

Blue Whale Growth

Global

Introduction

This is a bottom-up stock picking fund where the team will seek out companies that can grow significantly over time through reinvestment, companies that are resilient across economic cycles, and that have a business model or growth strategy that is not easily disrupted. The fund looks for capital growth ahead of the IA Global sector and its global indices.



[Click here to read the Blue Whale approach to ESG investing.](#)

Why RSMR Rate this Fund

- The team search for high quality businesses at attractive prices globally
- There is a high level of resource within the team to undertake fundamental analysis
- The fund is a high conviction concentrated portfolio of 25-35 companies
- Seeks to capture winners of the 4th industrial revolution and avoid structurally challenged companies

Fund Process

The universe is reduced from the 1,600 stock benchmark to around about 100 stocks which are covered by the team, with around 30 included in the fund. Idea generation comes from the fundamental work conducted on individual names which includes an assessment of the competitive environment of the business, its suppliers, competitors, and supply chains, and end market analysis (customer and geography). Coverage of one company often leads to an assessment of the wider sector which allows the analyst to understand the dynamics of the sector and how competitive the environment is, as well as the structure of the companies within the sector. The process can identify if there is a common supplier to the sector or if there is a concentration of work /business for one particular company. The analytical work can identify secular themes which the team can focus their work on. The key for the team is forecasting the growth/adoption of a company's product and how loyal their customers can become.

The team build their own in-house model to forecast a company's future earnings and cashflow. All research is undertaken in-house with no reliance on outside research except for measuring the internally produced valuations against market consensus to understand whether the team are ahead or behind the market in terms of earnings power of a company. Other valuation metrics will be assessed against the wider market to ascertain where a company's current valuation sits against the wider market – a PE or FCF yield lower than the market but with a greater growth trajectory is deemed as undervalued and a candidate for inclusion in the fund. Return on capital and gross margins are assessed versus a company's local market as well as global markets. All financial models are updated on a quarterly basis as companies report their earnings, and this is where the team spend the majority of their time – researching companies, creating and updating models and debating ideas across the team. The team has a flat structure and all members of the team input into discussions which leads to a cross pollination of ideas across team members and robust testing of investment theses.

Evaluation

The fund has a bias to US listed companies and software businesses which is where the highest margin businesses exist, although revenues and end customer use is global. The valuation of US technology and software companies will be impacted by interest rate moves and the fund could lag in the short term in a rising rate environment. The underlying companies have the ability to grow into their valuations and grow earnings through price increases which could support valuations in the longer term.

Application

The fund can be used a core holding within a global allocation, but the position should be sized appropriately according to the risk profile of the client. The fund offers exposure to companies with the highest returns on capital across the globe. This fund can be blended with a value orientated fund or used alongside other growth orientated funds.

Our Opinion

We like the team based approach that Blue Whale operates and the level of fundamental analysis and discussion that takes place within the team. Focusing on the strongest companies that have a moat and can be critical to users, as well as deploying cloud based/digitised versions of software to allow collaboration, entrenches these businesses to the end user. This is also monitored via job postings that require experience of certain software, helping the team to understand how embedded software is in certain industries. The fund is more diversified than it has been previously, and this is due to the investment thesis running its course. The team have adapted to the opportunity set and this will assist the fund going forwards.



Important Notice

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