

Chelverton European Select

Europe ex UK

Introduction

MI Chelverton European Select is a UK OEIC which aims to provide capital growth by investing across the market cap spectrum in Europe, excluding the UK. The team's philosophy explicitly seeks a blend of value and growth by trading off value (as defined by free cash flow yield) and growth (average sales growth).



[Click here to read the Chelverton Asset Management approach to ESG investing.](#)

Why RSMR Rate this Fund

- The nature of the fund (an unconstrained approach which invests across the market cap scale) differentiates it from most European equity funds which have a large cap growth bias
- The fund has a strong track record since inception in March 2018
- The fund managers are very experienced in analysing small and mid-cap stocks
- The investment process is consistently applied by the team

Fund Process

The fund invests in a blend of value and growth stocks by trading off value (as defined by free cash flow yield) and growth (average sales growth). Cash flows are seen as more important than profits and free cash flow (FCF) is disposable income and the source of both dividend income and long-term capital appreciation. Consequently, in-depth cash flow analysis is at the heart of Chelverton's approach. They see value and growth as being inextricably linked and they are prepared to be pragmatic and look for undervalued growth as well as value.

The process uses a range of quantitative and financial analytics to deliver the objective of investing in undervalued cashflows from growing companies with an appropriate level of financial (balance sheet) risk. The team starts with an ideas list of over 2,000 companies which is whittled down to those firms which warrant fundamental analysis. The team uses various screens to identify potential cashflow/growth mispricing and appropriately weight financial risk to arrive at this subset. They look at measures such as the EBIT Margin, Sales to FCF and Net Debt to EBIT, to avoid value traps. From this screening they arrive at a buy list of around 100 names from which they build a 30-50 stock portfolio.

In terms of the process, the use of IT has helped automate a lot of the screening process. The fund's valuation analysis is based on a proprietary model built on discounted cashflows. The team takes the conclusions from qualitative analysis and turns them into forecasts for key metrics including sales growth, margins, capex and working capital.

A pragmatic approach is adopted to portfolio construction, taking into account geographic and sectoral weightings, as well as position sizes as appropriate.

Chelverton has always acted as a responsible investor, voting on all shareholdings according to the policy guidelines laid out in the Chelverton Asset Management Corporate Governance Engagement Policy, which is reviewed on an annual basis.

Evaluation

The fund should perform well when small and mid-cap stocks are in favour which will tend to be in periods of economic growth. In circumstances where investors are more risk averse, it could struggle.

Application

Given the typical level of exposure to small and mid-cap stocks we see this fund as being more of a satellite than a core holding for investors. It should be used in conjunction with more mainstream Europe ex- UK funds.

Our Opinion

MI Chelverton European Select is managed by a relatively small but very experienced team of stock pickers who specialise in investing in European mid and small cap shares. This fund can provide a high degree of diversification in any Europe ex-UK portfolio with a view to generating a higher level of alpha.

Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

Rayner Spencer Mills Research Limited is a limited company registered in England and Wales under Company. Registration Number 5227656. Registered Office: Number 20, Ryefield Business Park, Belton Road, Silsden, BD20 0EE. RSMR is a registered trademark.