established in 2018, seeded with their own pension money.

We talked at length about the performance of the strategy.



06/03/2019 - 31/05/2023 Data from FE fundinfo2023

The fund matched its peers up to 2020 and then when the recovery came within pure growth, this strategy lagged. But since launch it is punching its weight against peers. In part this is to do with moving the fund more towards small cap where they see the greatest opportunity.

We can start to see that shift in performance over the last three years.

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Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling

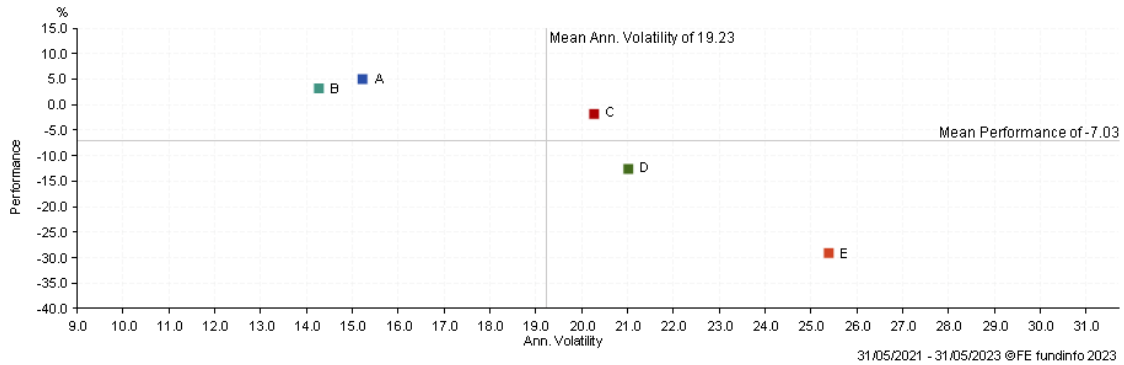


29/05/2020 - 31/05/2023 Data from FE fundinfo 2023

** The history of this unit/share class has been extended, at FE fundinfo's discretion, to give a sense of a longer track record of the fund as a whole.

To some extent, due to its exposure to small cap, this should be more volatile. The charts below show how the strategy stands vs the peer group which have a greater skew to large caps.

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



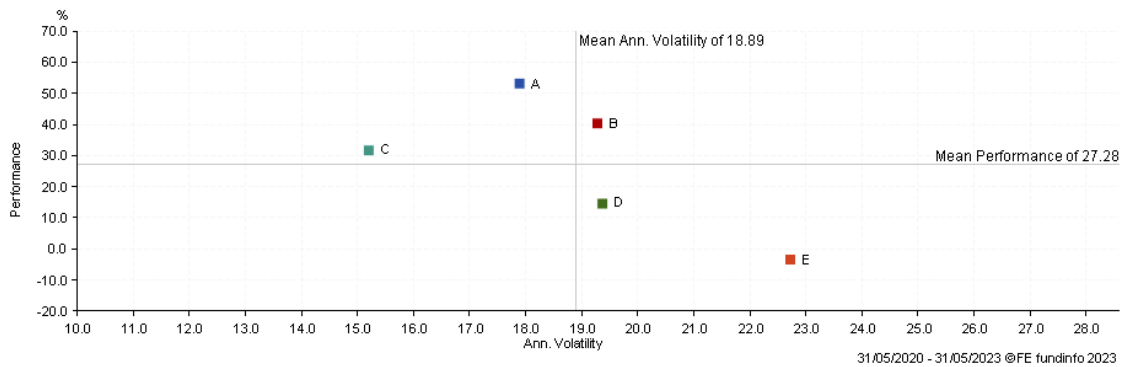
31/05/2021 - 31/05/2023 @FE fundinfo 2023

Key	Name	Performance	Annualised Volatility
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D	Premier Miton - European Opportunities A Acc GBP in GB	-12.58	21.02
E	Baillie Gifford - European B Acc TR in GB**	-29.07	25.39

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So, the fund did struggle at the start but has slowly built its performance track record, and at the same time controlling volatility, which isn't a natural aim for the fund. It is worth adding that the team don't want to be at the very top all the time and they don't want big swings in performance. For them it is about compounding returns over the long term and providing investors with consistency of returns.

The next question is how they do this. The investment philosophy is best shown below:

Investment Philosophy



FREE CASH FLOW IS A RELIABLE SOURCE OF INVESTOR RETURNS

Free cash flow underpins returns in the form of income today and/or capital growth in the future. Too many investors focus on short term earnings rather than sustainable cashflows.



MARKETS ARE INEFFICIENT

Investors overreact to macro/micro events, which creates opportunities. These opportunities (inefficiencies) can be greater further down the size spectrum where we have a comparative advantage.



OUTPERFORMANCE CAN BE GENERATED WITHOUT TAKING EXCESSIVE RISK

Significant financial leverage isn't necessary as it can compromise returns to equity investors.



GROWTH & VALUE INEXTRICABLY LINKED

Ultimately, they are looking for companies that are delivering strong free cash flow and sales growth. This will not hold deep value or overvalued growth.



Below is where they see themselves as different:

DIFFERENTIATORS

- Small cap bias
- Cash flow analysis
- Exploits market inefficiencies

SIGNIFICANT EXPOSURE TO CURRENT MEGATRENDS

- Digitalisation
- Commodities and energy transition
 - more concentrated in small cap companies

VALUE AND GROWTH

- Inextricably linked
- You can have both; demonstrated by performance record

We turned to the holdings as one has 0.16% weighting. This is a new position and their aim is to build this up over time. The ideal weighting would be 1 to 1.5%.

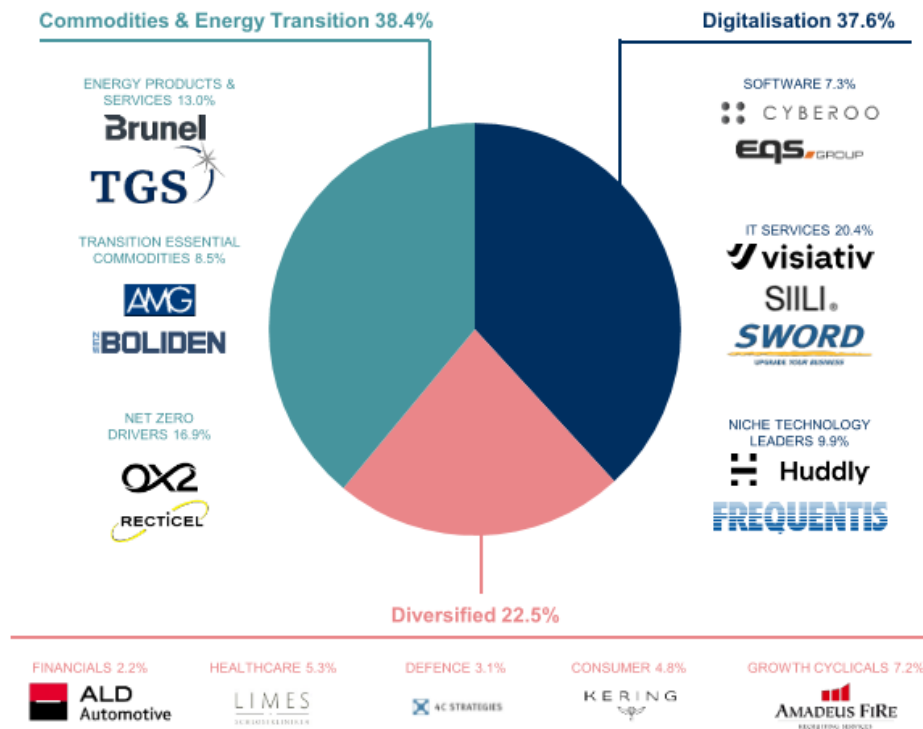
Another holding Huddly is a 0.54% weighting. This had a higher weighting but has had supply chain issues. When we look at the top holdings, these are not names we would necessarily recognise.

OX2 is Europe's largest onshore wind provider. It works with the owners of lands to manage both the construction and ongoing running of the farms. It is growing by 30% p.a. and has a backlog of projects.

Another is Infotel, which is an IT service company with around 30% of the market cap in cash. It is growing at 6 to 7% p.a., has projects with companies such as Airbus, and is paying a dividend of 4%.

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The current clusters of the fund are:



Source: Chelverton Asset Management. Data as of 31st May 2023

With 60 plus holdings, we discussed engagement, and they explained that for the larger names such as Roche they have little engagement, but more engagement with smaller companies. It is not just about understanding the company but understanding what is happening in the market and searching for new opportunities.

The chart below shows the shift from large cap to small cap and the opportunities within that.



Market cap	Number of companies	% Of companies	% Of index
Large caps >€10bn	241	11%	77%
Mid caps €2-10bn	441	21%	16%
Small caps <€2bn	1,460	68%	7%
Total	2142	100%	

Source: Factset, Chelverton Asset Management. 31 January 2023

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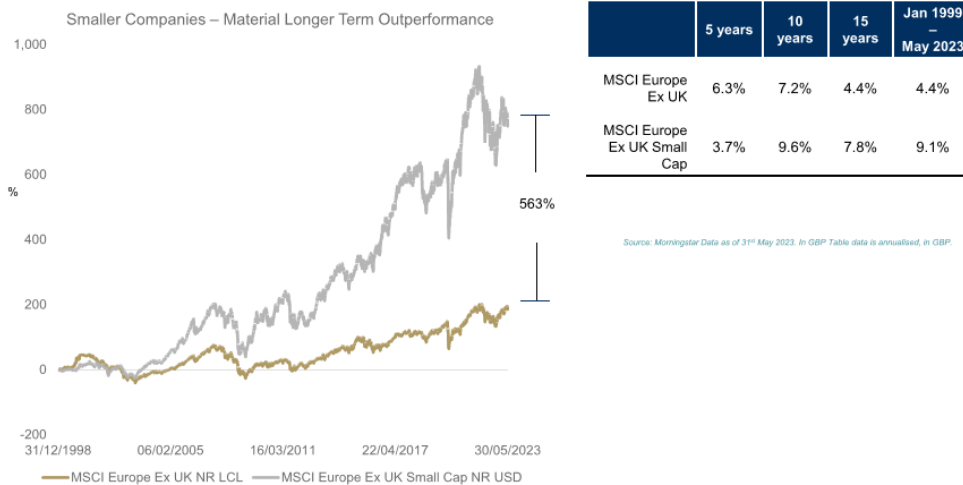
As they move towards small cap, we discussed fund size. They see the critical number as £1 billion. Beyond that they can't manage the money the way they want. We talked about the desire for many fund managers to have a large fund. They admitted that running a larger fund would give them more money. But this is not about money. This is about running the money in the right way for the clients and to protect them if it comes to that point. They have their own money invested in this and want this to be their final project for the next 15 years or more.

As the meeting came to an end, the managers talked about how they see themselves as generalists, but what they feel they are good at is the search for quality. Ultimately, a sustainable business is a good long-term investment. However, they accept that they don't always get it right. It was refreshing to see this chart. Humility and being prepared to learn everyday is what they believe is key to success.

	Seven deadly sins of fund management	How we seek to avoid
Pride	Stems from overconfidence & manifests in placing heavy reliance on forecasts.	Range of Future Scenarios
Gluttony	The illusion of knowledge & thirst for information. Manifests in seeking out all information with sharply declining return on incremental time spent.	Experience and Technology
Lust	Meeting Companies. Confirmation bias, obedience to authority, corporate managers bias. Data shows we cant differentiate between truth & deception.	Meet Companies to Fill Gaps
Envy	Thinking you can outsmart everyone else. Most investors are trying to game the market using 'strategic thinking'.	Objective Free Cash Flow Process
Avarice	Short time horizons and overtrading. Average holding period of a stock on NYSE was 8 years in the 1950's. Current estimates are 4-6 months. Time horizon is a key market imperfection.	Be Patient and Disciplined
Sloth	Believing everything you read. We are hard-wired 'to believe'. We are prone to looking for information that agrees with us and tend to get sucked into plausible sounding stories.	Limited Sell Side Contact
Wrath	Psychologists have documented that group decisions are often among the worst decisions taken. Group behaviour amplifies rather than alleviates decision-making biases.	Small, Nimble Team

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In summary, where some of the more successful strategies are naturally being pushed to large caps because of the assets they manage, this fund will always have the ability to fish for small companies. Smaller companies do tend to outperform.



This fund did struggle over COVID. Its philosophy of compounding returns has seen it, over the longer-term, outperform its peers. The volatility is not something they focus on but perhaps is a result of that care of choosing the right companies.

We would move this to our subs-bench of funds as we review the European market and the different strategies within that.

The source of information in this note has been provided by Chelverton and is correct as of June 2023. 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.

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