

SHINING A LIGHT ON..... SLI UK EQUITY UNCONSTRAINED FUND

Update....

This fund has a brilliant track record going back to when it was launched in 2005 by Wes McCoy and then by Ed Legget who took over the management in 2008. However, in 2015 Ed left SLI and Wes came back to take on the management role.

Since launch the fund has significantly outperformed the FTSE All Share Index but over the last 12 months the fund has underperformed. Although we are not per se followers of “star” managers there are managers who have obvious talent and Ed was one of those managers. Our concern has always been whether without Ed the fund could continue delivering the same levels of performance.

Much of this would depend on who was appointed as replacement and it seemed a natural fit for Wes to come on board. Wes had a brilliant track record when he set up and ran the fund and he didn't go to a rival firm when he left but went to work in Africa before coming back to the UK. However, performance has slipped since Ed left and the question is whether this is early signs that the best days are done, or whether there are other reasons and investors should be patient.

The first thing to focus on is the set-up of the fund or philosophy. This is a go anywhere fund and is agnostic to benchmark positions. It is purely about picking the best companies. Where the style is different is that the key philosophy is based on “focus on change”. The argument is that if there is a gap in the market for a particular company to flourish then there is an opportunity, the question is what will make that happen and therefore increase the share price. Some managers would argue they are style biased but this fund is not tied to style so an opportunity can be across value, growth and momentum stocks.

Currently the fund has 44 stocks; this is a slight reduction as Wes has taken out some of the positions with industrial exposure like Glencore. Picking up on the type of stocks he likes Wes explained it is about getting the right mix of companies but being mindful of the balance between risk and reward. So for example, First Quantum has high leverage and has suffered from a collapse in commodity prices. However, there is a restructuring programme which has the potential to turn this round. For companies like First Quantum there remains greater risk and therefore the initial position is small but this could grow over time.

On the other side you have companies which may have already gone through change and are in control of their destiny. This is where change is about continued growth. So here you would have a company like Sage which is their biggest holding. It grew very quickly and although it hasn't done anything wrong it has just stagnated but a new CEO has come on board. This CEO has an excellent track record of turning around sleepy or failing companies and they are starting to see this with Sage.

From a style side nothing has changed from when Ed left other than a few holdings have been removed and perhaps there is more of a connection between Wes and Harry Nimmo (fund manager of the SLI UK Smaller Companies Fund) in sharing ideas. So for investors this is important because if they like the style then nothing has changed and it begs the question as to why the performance has slipped.

The fund is a mix of ideas but has exposure to UK domestic stocks. From about November this side has been hit by the uncertainty with BREXIT. The market is pricing in an exit from Europe which means these stocks will be caught by this uncertainty. The reality is that we don't know the outcome and

there are two options open to Wes firstly to reduce exposure or wait it out. Wes explained that his fund was caught out by this exposure but everything has a two to three-year time horizon and his belief in the stocks remain. This in turn means waiting for now for things to settle. Obviously there is further risk if BREXIT happens but if the market has already priced this in then this could be minimal, if the vote is to stay then in theory these stocks should correct and therefore benefit the fund.

Ultimately we have a fund which has stuck to its strategy but has been caught by the uncertainty surrounding BREXIT. Ideas carry a two to three-time frame and there is no indication that the ideas have changed and as Wes added although this has been a tough period he believes that investors will be rewarded in the long term.

In summary, the strategy we like remains in place and if anything has been enhanced with the feed from Harry Nimmo who manages the Small Cap Fund. It is perhaps unfortunate timing with the domestic exposure but this fund is not about timing and is always about the long term. New investors may choose to wait to see if performance picks up or could see this as an opportunity while the fund is cheap. Existing investors may consider that a hold strategy is the best route rather than compounding any short term losses.

Fund performance

Performance from 1 January 2011 to 21 April 2016:

	2011	2012	2013	2014	2015	2016
SLI UK Equity Unconstrained Fund	-19.58%	45.87%	44.93%	0.85%	9.48%	-5.89%
FTSE All Share TR	-3.46%	12.30%	20.81%	1.18%	0.98%	2.64%

Performance over 12 months, 3 years, 5 years and since launch:

	12 months	3 years	5 years	Since launch
SLI UK Equity Unconstrained Fund	-7.08%	34.76%	68.36%	361.11%
FTSE All Share TR	-5.05%	16.96%	33.25%	84.97%

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.

The source of information in this note has been provided by SLI and is correct as at April 2016. 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.