

Chelverton UK Equity Growth

UK All Companies

Introduction

This is a mid- and small-cap focused fund holding approximately 70 – 150 companies. The fund invests solely in the equity securities of companies listed in the UK that are outside of the top 100 companies by market capitalisation down to a minimum market cap of £25m. The focus is on companies that can grow quicker than the market, demonstrating sustainable competitive advantages, strong cash conversion to fund their growth and strong management teams.



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

Why RSMR Rate this Fund

- A diversified portfolio (typically 70 – 150 stocks) where the manager has demonstrated excellent stock picking ability.
- Strong long term performance by experienced managers who have managed the fund since launch.
- A narrow investable universe results in the management knowing the stocks held very well.

Fund Process

The investment process begins with a quantitative screen (FactSet) which filters the universe (1,000 small and mid-caps) according to their ability to convert profit into cash flow, their rate of top line sales growth, gross margins and working capital intensity. A company must meet certain criteria to pass through the screen, and it must always meet the cash flow requirement. This screen reduces the investable universe to around 200 companies, which qualify for further assessment. Following the screening process, the managers will select companies for further due diligence. Meeting with company management is a vital part of the process enabling the managers to carry out their own qualitative due diligence on the predictability of the company's sales, sustainability of their growth rates and margins and management's ability to deliver a sensible strategy and allocate capital in a disciplined way. They conduct valuation analysis by assessing the relationship between EV/Sales and maintainable margins as a cross cycle reference point for what a business is worth, and EV/NOPAT (Normalised operating profit after tax) against a company's growth rate to compare individual stocks both in the same and across different sectors.

The managers may occasionally buy 'concept' stocks but are mindful that these companies often run out of cash before they become self-funding and will seek a higher reward for allocating cash to these companies. The managers will also invest in IPOs. They sell holdings that no longer meet their criteria or when their valuations are pricing in sales growth and margin expectations that they believe are unattainable. Typical position sizes are between 1% and 2% and the maximum holding in an individual stock/company is limited to 5% of the fund size. Liquidity is reviewed consistently and has evolved as the fund size has grown to the extent that companies who might have had sufficient liquidity in the past are no longer suitable as the average unit size has grown. Capacity is reviewed on an ongoing basis as AUM grows to ensure the managers are able to execute the investment strategy effectively.

Evaluation

Given the investment criteria, there are certain areas of the market where the opportunity set will be larger. These are in the faster growing cash generating sectors of the market such as technology and industrials. The manager avoids capital intensive businesses such as banks and resource companies. Approximately 40% of holdings are AIM listed and the remainder will predominantly sit in the FTSE UK Small Cap Sector, despite the fund residing in the IA UK All Companies sector. Naturally, the fund is negatively impacted in an environment where investors tend to rotate into larger cap more value orientated small cap stocks.

Application

This fund offers investors a strong growth mandate from a manager with a proven track record. It is an excellent satellite option for a UK equity investor seeking exposure outside of the FTSE 100.

Our Opinion

This fund launched in October 2014 and has been one of the best performing funds in both the UK All Companies and UK Smaller Companies sectors over the long term. James Baker has specialised in this area of the market for over 30 years and has built a strong knowledge of the companies operating within this space. He has demonstrated strong stock-picking abilities over his tenure and is complemented by Edward Booth who was appointed as co-manager in 2017.



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.

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