SHINING A LIGHT ON THE……
BlackRock UK Emerging Companies Absolute Return Fund

AT A GLANCE

Investment Objective
The BlackRock UK Emerging Companies Absolute Return Fund seeks to achieve a positive absolute return for investors regardless of market movements. The Fund will seek to achieve this investment objective by taking long, synthetic long and synthetic short investment exposures.

Inception Date	17th October 2018
Fund Factsheet Link	https://markets.ft.com/data/funds/tearsheet/summary?s=LU1861218136:GBP

Management	
Manager Name	**Start Date**
Dan Whitestone	17th October 2018
Nick Little	17th October 2018

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	-
Large	-
Medium	-
Small	-
Micro	-

Top 10 Holdings		
Total number of holdings	-	
Assets in Top 10 Holdings	-	
Name	**Sector**	**% of Assets**
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

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

FUND PERFORMANCE

Not currently available.

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.

UPDATE….

This is a brand-new strategy launched in October 2018. The team run the BlackRock UK Emerging Companies Hedge Fund; this fund was launched 14 years ago but is a Cayman Island strategy. It has a 60-day notice period for investments. Dan Whitestone took over the management of the fund in 2015 and the plan has been to develop a UCITs version of this fund available to UK investors. The philosophy and process are the same but the UCITs fund has to be more liquid and is weekly priced. The means around 20% of the strategy from the hedge fund can't come across. They did consider daily pricing but decided against this.

In terms of total assets, they can manage a total of $1.5 billion across both strategies and currently they have $400 million. The target return is 8 to 10%; the hedge fund targets 10 – 12% and has averaged 12.5% p.a. since launch, with volatility of 6%.

In terms of where the fund invests it looks at emerging companies across the multi-cap spec. The manager highlighted that the fund is more skewed towards small and mid-cap. His argument is that on average 5 to 10% of large cap companies move 50% in share value whereas this is 25% in small and mid-cap. Also, the universe is much larger in this space, providing greater opportunities. It also reduces risk because you can have many smaller holdings to create the same levels of returns rather than trying to guess one or two large cap funds which would do the same.

In terms of performance the underlying hedge fund was up 19% in 2008 and is up nearly 5% in 2018, including the falls in October. In terms of 2018 the fund was strong up to the end of the September but the speed of moves in October caught them by surprise and pulled back these strong returns.

The fund operates about 150 investments that centre around 10 themes. As an example, they are short Sage, and long Intuit and Xero. The argument is that there is a move towards cloud-based software and Sage have been left out. With cloud-based software there is no downloading, and auditors and accountants can see real time updates, which tend to be cheaper and more efficient. Although Sage have a subscription service, they are starting to see customers leave.

There is no doubt that they have the track record to deliver but there are two areas which may deter investors. Firstly, this is weekly priced and therefore there will be a delay in settling investments, and secondly the fees are 1% plus a performance fee of 20%.

Taking the second point, since the fund was launched in 2004 it has only twice had negative periods. In 2011 when it was down -0.4% and then in 2014 when it was down -2.4%. The average return is 12.5% per annum and that sounds very attractive. The impact of fees really struck me; the total gross performance before fees was 877.73%, after fees the returns were 452.76%. This means the fees cut the performance by nearly 50%.

Now you can argue 12.5% p.a. is good and you are paying a premium for this. But the premium you are paying is hefty and investors need to be comfortable with that. It is worth adding that if the fund fails on its targets then the performance fee is not paid so there is an incentive for the managers to perform.

In summary, this is a new fund based around the Cayman Island Hedge Fund. About 80% of the holdings are the same and the style and philosophy is the same. The weekly pricing may deter investors and high charges shouldn't be ignored.

The source of information in this note has been provided by BlackRock and is correct as at October 2018. 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.