

## 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 2021:

	2019	2020	2021
<b>LF Lightman European Fund</b>	6.16%	6.43%	13.60%
<b>FTSE World Eur Ex UK TR GBP</b>	12.86%	8.62%	15.87%

Performance over 12 months, and since launch:

	1 year	Since launch
<b>LF Lightman European Fund</b>	34.37%	28.36%
<b>FTSE World Eur Ex UK TR GBP</b>	27.38%	42.05%

*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
-	89.55	-	-	-	-	-	Value/Large

Volatility Measurements	
3-Yr Std Dev (volatility)	-
3-Yr Mean Return (average)	-

Investment Style Details	
Giant	31.35%
Large	34.84%
Medium	29.12%
Small	1.32%
Micro	1.19%

Top 5 Holdings (41 holdings)		
ING Groep NV	Financial Services	3.97%
ArcelorMittal SA	Basic Materials	3.74%
Volkswagen AG Participating Pref...	Consumer Cyclical	3.68%
Banco Santander SA	Financial Services	3.62%
Societe Generale SA	Financial Services	3.56%

Top 5 Sectors	
Financial Services	30.86%
Basic Materials	21.90%
Industrials	17.12%
Consumer Cyclical	15.81%
Energy	7.25%

Top 5 Regions	
Germany	20.86%
France	12.18%
Sweden	11.93%
United Kingdom	8.80%
Spain	8.05%

#### UPDATE....

This is a relatively new strategy and was our first introduction to the team. We know the fund manager who ran a successful European strategy at Neptune (which is now part of Liontrust). The business was set up nearly three years ago as a European specialist and Rob is supported by two Investment Analysts. All the employees in the business are shareholders and invest in the funds with the aim of ensuring that they are all aligned with the clients who invest in the funds.

Over the last ten years only one style of investing has worked and this sits at the opposite side of this. They view everything from a historical perspective and look at what has consistently worked over the last 100 years, and that leads to the style of investing as they do which is value (i.e., buying cheap). This has consistently worked except for the last 10 years and in the 1930s.

They believe that although they are value investors, it must be value with a catalyst. Being able to identify cheap companies is not hard to do but finding those with operational momentum is harder. Where they can find companies with earnings growth, those that are growing and those that have

strong balance sheets, then they have the ingredients for a business that can beat the index. The types of companies are likely to be those that have had a tough time and that are coming to an end. They do not like businesses with high levels of debt or those that have diluted their shares by raising capital.

They do not currently own utilities, telecoms and airlines as although these are cheap, they do not fit into the types of businesses they like. Companies they like include VW which they see as deep value and misunderstood by the market. They are also part of the green economy and over 50% of their holdings are part of the transition story, although this is not a green fund.

Another fascinating discussion was around Shell, and this is a relatively new holding. Shell is different in that unlike the likes of BP it is not investing heavily into renewables. However, their focus is on gas (where the demand is growing and is part of the renewable story), hydrogen, and carbon capture. They are reducing both their oil and refinery exposure. Their view is that renewables will become a commoditised business with little profit, but the areas they are focusing on are all part of the renewable story but likely to be profitable. They also have a long-term vision over 30 to 40 years which is unusual. Selling parts of the business is freeing up cash, and therefore the balance sheet strength is getting stronger. This is a prime example of something that is being missed by the market.

And another area they are focused on is financials with the likes of ING, Soc Gen and Santander. The headwinds to these businesses are coming to an end. Interest rates are unlikely to go any lower and therefore rising rates will help margins. Demand to build up the balance sheets over the last 10 years means these are extremely strong businesses. Fees are improving, and within the industry we are seeing buy backs and M&A which is helping returns. And yet investors can buy these businesses at price to earning ratios of 7 to 8 times, with dividends of between 5 and 6% and earnings per share growth of between 5 to 10%. They are seeing these as compelling and attractive investments for the strategy.

In terms of holding periods, Rob explained that they want to see the stocks rise, but once they reach a certain value they are happy to sell and recycle the money into new stocks. This is not about buying and holding, it is about sticking to the core value of buying good businesses that have had some negative exposure and are coming out of that, and once the market recognises this then they will sell.

They feel that all the talk is that price does not matter, and that people are prepared to pay any price irrespective of earnings. They feel at some point this will turn because history always points to this. In an environment which is likely to be more volatile, they feel that this could act as a good counterbalance to those strategies that focus on pure growth.

In summary, Rob built an excellent reputation at Neptune and is looking to continue this with this new strategy. In an environment where price doesn't seem to matter then this fund will struggle. For those who believe we are entering a more volatile period then this might be a good counterbalance. From our perspective we are happy to add this to our watchlist of funds.

*The source of information in this note has been provided by LF Lightman and is correct as at September 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.*