LF Blue Whale Growth Fund

September 2018

Data as at 31.08.18

BLUE WHALE

FUND FACTS

Fund launch date	11 September 2017
Fund type	UK OEIC
Lead Fund Manager	Stephen Yiu
Fund size	£76m
No. of holdings	28
IA sector	Global
Benchmark	MSCI World Index Net GBP
Base currency	GBP
Dividend dates	End of February, August
Portfolio yield*	0.9%
Authorised Corporate Director (ACD)	Link Asset Services
Depositary	Northern Trust Global Services
Initial Charge	0.0%
Performance Fee	0.0%

TOP 10 HOLDINGS

- Adidas
- Adobe
- Alphabet
- Amazon
- Intuit
- Microsoft
- PayPal
- Salesforce
- UnitedHealth
- Veeva

GEOGRAPHICAL BREAKDOWN

	%
US	60.5
UK	13.8
Europe	8.7
Asia	1.0
Cash	16.0

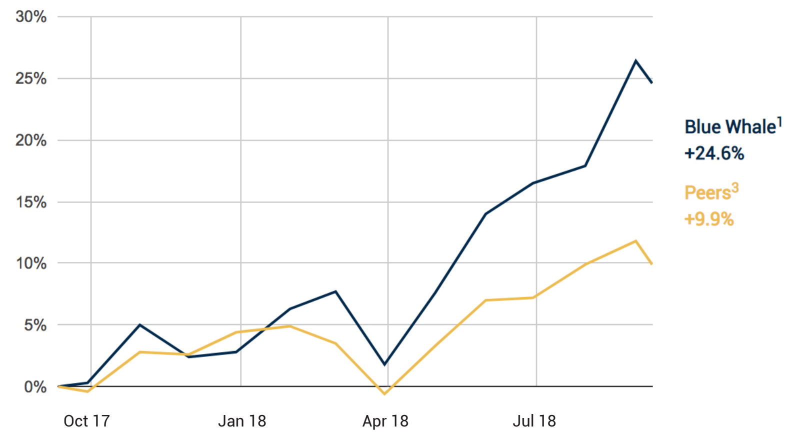
SECTOR BREAKDOWN

	%
Technology	35.3
Consumer Services	12.7
Financials	11.3
Consumer Goods	10.9
Health Care	9.2
Industrials	4.5
Cash	16.0

SHARE CLASS DETAILS

Share Class	OCF	ISIN
I Acc (GBP)	0.92%	GB00BD6PG563
I Inc (GBP)	0.92%	GB00BD6PG670
R Acc (GBP)	1.17%	GB00BD6PG787
R Inc (GBP)	1.17%	GB00BD6PG894
R Acc (EUR)	1.67%	GB00BYVQ1C38

PERFORMANCE



	Blue Whale[1]	Stock Market[2]	Peers[3]	Rank[4]
2018	**+21.1%**	+7.3%	+5.3%	**Top 1%**
Since Launch	**+24.6%**	+11.5%	+9.9%	**Top 2%**

[1] I class ACC shares, net of fees priced at midday UK time, source: Bloomberg. [2] MSCI World Index (£ Net) priced at close of business US time, source www.msci.com. [3] IA Global Sector, source: Blue Whale Capital. [4] vs. approx. 300 funds in IA Global Sector, source: Blue Whale Capital. Performance data covers period 11/09/2017 to 10/09/2018; data is plotted as at the start/end point of the period and the last day of each calendar month. Past performance is not a guide to future performance.

WHY LF BLUE WHALE GROWTH FUND?

- Hand-picked by Peter Hargreaves to run a substantial portion of his family's wealth
- Concentrated, best ideas portfolio avoids index hugging and enables material outperformance of the market
- A truly active, two-pronged investment process focused on both bottom-up fundamentals and valuation
- Able to choose from a global universe of stocks
- Provides high US exposure which helps UK investors diversify their portfolio

INVESTMENT OBJECTIVE

The investment objective of the fund is to achieve capital growth over the long-term by investing in equities on a global basis, with a focus on developed markets.

The portfolio will be concentrated, generally comprising between 25 to 35 stocks.

In our view investments must fall into the below criteria in order to qualify for selection within the portfolio;

1. The business must be fundamentally attractive;
   - it has the ability to grow and improve profitability over the long term
   - it must not face structural or imminent cyclical issues
2. The business must have an attractive price;
   - the business must have a current valuation that is attractive relative to its future growth and profitability
   - we expect the business to receive favourable revisions of medium-term consensus growth and profitability expectations

These criteria enable the Investment Manager to select investments from a broad range of geographies and sectors with no particular sector or style bias.

The Investment Manager will conduct detailed bottom-up fundamental research on each potential investment and in most cases produce their own financial model and forecasts of future performance.

PLATFORM AVAILABILITY

Hargreaves Lansdown · AJBell Youinvest · ascentric · Charles Stanley Direct · AJBell Investcentre · LINK Asset Services · transact · funds BANK · Pershing · FNZ · MFEX

www.bluewhale.co.uk

TWO OF THE BEST INVESTMENTS I EVER MADE

A year ago I provided start-up capital for Blue Whale Capital. I was also the initial investor in their inaugural fund. Those two investments are proving very fortuitous!

People ask "what motivated these decisions?" There are many but the main ones I indicate below.

I have been, for some time, keen to seek and invest with a young investment team that I could trust. Most well-known managers today are approaching, or are over, 60 years old. Managing money diligently is hard work and time consuming - very few sexagenarians have the energy or motivation. What happens when they retire? I don't want to sell their funds because I would pay an enormous amount of CGT. The question is "will the new manager fill the retired guru's boots" – unfortunately there are endless examples where the new man was not up to the job.

Another reason for investing in this fund was Stephen's belief that he and his team could highlight great stocks in the world's largest and most entrepreneurial market – namely the US. For 40 years I have been surprised at U.K. wealth managers' omission of exposure to this incredibly important country. Most portfolios have less than 10% in the USA - some have none. The excuses have been endless but most quoted has been "lack of decent US invested funds". A lame excuse - even a tracker would have been better than shunning the market. Blue Whale has embraced the US market and holds roughly 60% of its portfolio there, it is however not shackled to the US - there will be times when Wall Street and NASDAQ look less attractive. Blue Whale is truly an international fund and has capitalised on the opportunity across the pond but will continue to scour the globe for the best opportunities whenever and wherever they arise.

So why did I invest with a new manager? The experience that Stephen Yiu and his team have is very rarely accessible by retail investors. Whilst Stephen has co-managed various different portfolios at Artemis and New Star (now Janus Henderson), he has also got experience in the hedge fund world. By combining his experiences across these different investment remits he has developed his own ideas about what makes a successful portfolio. People are afraid of new funds, but what they so often forget is the 'star' managers of today made their name as new managers with exceptional performance. I believe this team falls into this category.

The Blue Whale team are the most conscientious hard-working group of young people I have ever met. I firmly believe they are more knowledgeable on the companies in which they invest than many of the employees of those companies. I have had the pleasure of sitting in on some of their investment meetings. It is a joy to experience. This young team aren't afraid to be brutal with each other, asking the most probing and forthright questions to ascertain a stock's suitability for the portfolio.

All this being said, the proof of the pudding was always going to be in the eating. I have now digested the first year's performance and I believe my confidence has been rewarded. The fund in its first year has grown in excess of 24%, but remember past performance is not a guide to future returns, and my initial investment of £25m has grown by over £6m. I also know these guys are years from retirement, so I don't have to worry about capital gains tax.

I have known Stephen Yiu for 16 years and always marvelled at his work ethic. It is no surprise this fund has succeeded. But he is only part of the story - his young team exhibit the same ambitions and the same diligence.

I have every confidence Blue Whale will become a major force in the UK investment industry, meaning my initial start-up capital should also prove to be a successful investment too.

Am I pleased? I don't think I have ever made an investment that has returned this much for me in its first year – it has been the best performing fund in my portfolio. And even more pleasingly, I see of no reason why this level of performance shouldn't carry on far into the future and I will continue to add to my holding.

By Peter Hargreaves

FUND MANAGERS' REVIEW OF OUR 1ST YEAR

The LF Blue Whale Growth Fund is celebrating its first anniversary and we are pleased to announce that our 1st year return of 24.6% outperformed our most obvious benchmark, the MSCI World (Net GBP) by 13.1% and the FTSE 100 by 22.3%. The Fund is ranked in the top 1% in the IA Global Sector year-to-date, and the top 2% since inception.

We aim to deliver consistent outperformance of at least 5% per annum to the traditional benchmarks to justify our active strategy and it was pleasing to significantly exceed this objective in year 1 – we aim to continue such outperformance in the years ahead.

Our performance has been achieved against the backdrop of a volatile political and economic climate which has provided both favourable and unfavourable events. Shortly after the Fund launched, Donald Trump delivered his well anticipated corporate tax cut in the US. This has provided a high-level of stimulus in three ways – firstly it naturally boosted earnings growth, secondly it provided a cash flow boost to many corporates who were looking highly levered and vulnerable and thirdly it enabled repatriation of overseas cash hoards which has resulted in accelerated buybacks. This stimulus helped maintain high economic growth, and consumer and business optimism which resulted in a strong performance in equity markets through to the end of January 2018.

However, this euphoria was broken in February, March and April with the return of volatility to financial markets, after a long period of benign conditions. From the 15th January through to the 20th February, the FTSE 100 Index declined more than 6% and the MSCI World Net GBP Index declined by more than 4% whilst the Fund declined less than 1%. We believe the volatility seen in the first half of year was partially driven by technical factors and partially by a small correction in valuations.

We also wrote to our investors early in the year warning of market complacency over the Italian elections. The election of the Lega Nord and Five Star Party came as a shock to financial markets (but not to us) and led to a sharp rise in Italian yields. After much optimism following somewhat improved economic data in the Eurozone in 2017 we believe the region will continue to face severe challenges from the problematic incompatibility of a shared currency between countries with separate fiscal systems.

Donald Trump's ongoing actions on global trade arrangements have yet to materialise into an adverse market event although trade tensions and the strong dollar have proved painful for emerging markets, particularly Argentina and Turkey.

We continue to believe the main short-term risk to markets is that the US Federal Reserve raises interest rates too quickly – the flattening yield curve should be a signal to policy makers that further rate rises need to be very gradual. We continue to watch this situation closely. We also have one-eye on the US mid-term elections – any situation which presents the Democrats with the opportunity of impeachment may be painful for risk assets but we currently see a Democrat majority in the Senate as unlikely.

We will not typically invest in companies with high levels of direct exposure to interest rates, commodity prices or industrial cycles. As a result our portfolio has largely consisted of technology, consumer and healthcare stocks which have been less impacted by the macroeconomic factors mentioned above and as previously mentioned, helped the Fund to be resilient in volatile periods.

The main contributors to the performance in our first year were technology and healthcare stocks. Technology stocks Alphabet, Intuit, Microsoft, Amazon, Adobe, Salesforce, PayPal and MasterCard and healthcare stocks UnitedHealth, Veeva and Zoetis all delivered strong returns, well in excess of the indices referenced above. This was due to strong earnings growth which exceeded the expectations of market participants together with rising expectations for future performance. We believe the market continues to undervalue companies that can achieve high long-term sustainable growth due to the short-term focus of many market participants and the rise of passive index trackers that indiscriminately allocate capital.

We did exit our investment in technology stock Red Hat during the first half of the year as we felt that valuation had run too far ahead of fundamentals. Subsequent to our sale, Red Hat suffered a one-day decline of more than 20% in June after disappointing earnings results, justifying our decision.

We also exited our holdings of gaming companies Electronic Arts and Activision Blizzard. The overnight success of the free-to-download hit game Fortnite cast some doubt on our long-term thesis on these stocks, which depends on the willingness of gamers to pay to download games. These stocks have generated some excitement with their drive towards a subscription model, but the share prices have fallen heavily in recent weeks and we are content that our risk-reward analysis was correct.

On the negative front, our investment in Facebook has underperformed our expectations. The Cambridge Analytica story initially put pressure on the stock, but at this time we concluded there was no fundamental change to the long-term structural growth story around the monetisation of the Facebook IP for digital advertising. However, we underestimated the impact the political vitriol had on the Facebook management team and subsequently the decisions they have recently made prioritised stakeholders other than their investors. This led to a disappointing earnings outlook in July and a heavy fall in the stock price. We have readjusted our investment process to include broader assessments of political risk including the impact of scrutiny on management's decision making. As a result of the disappointing outlook and our reassessment of the political impact, we materially reduced our position in Facebook in the Fund although we continue to monitor the situation as we believe the long-term growth drivers remain in place.

We have often been asked about our overweight position in technology stocks and whether we are actually a "tech" fund. We have long felt the sector allocations determined by the Global Industry Classification Standard ("GICS") is outdated and we welcome the changes which will be made in the next few months. The technology sector currently consists of three distinct buckets of stocks – Software and Services, Semiconductors, and Hardware. We have almost no exposure to Semiconductors and Hardware stocks where product cycles and high levels of capital expenditure are key determinants of performance.

However, the software and services segment where recurring revenues

FUND MANAGERS' REVIEW OF OUR 1ST YEAR

are high and strong free cash flow generation is consistent, has provided plentiful opportunities that meet our investment criteria. Many of these companies use technology to operate in traditional areas such as advertising, retail and media. Given nearly every company now uses technology in their operations, the distinction between some stocks classified as technology and others classed as consumer can appear very blurred. We therefore welcome the decision by GICS to move some stocks current classified as technology, including Facebook and Google, into a new sector which includes telecom companies. These reclassifications will cosmetically provide a distinctly different portfolio composition for the LF Blue Whale Growth Fund later this year.

Going forward, we continue to see excellent investment opportunities in "the cloud" space, which is a significant long-term structural growth story. We also see select opportunities in media, medtech, fintech, animal health and consumer brand companies where we are closely monitoring company performance and valuations of a select group of stocks.

In summary, financial markets will continue to present challenges and opportunities and we are determined to continue our strong outperformance from year 1. We would like to thank our investors for their support to date and look forward to updating you on our performance throughout the course of our second year.

The Fund Managers

Stephen Yiu and Robert Lloyd

Please remember that past performance is not a guide to future performance and that your capital is at risk. Please note also that references to portfolio companies do not constitute investment recommendations.

IMPORTANT NOTICE - REGULATORY INFORMATION AND RISK WARNINGS

This document is issued 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 3 to 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.

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.