

## FUND FACTS

|                           |                                |
|---------------------------|--------------------------------|
| Fund                      | LF Blue Whale Growth Fund      |
| Fund Launch Date          | 11 September 2017              |
| Lead Fund Manager         | Stephen Yiu                    |
| Co-Manager (October 2019) | Daniel Allcock                 |
| Fund Size                 | £635m                          |
| IA Sector                 | Global                         |
| Fund Type                 | UK OEIC                        |
| Base Currency             | GBP                            |
| Dividend Dates            | End of February, August        |
| ACD                       | Link Fund Solutions (LF)       |
| Depository                | Northern Trust Global Services |
| Dealing                   | Daily at Noon                  |
| Initial Charge            | 0.0%                           |
| Performance Fee           | 0.0%                           |

## PORTFOLIO FACTS

|                 |         |
|-----------------|---------|
| No. of holdings | 27      |
| Avg. market cap | >£100bn |

### Top 10 Holdings %

|                   |            |
|-------------------|------------|
| 55.5              |            |
| Adobe             | Mastercard |
| Autodesk          | Microsoft  |
| Boston Scientific | PayPal     |
| Facebook          | Stryker    |
| Intuit            | Visa       |

### Geographical Breakdown %

|              |      |
|--------------|------|
| US           | 71.8 |
| Europe       | 21.3 |
| UK           | 2.2  |
| Asia Pacific | 1.5  |
| Cash         | 3.2  |

### Sector Breakdown %

|                        |      |
|------------------------|------|
| Technology             | 58.6 |
| Healthcare             | 14.0 |
| Communication Services | 9.1  |
| Consumer Staples       | 7.6  |
| Consumer Discretionary | 6.5  |
| Industrials            | 1.0  |
| Cash                   | 3.2  |

## SHARE CLASS DETAILS

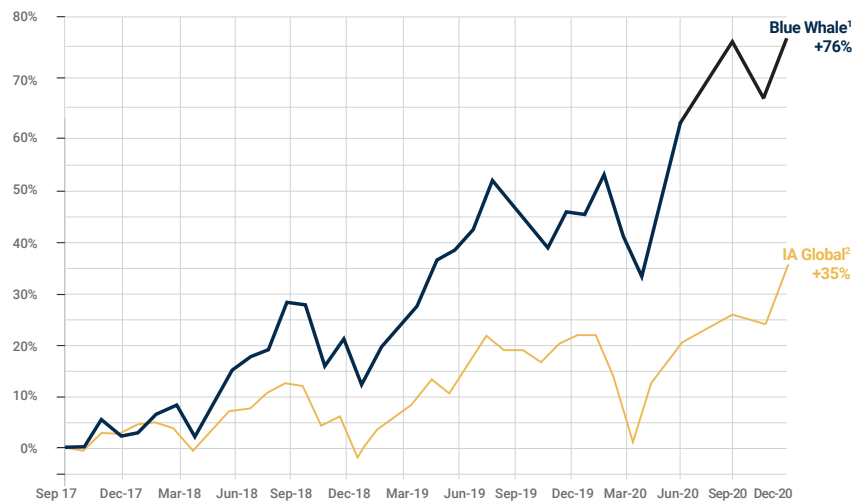
| Share Class | OCF   | Minimum | ISIN         |
|-------------|-------|---------|--------------|
| I Acc (GBP) | 0.89% | £10m    | GB00BD6PG563 |
| I Inc (GBP) | 0.89% | £10m    | GB00BD6PG670 |
| R Acc (GBP) | 1.14% | £1,000  | GB00BD6PG787 |
| R Inc (GBP) | 1.14% | £1,000  | GB00BD6PG894 |
| R Acc (EUR) | 1.64% | €1,000  | GB00BYVQ1C38 |

## PLATFORM AVAILABILITY



## PERFORMANCE

"Committed to delivering consistent significant outperformance"



|                                | To Date       | 2019         | 2018          | Since Launch  | Annualised   |
|--------------------------------|---------------|--------------|---------------|---------------|--------------|
| Blue Whale <sup>1</sup>        | +23.6%        | +27.6%       | +8.6%         | +76.3%        | +19.2%       |
| IA Global Average <sup>2</sup> | +12.3%        | +22.1%       | -5.6%         | +35.2%        | +9.8%        |
| <b>Outperformance</b>          | <b>+11.3%</b> | <b>+5.5%</b> | <b>+14.2%</b> | <b>+41.1%</b> | <b>+9.4%</b> |

Past performance is not a guide to future performance.

<sup>1</sup>I class Acc shares, net of fees priced at midday UK time, source: Bloomberg. <sup>2</sup>IA Global Sector average, source: Blue Whale Capital. Chart data plotted at monthly intervals; data as at the last day of the calendar month.

## WHAT WE DO

- Aim to buy and hold high quality businesses at an attractive price.
- In-house research underpinning a high-conviction portfolio of 25-35 stocks.
- Significant resources dedicated to internal financial modelling and proprietary valuation metrics.
- Focus on a genuinely active, valuation-driven approach.

### Investment Objective

The Investment Objective of the Fund is to achieve capital growth over any five year period, after all costs and charges have been taken.

### Investment Strategy

In selecting investments for the portfolio, the Investment Manager will identify companies which, based on its analysis, meet the following criteria:

- have the ability to grow and improve profitability over the long term;
- have a current valuation that is attractive relative to their future growth and profitability;

The Investment Manager will select companies from a broad range of geographies and sectors with no particular sector or style bias.

### Risk Management

- UCITS-compliant.
- Assessment of company specific risk factors, including those related to ESG, that might materially impact the business's sustainable return on investment.



## CHARTING A PATH THROUGH UNCERTAINTY – HOW BLUE WHALE VIEWS AND MANAGES RISK BY STEPHEN YIU



When Odysseus, a hero of the Trojan War, sailed home through the Strait of Messina, he was warned to do so with great caution, for on both sides of the strait lay danger – a six-headed man-eating monster on one and a giant whirlpool on the other. Odysseus navigated the passage cautiously through the middle and delivered the ship and crew closer to home and safety.

We find this to be an apt metaphor for managing a portfolio of 25-35 holdings in the stormy seas of global equity markets. There are many risks and dangers that lurk around a surging market rally. Therefore, to deliver consistent significant outperformance successfully, we must navigate the choppy waters with hard work and discipline.

### What is risk?

#### *Volatility is not risk*

Many professional investors take volatility as an indicator of risk; our view is quite different.

Firstly, share price volatility is hardly ever an indicator of company quality. As owners of Adobe and PayPal, if we had managed risk by simply looking at volatility then we would have established only small positions in these high quality businesses or sold out of them long ago – to the detriment of our investors.

Secondly, volatility can be a good thing, providing opportunities to [buy high quality](#) companies during short-term depressions in price.

Lastly, in the pursuit of limiting volatility via diversification, one often ends up with returns no better than a passive index fund.

#### *How Blue Whale views risk*

Quite simply, we define risk as a permanent loss of capital.

A permanent loss of capital can occur at the company level (bankruptcies, fraud, mismanagement etc.), industry level (technological/creative disruption) and at the market and macro levels through critical changes in economic output and political interference.

By viewing risk as the danger to outperformance from an irreversible loss of capital, we can better focus on how to manage and mitigate it.

### How Blue Whale manages risk

We start by accepting, like in the Serenity Prayer, that there are things we cannot change.

Throughout the history of markets, there have always been testing periods when share prices went sideways or down. We accept that we cannot predict or control these years of lean market performance. If an investor sold their holdings during these times, they could well recognise a permanent loss of capital.

However, as long term investors, we believe that [staying invested](#) is the best way to ride out any storm. Although we cannot guarantee positive performance forever, we have developed a risk management framework to help us through turbulent times.

The North Star of our framework is our understanding of risks and their likelihoods. For risks where outcomes are clearer, we manage our exposure through our in-house fundamental research and our strict valuation discipline:

By investing in only high-quality businesses, many company-level risks are simply eliminated through our in-house research process: we do not invest in companies and industries that are getting disrupted (conversely we like the companies doing the “disrupting”) or experiencing weakening competitive position; we do not invest in companies with high debt or potential cash flow problems; nor do we invest in companies that are weak on corporate governance and where there is little or no alignment between management and shareholders. This means that high quality companies, even if they have highly volatile share prices, are actually less risky.

For macro-level risks, we are not in the business of second-guessing the Bank of England or the US Fed so we focus on what is within our control, namely: stress testing our companies’ balance sheets and cash flows through recessions and adverse scenarios; speaking with company representatives to ascertain the impact of geopolitical events. In short, we develop a thorough understanding of the impact of macro risks on our portfolio holdings and we act accordingly.

For market-level risks, we exercise a [strict valuation discipline](#). We do so by assiduously monitoring industry and market developments with the aim of ensuring that market prices do not run significantly ahead of company fundamentals. When we see a company’s valuation getting frothy, we will reduce the holding and channel capital into other, less expensive, high quality businesses. If the market itself becomes frothy, we are not averse to increasing our cash holding.

For risks where there is more uncertainty, we can choose to either eliminate, accept or reduce our exposure. For example:

- We decided to **eliminate** our COVID risk exposure through IHG because the return to revenue and cashflow growth in the business was highly uncertain.
- On the other hand, in the case of Mastercard and Visa, we decided to **accept** the COVID risk coming from reduced cross-border travel spend as this would be partly mitigated by an acceleration in online and digital card payments.
- We decided to **reduce** our exposure to market risk in the case of Amazon, which had rallied significantly on the back of strong eCommerce revenues during the pandemic. We exercised our strict valuation discipline and took the company out of our top 10 holdings in Q3 2020.

Our risk management framework, like our research process, is straightforward but not easy. It is, however, absolutely necessary if we are to continue charting a course to delivering consistent significant outperformance for our investors.

## CHARTING A PATH THROUGH UNCERTAINTY – HOW BLUE WHALE VIEWS AND MANAGES RISK BY STEPHEN YIU

### Dealing with Uncertainty through 2021 and beyond

The classical scholars out there will be quick to point out that Odysseus didn't get past the dangers completely unscathed – he'd lost six of his crew to the six-headed monster perching on one side of the cliffs in the Strait of Messina. However, therein lies the lesson in risk management: the rest of his four-dozen men and the entire ship sailed through, achieving Odysseus's primary objective.

Though young, many in our team have experienced multiple market cycles, and we therefore accept that not all our holdings will be perennial outperformers. We are aware of the risks and uncertainties out there. However, we prefer to be decisive in the face of uncertainty rather than be paralysed by it. We accept the risks, and we take action to manage, monitor and mitigate them with all the tools we have available to us. That's what active investing is all about.

2020 has certainly been a year full of risks and dangers but we are glad to report on successfully delivering outperformance for our investors. In 2021 we will take the example of Odysseus with us – cautiously navigating the route ahead of us, remaining vigilant and with the aim of continuing to deliver consistent significant outperformance for our investors.

*This is a continuing part of our ongoing series on How We Invest at Blue Whale. In [part 1](#) we talk about the companies we avoid, in [part 2](#) we talk about what we look for in a company, in [part 3](#) we talk about our tech exposure, [part 4](#) is about valuation, and [part 5](#) is about country exposure.*

*Please note that the information provided in this article is not to be construed as advice and any views we express on holdings do not constitute investment recommendations and must not be viewed as such. If you are unsure as to the suitability of an investment for your circumstances, please seek independent financial advice. Investments can go down in value as well as up so you may get back less than you invested. Your capital is at risk. Past performance is not a guide to future performance.*

## IMPORTANT NOTICE - REGULATORY INFORMATION AND RISK WARNINGS

This document is issued by Blue Whale Capital LLP ("Blue Whale") which is authorised and regulated by the UK Financial Conduct Authority.

**If you are unsure of the suitability of the Fund to your needs or if you feel that you do not fully understand the risks of investing in it, you should contact a reputable professional financial adviser.**

The document does not constitute an offer by Blue Whale to enter into any contract/agreement. The contents are aimed at all categories of client including Eligible counterparties, Professional clients and Retail clients. As the Fund is a concentrated equity fund with international exposure, Blue Whale's preference is that less experienced Retail clients gain exposure to it through the professional advice channel (Blue Whale does not advise retail investors itself) or the discretionary management channel. The Fund (as a UCITS and hence non-complex) is available to retail investors on an execution-only basis. Blue Whale believes that whilst better suited to a more experienced audience, the Fund represents a suitable investment for those new to equity investing. You must be aware that unlike holding cash in a bank account, your capital is at risk of market movement and you should not assume that your investment will be profitable. Equity investment should be seen as a long term investment normally of at least 5 years. The value of your investment can fall as well as rise so you could get back less than you invested, especially in the shorter term.

The contents of this document are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and, Blue Whale, its members, officers and employees do not accept any liability or responsibility in respect of the information or any views expressed herein. All data is sourced from Blue Whale unless otherwise stated.

The document may include or may refer to documents that include forward-looking statements that are based upon our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements. Please note that the views we express on companies do not constitute Investment Recommendations and must not be viewed as such.

There are significant risks associated with investment in the Fund referred to in the document. Investment in the Fund is intended for investors who understand and can accept the risks associated with such an investment including potentially a substantial or complete loss of their investment. Past performance is not a guide to future performance.

The value of investments and any income derived from them can go down as well as up and the value of your investment may be volatile and be subject to sudden and substantial falls.

Investment in a Fund with exposure to emerging markets involves risk factors and special considerations which may not be typically associated with investing in more developed markets. Political or economic change and instability may be more likely to occur and have a greater effect on the economies and markets of emerging countries. Adverse government policies, taxation, restrictions on foreign investment and on currency convertibility and repatriation, currency fluctuations and other developments in the laws and regulations of emerging countries in which investment may be made, including expropriation, nationalisation or other confiscation could result in loss to the Fund.

Income from investments may fluctuate. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. Fund charges may be applied in whole or part to capital, which may result in capital erosion. The Authorised Corporate Director may apply a dilution adjustment as detailed in the Prospectus. The Fund is not traded on an exchange or recognised market.

The foregoing list of risk factors is not complete and reference should be made to the Fund's Prospectus, KIID and application form.

### Complaints

Blue Whale maintains a complaint handling policy and procedures in accordance with which it handles complaints, including complaints made by complainants who are eligible to bring a complaint to the Financial Ombudsman Service, the independent statutory dispute-resolution body for the financial services industry in the United Kingdom.

### Advice

No information contained in this site should be deemed to constitute the provision of financial, investment, taxation or other professional advice in any way. You should consider obtaining professional financial advice before proceeding with any investment.

### Taxation

Taxation will depend on individual financial circumstances and the country of residence. You should consider obtaining professional advice on taxation where appropriate before proceeding with any investment.