Ravenscroft

Quarterly Newsletter Q3 2018

"Slip inside the eye of your mind,

Don't you know you might find
A better place to play?
You said that you'd never been
But all the things that you've seen
They slowly fade away"

Don't look back in anger, Oasis, 1995

COMMENTARY by MARK BOUSFIELD

September 2018 is significant to us for a couple of reasons: first, it is now a decade since the financial (and real) world went into meltdown as investments turned turtle, banks collapsed and entire countries' debts spiralled out of control. And, second, it is also a decade since we opened what is now our investment management service for business: we incorporated a mere 10 days before Lehman Brothers collapsed into bankruptcy on 15 September 2008.

Continued >>

For me, with a wife on maternity leave looking after our four-month-old, the conversation that night went along the lines of:

(Mock cheerfully) "Hi, I'm home."

"Hi. How's it all going? This Lehman's thing doesn't look too great..."

(Nervously) "I'm sure it will be fine – but you're definitely going back to work, aren't you?!"

In a time where the half-life of corporate memory is now measured in tweets you may also be unsurprised to know that market valuations are now back where they were in 2008. Perhaps more concerning is that the level of debt, which, after all, was at the epicentre of the crisis, is even greater than it was back then!

It should be unsurprising that one outcome of supressed interest rates for almost a decade is that people borrow more. According to a recent McKinsey report, total global debt (sovereign, corporate and household) has increased by nearly 75% from $29 trillion to $60 trillion. Obviously, this type of statistic is extremely broad-brush and hides an awful lot of detail; however, it does reflect a general underlying trend. Income-starved savers (people who historically only held cash in the bank) have become investors as they reach for yield to meet their on-going liabilities. Moreover, once-conservative, income-orientated investors are having to be prepared to take more and more risk to match the yield they received, historically.

To-date, whilst interest rates have remained nailed to the ground, the market has been stable and investors have been paid for taking extra risk without suffering much pick-up in volatility. Can this continue?

As readers will know, we aren't in the business of forecasting. However, on the anniversary of the 2008 financial crisis we would encourage investors to consider how they are invested and how much risk they have assumed to meet their income requirements.

Ten years on we are delighted not only to have survived those first couple of years, but to have grown the business and serviced our clients. Whilst we won't be looking back in anger, it is important not to let those memories fade away and in fact, having lived through the crisis, to ensure that we have learnt from it. Some of those lessons are highlighted below.

No free lunches – in 2008, mortgages were given to self-employed, self-certifying borrowers (the whole, colloquially, if unfairly, nicknamed "liars' loans"). These were then packaged and sold to insufficiently careful buyers as – depending upon which Tranche one purchased – either high risk/reward or AAA (rock-solid) investments. They were neither as so many found out. If it looks too good to be true, it usually is.

Know what you own and why you own it – clearly, this applied to our Collateralised Debt Obligation buyers, but is true of any investment. Take the time to research it, ask questions and don't be sucked in by stories or language which you don't understand.

Know your time horizon and invest accordingly – "stick to your knitting" is a phrase we use regularly because that's what exactly what we do. We know what our investment strategy is and we stick to it and all investors should do the same; emotional investing will de-rail you.

There's nothing new under the sun – Rome's, Spain's, France's and (to an extent) Britain's empires all collapsed under unsupportable debt. The obvious question is whether the US will eventually go the same way. Certainly, the world has not stopped its borrowing binge since 2008 and is still excessively leveraged.

There are always good investments out there, especially in moments of crisis – it is the eternal paradox summed up by the Sage of Omaha, Warren Buffett: "Be fearful when others are greedy and greedy when others are fearful." The earth continues to turn, humans continue to innovate, and the world is wealthier and healthier than it has ever been.

Overall it's been both a fascinating and rewarding decade to have been in the investment management business looking after our clients and doing our upmost to help them meet their investment objectives in a sensible and pragmatic manner. And, on that note, I'd like to thank all our clients for their support over the period – some of whom have supported us from the very beginning and with whom we now have a relationship stretching back over 20 years. Your faith in us is truly appreciated. I can only reiterate our desire to continue to look after you all with precisely the same passion and investment rigour for the next decade and longer...

CAUTIOUS PORTFOLIOS:
LOWER RISK
by BOB TANNAHILL

Objective: The Cautious Portfolio's objective is to increase its value by predominantly allocating capital to fixed-income investments. The portfolio can also invest into global blue-chip equities with strong cash-flows and progressive dividend policies. A neutral position would be a 75% bond/25% equity split and the maximum equity-weighting of approximately 35%. The cash generated can be re-invested to provide capital or taken as an income stream.

The Cautious Strategy returned ~1.35% over the quarter including both capital and income returns.

The trends of the year continued largely unchanged over the quarter with investors remaining focused on US growth – especially within the Technology sector – and growing concerns over emerging markets amid issues in Argentina and Turkey. Against this backdrop, Technology shares posted another strong period, while emerging market assets again came under pressure as Argentina continued to struggle with a currency crisis. We also saw US treasury yields rise again over the quarter, providing a headwind to our global bond positions though lower bond prices.

Within our portfolios, returns were driven by our equity income funds, which produced solid returns versus their peers at 5.4% on average. We are pleased to see our equity allocation working in this type of difficult bond environment since this is a key part of why we use equity in the Cautious Portfolio. The trend of the last 18 months or so continued in the third quarter with our equity income holdings lagging the broader market thanks to the strength in the more growth-focused shares. This type of environment is a tricky one for cautious investors because many of the companies posting the strongest gains (Netflix is up over 80% this year, for example) are not compatible with our focus on reliable earnings, attractive valuations and income yield.

During the quarter we also cut back our equity position from 27.5% to our 25% neutral-weighting, thereby unwinding the March increase. As always, when making changes we are guided by valuations – and following a strong run from a few of our core sectors, led by Healthcare, valuations were back to where they had been at the start of the year. Accordingly, we brought equities back down a notch to reflect this. We are pleased to be able to say that these changes added to performance over the year by around 0.25%.

On the bond side, our Portfolio was split in two over the quarter. Core bond positions were marginally up (around 0.3% on average) as they contended with the headwind of rising treasury yields. On the other hand, our higher income bonds such as high-yield were stronger with Muzinich's Asia Credit Fund posting a good recovery after having had a tough first half. We were particularly pleased with the Muzinich performance during a period when many other emerging market assets were under stress.

Taking a longer-term view, the two years since Trump took office have undeniably been a challenging period for income investors. We are pleased to be able to say that the Strategy has still delivered a positive return to clients despite the significant rise we have seen in some bond yields. Today the 10-year US Treasury bond yields a little over 3%, which is starting to approach the point where the Federal Reserve, expressed via its "dot plot", sees interest rates topping-out in this cycle. While the future is always uncertain, and we do not venture into taking views on markets as intensely scrutinised as US Treasuries, it does offer us come comfort as bond investors to see US government bond yields finally moving back towards levels more aligned with the economic fundamentals. This may or may not be the high point for US government bonds yields in this cycle; but the recent doubling of yields certainly gives us a better valuation starting-point today than we had two years ago.

BALANCED PORTFOLIOS: MEDIUM RISK

by TIFFANY GERVAISE-BRAZIER

Objective: The Balanced Portfolio's objective is to provide capital appreciation through a balance of fixed income and global equities. A neutral position is a 50% bond/50% equity split and the maximum equity weighting is 60%. The cash generated can be re-invested to provide capital or taken as an income stream.

As Mark noted, in September 2018 the U.S. economy entered the tenth year of the current economic expansion. Given that it is now the second longest in U.S. history, many people are asking how much longer it can last. The simple answer is that we do not know and we will not attempt to try and take a guess. That said, we are conscious of an observation attributed to Mark Twain in that "history doesn't repeat itself, but it does rhyme". We therefore thought it would be useful to reassure our investors that, regardless of a rallying or falling market, we will continue to offer a consistent and sensible approach to investing. This isn't us calling the market top or predicting a "crash"; but, instead, investing into the debt and equity of quality companies that have stood the test of time regardless of the macroeconomic outlook or cycle.

Very simply, through a robust and repeatable investment process we hope to offer some shelter when markets fall – even if that means lagging slightly in performance on the way up. Economic overstimulation, expansionary monetary policy and, to an extent, the absence of caution have led to a large increase in the availability of credit at low interest rates. The trauma of the crisis ten years ago might be wearing off in the minds of some investors, but, for us, two things remain at the forefront of our minds: the liquidity of our holdings and knowing exactly what we own. Nevertheless, it is important to recognise that despite the financial crisis, diminished quarter-to-quarter volatility in real GDP data suggests that the economy has actually been getting more stable over time.

Source: www.wsj.com

The Federal Reserve in the U.S. has recently raised the federal funds rate for the third time this year, prolonging a challenging environment for bonds over the last 6 months. As the name suggests, the Balanced Strategy currently has 50% of its assets invested in global corporate bonds and investment grade bonds, government bonds and a small allocation to higher yielding specialist bonds. Generally speaking – returns available on lower risk investments being reduced compared to those of recent years – February/March saw investors rotate out of these more defensive areas to more growth-focused investments. During this cyclical rotation, the Balanced Strategy slightly underperformed the broader market as the Consumer Staples (or shopping-trolley stocks) that make up the core of our portfolio fell out of favour.

During the market volatility in Q1, the Balanced Strategy fell approximately 2% against peers which fell around 3%; this means that the portfolio protected our investors' capital. The Strategy has been in a relatively cautious stance at 50% bonds to 50% equities for some time now while valuations have been elevated relative to their historic averages. Not all balanced strategies are created equally, and our Strategy does have the flexibility of increasing maximum equity weighting to 60%; however, we remain comfortable with both positioning and performance in the current environment. The overriding message is that we are proceeding with caution. Should we see a correction, recession or bear market, we will consider any outperformance on the downside as winning by not losing.

Since the mild turbulence of Q1, cheaper valuations have allowed the rotation to unwind to some extent. We have thus seen a strong rebound in performance from our equity allocation (particularly in our thematic allocation to Healthcare and Technology – with the Polar Capital funds outperforming the benchmark and peer groups, respectively).

Elsewhere in the portfolio, we have been talking for some time about the emerging market environment and, particularly, our exposure via the Brown Advisory Latin American Fund. This sector has continued to struggle. Shocks in Turkey and Argentina were met with rate hikes, and these were echoed across the emerging markets as currencies weakened against the U.S. dollar. Taken together with a number of political and economic developments within the region, this has caused a substantial drop in the valuation of the Brown Advisory Fund. This looks like an excellent opportunity to own great, relevant, companies that we believe have strong growth potential for years to come.

The Balanced Strategy has returned 3% year-to-date driven primarily by global equities, which, on average, have returned approximately 9% this year.

GROWTH PORTFOLIOS: HIGHER RISK

by MARK HARRIES

Objective: The Growth Portfolio's objective is to provide long-term capital appreciation by investing predominantly into global equities. A neutral position is a 25% bond/75% equity split and the maximum equity weighting is approximately 85%.

The Growth Strategy continued to deliver positive returns during the third quarter of 2018, with July and August performing well. September saw markets lag slightly as fears grew over the impact additional tariffs would have on the global economy and who would ultimately pay the price. Nevertheless, at quarter end the Growth Strategy was up slightly over 2%.

It has been an undeniably volatile few months for emerging markets; however, it was pleasing to see the Growth Strategy's defensive assets working well and providing protection against recent market weakness, despite the Portfolio having a much higher-than-average exposure. In short, worries surrounding Argentina's ability to pay back its Government borrowings (denominated in a strengthening US dollar) and Turkey's historic debt-default identified just some of the regions bearing the brunt of investors' concerns. Despite this, the rise of the emerging consumer remains one of our core, long-term, investment themes. We believe in the exciting growth prospects this sector provides us with and, following on from a recent fund manager meeting with Brown Advisory Latin American, which affirmed our confidence, we used the recent pull-back as an opportunity to top-up the Strategy's emerging market exposure. A full insight into the recent volatility, impact on investor sentiment and future outlook surrounding this sector can be seen in our Theme in Focus commentary.

One of the best performers in the equity segment of the portfolio in the last three months, and thus far in 2018, has been the Polar Capital Healthcare Fund. After a recent meeting with the fund manager, during which he admitted that valuations had become rather rich and he had moved his portfolio to a more defensive position with more cash and large-cap pharma stocks, we decided to take some profit and trim the holding back to a neutral weighting at 5%. In the fixed-interest segment, it was high yield that held-up the best and proved relatively resilient despite the US raising interest rates by 0.25% during September.

Another of our themes that continued to reach new heights this quarter was Technology. Polar Capital Global Technology Fund, and the sector as a whole, benefitted from positive sentiment surrounding the US economy, improved company fundamentals and robust corporate earnings; this saw the Fund deliver great numbers once again this quarter.

In September, we initiated a new position in the Growth Strategy; the purchase of GuardCap Global Equity Fund to replace our allocation to Blackrock Global Equity Income Fund, thereby completing our move towards a more growth-centric core equity mix. As investors know, our investment thesis drives our asset allocation. Whilst global equity income investments have worked well for us over the years, we considered that this exposure was becoming less aligned with our long-term growth objectives. In short, being tied to producing a dividend yield often means sacrificing capital growth; hence the change.

Guardcap ticks the box in terms of everything that we look for: open and transparent management; fundamental, bottom-up, stock-picking; and, long-term holding periods. The Fund invests around the world and typically holds 20 to 25 high quality sustainable-growth companies. Their clear-cut process has been reflected in the performance: the Fund has outperformed its relevant benchmark in 6 of the last 8 years and we strongly believe that performance like this comes from a robust, repeatable process and not luck. The team is driven by long-term thinking and long holding periods, akin to our own approach, and we are investing at an initial ~5% weighting.

The Growth Strategy remains defensively positioned as we enter the fourth quarter of 2018.

GLOBAL BLUE CHIP PORTFOLIOS: HIGHER RISK

by HOLLY WARBURTON

Objective: The Global Blue Chip Portfolio invests into approximately 25-30 global blue chips that are in line with our long term investment themes. The aim is to invest into such companies at an attractive valuation and hold them for the long-term. The cash generated can be reinvested to provide capital growth or taken as an income stream.

In a vast contrast to previous periods this year, markets started the third quarter strongly and the Portfolio followed suit: returning close to 6% (in sterling terms) during July. Whilst August and September were more subdued, the Strategy finished up over 8% during the quarter – more than recovering the losses experienced at the beginning of the year.

The key feature seemed to be the beginning of a rotation back into more defensive areas of the market, as investors started to pick up attractively priced Consumer Staples and Healthcare companies. The Healthcare sector in particular has seen the biggest turnaround – it has gone from one of worst-performing sectors to one of the strongest in only a matter of months. Indeed, whilst the Strategy's best performer was a Tech stock (Apple), our Healthcare holdings Novartis, Medtronic and Johnson & Johnson were not far behind.

This only serves to highlight the irrational nature of financial markets in the short term and to emphasise the importance of 'sticking to your knitting' through brief periods of underperformance; taking comfort in the fact that you own quality companies whose hallmarks are likely to shine through in the long run.

When Apple topped various indices as the best performing stock during early August, it also became the first US publicly-traded company to hit $1 Trillion in market capitalisation; pipping Amazon to the post by a matter of days. Despite headline-grabbing prices, we do not think Apple is expensive and there is still a lot to be excited about with new product models of the iPhone and Apple Watch announced in its autumn product launch along with a host of innovations – from longer battery life to smarter, more powerful, processing chips (A12 Bionic) and cutting-edge camera features. All this innovation ensures Apple users are lured back when upgrading their products, which, in turn, keeps them connected to the services platform whose revenues continue to grow at a significant pace. Services revenues are becoming an increasingly dominant portion of Apple's revenue mix, reducing the Company's reliance on product sales and thereby making for a more robust and repeatable revenues for the Company – and subsequent earning streams for its investors.

For more stock-specific news, please read this quarter's Stocks in Focus, which provides a roundup of the main news over the quarter regarding some of the Strategy's holdings.

Over the quarter, we introduced Alphabet, previously known as Google, into the Portfolio. The Tech giant has a number of unique subsidiaries under its brand name, the well-known search engine and advertising platform for one, alongside the Android operating system, as well as Verily, a life sciences company, and Waymo, a leader in autonomous vehicles.

The key investment draw for us is its core business within digital advertising. More people are consuming content on-line, which is altering the way advertisers can connect with prospective consumers. As these trends are set to grow, companies with control over on-line content are set to benefit from on-line advertising revenue growth. Advances in machine learning are allowing digital advertising platforms to better personalise the advertising experience, targeting customers with adverts to which they are more likely to be receptive. This creates value for advertising partners who will benefit from increased engagement with their key clientele. As a result, we expect digital advertising to continue to take market share away from more conventional forms where such personalisation is not possible. Alphabet is particularly well positioned to benefit given its unrivalled access to data – an essential input for successful machine learning. The dominance of Alphabet's mobile operating system, Android, is a further advantage. Mobile advertising is the fastest growing form of digital advertising which makes Android customers (77% of the global smartphone population) a key audience.

When you combine this with the demographic tailwinds provided by the continued rise of the emerging consumer and the transition from rural to urban living in these developing economies (which helps facilitate increased connectivity), Alphabet's user base looks set to rise. Not only does this increase the attractiveness of its platform for future advertisers, but it is also a direct driver of revenues – more people results in more advert impressions/clicks, which are a revenue-defining metric.

As discussed in Mark's opening commentary, the media is currently awash with analysis of the current market environment as we reach 10 years since the financial crisis. We don't highlight this to cause concern – quite the opposite, in fact – as we remain focused on equity valuations and the quality of the underlying investments. In other words, we continue to stick firmly to our investment process in order to help you and your family meet its investment goals for the next 10 years and longer.

THEME IN FOCUS:
THE RISE OF THE EMERGING CONSUMER – BLOOD ON THE STREETS MAKES FOR INTERESTING TIMES....

by SAMANTHA DOVEY

As many of our investors know, the rise of the emerging consumer is one of our core investment themes. At the heart of this investment thesis is the fact that emerging markets represent the majority of the global population and will carry on being even more dominant in the future.

Our view of middle-class consumption includes those "emerging markets" where income is still well below those of developed markets, but where employee/consumers are working hard to close the gap. The sheer number of people that reside in these countries creates huge new demand through aggregation of money, as well as a potential to grow that should last for decades to come. This is what we refer to as a tailwind.

Demand starts with simple staples or "shopping trolley" stocks such as toothpaste and shampoo; these quickly escalate up the value chain to items such as smartphones, healthcare and making their first capital purchases. Alongside this, the demand for better education is rising as many people realise that the more educated they are, the more they will ultimately prosper and fill higher paid roles within organisations. The drive for prosperity has been well established and structural shifts are driving change.

These long-term structural forces should not be forgotten when countries are facing short-term challenges or contagion from other markets. Regardless of the US President's latest tweets or Turkey's vain attempts to control its currency, people around the world carry on consuming – since, last time I checked, we could not live on air alone. And once you have started brushing your teeth, it is very difficult to give up, no matter how tight money is (unless you happen to be a 4-year old!).

Developed v Emerging – 2018 has certainly been a tale of two markets, in the fact that developed markets have carried on their upward trajectory whereas emerging markets have been hindered by trade tariffs and currency volatility. Small countries that have minimal global impact, such as Turkey, are tarring the rest of the emerging-market region with the same brush.

A working example: At its worst point this year, the MSCI Latin America Index was down nearly 12% towards the end of June; it then posted a short rally into the beginning of August only to fall once again on the back of Argentina having to raise interest rates to 60% to try to keep inflation and its currency under control. From 7 August to 5 September the index fell nearly 13% (investing in these markets has never been for the faint-hearted), but it is only currently down 3% for the year. This, although not great, is perfectly acceptable compared to where it has been. For our holding, Brown Advisory Latin American (held in both Balanced and Growth Portfolios) things have been slightly tougher due to some stock-specific issues (none of which are any great worry).

So what do you do when something like this happens? Your heart says get out, which is exactly the wrong thing to do. This is where your head should take over. At these so-called "inflection points", we look for opportunities. If we believe that the tailwinds described above still hold and that any fall has happened due to a short-term pricing anomaly – or that they have been hit with the "contagion" stick – then we simply buy more of these quality assets at a cheaper price.

It is easy to sit here and say don't let your heart rule your head, but in reality we understand how very difficult that is. This is why we have a strict valuation process: we look at how much we pay for companies based on how much they are earning – and it is always nice to buy them at a lower price. We load all our fund portfolios and chart their respective valuations over 10 years, so we can see how the value of today's portfolio has changed over time. Taking Brown Advisory as the example, the value today is roughly 15x price-to-earnings, but it has traded as high as 22x and as low as 14x. Accordingly, today's value is a shining example of how you can pick up quality assets at prices that have not been seen since 2008/2009.

As we say time and time again, know what you own and why you own it and understand how your manager invests in the region. The main difference between investing in emerging markets and developed markets is the timeframe; emerging markets do tend to need longer. It therefore follows that because of this higher volatility, our process leads us to apportioning smaller investment allocations to emerging markets than to their developed market counterparts.

So just remember that when markets are falling all around you, keep a clear head and look for value. In the words Sir Winston Churchill, "Success is not final, failure is not fatal: it is the courage to continue that counts".

FUND IN FOCUS:
GUARDIANS OF GLOBAL EQUITY
by SAMANTHA DOVEY

In this quarter's Fund in Focus, I would like to introduce you to GuardCap Global Equity Fund (GuardCap), a new global equity fund in our Growth Portfolios.

As investors in our Balanced and Growth Strategies know, we have been long-term supporters of Fundsmith and Lindsell Train, both of which have been the cornerstones of our global equity allocation. When sales people come in to our offices to sell us their "global equity" product, they tend to look crestfallen when we explain that we already hold two of the best funds available.

So it has taken us a while to find a fund that: first, offers a solid return profile; second, has an excellent process; and, third, adds diversification to our existing holdings.

The Team – GuardCap Global Equity Fund has only been in existence since December 2014, although the two fund managers Michael Boyd and Giles Warren have been working together for the last 20 years. Their process was developed by Michael and has been revised and improved continually to the present day. The investment management team consists of four members, all of whom spend a minimum of 90% of their time focusing on the underlying investments of the Fund (and its associated bench, or as they like to call it, their "high confidence pool"). This is a rarity in many organisations, since many investment managers get pulled from pillar to post, having to wear more than one hat.

The Objective – There is no doubt that this is a growth portfolio when we look at the underlying investments. The performance objective is to seek long-term growth of capital with lower-than-market volatility. They do this by identifying stocks that have the following three characteristics:

1. The ability to achieve good levels of long-term sustained growth in earnings, to drive returns
2. An extremely high-quality business to protect against downside risk
3. Do not pay too much, or enter in at a valuation which ensures there is the potential for upside returns.

As with all of our funds, this philosophy is applied through a fundamental, company-selection-based process designed to create a concentrated portfolio of companies, each having significantly better quality and growth characteristics than the market average and each being undervalued in relation to its long-term earnings and cash flows at the time of purchase. In short, GuardCap consists of out-and-out fundamental stock pickers and genuine long-term thinkers.

Has this been achieved? The Fund has a live track record coming up to four years (the managers obviously have a longer track record at their old "shop") and has outperformed the MSCI World Index (from inception to 27 September 2018, the Fund posted 108.86% in GBP terms versus the MSCI World Index of 69.74%). As for volatility, this has been slightly more "bumpy"; but, when analysed, the Fund has protected on the downside more than the index. Since this is what we are interested in, because winning by not losing is the ultimate investment process over the long term, the answer is a firm YES.

The Process – As touched on above, this has been enhanced over the last 20 years and they have a very clear step-by-step process to address the Fund's objectives. After screening the entire investable universe, they seek a proven track record of quality growth (at both company and industry level), a sustainable competitive advantage, high returns on invested capital and excellent management – these are called growth metrics. There are also five quality criteria: avoiding heavily leveraged companies; diversification of revenue stream; business maturity; high cash conversion; and exhibit foundations for sustainable growth (strong corporate governance and associated ethical and social practices). Last, but definitely not least: avoid overpaying. This is only the starting point: from here there are another 4 layers of review, followed by company meetings, before making a final decision. There is also a clearly defined portfolio-construction process.

Integrating it into the Ravenscroft Family – After finally finding a fund that can stand alongside Fundsmith and Lindsell Train, part of our process is to ensure it adds something different or, in investment-speak, "diversification" to our strategies. The Growth Strategy invests in three global-equity funds, and the crossover between them is minimal – what I mean by this is the GuardCap portfolio has different stocks to the existing holdings. In fact, there is no crossover between GuardCap and Lindsell Train, seven of the same stocks with Fundsmith and only two of the same with Lazard Global Equity Franchise. When we look at this mathematically, 70% of the GuardCap portfolio is not owned by our existing holdings – this is positive for your portfolio.

As with all our investments that reside within our portfolios we spend the majority of our time looking at the process and knowing what we own and why we own it – as well as having open, honest and transparent relationships with our chosen managers. And we are more than happy to introduce GuardCap to you as part of our extended family.

STOCKS IN FOCUS:
by BEN BYROM

Your quarter's mash-up of Blue Chip's movers and shakers...

We finished last quarter's stock-in-focus on Intel, so it seems a fitting place to start this quarter's round-up of what's hot-or-not in and around our universe. Intel looks like a company on the ropes: it's still on the lookout for a new CEO after firing Kraznich for an illicit affair, but this looks more of a smokescreen behind the board's real motive as they face the embarrassing reality that the Company has ceded its technological leadership to the competition. Now we learn in a Company announcement that it can no longer keep on top of demand for its 14nm product and is having to outsource production to competitor foundries. What's the real cost? In the short term it gives competitors a bit of breathing space; however, if Intel can't get to grips with the issues and further delays are experienced that breathing space may materialise into a change of perception. Intel has led the pack in both breakthroughs and quality for decades. It has ceded its breakthrough crown; it can't afford to cede its quality crown as well.

Big Tech has been in the headlines for most of this year for both good and bad reasons: whether it's for stellar market returns and $1 trillion market capitalisations or investigations into election meddling, hurting competition and intentionally stifling the free exchange of ideas. It feels like the era of Big Tech's freedom is coming to an end as lawmakers in the US and Europe make angrier noises over their dominance and reluctance to 'play ball'. Google's outright snub by refusing to send one of its top brass to the latest round of congressional hearings – designed to assure law makers they were addressing concerns over election meddling – clearly angered many. An unwillingness by one of the most influential digital platforms in the world to engage with senators and take an influential role is unnerving. Google can to some degree thank government intervention in its success; an anti-trust lawsuit against Microsoft opened up the internet browser market that enabled Google to launch its Chrome browser ten years ago. Today, Google's dominance in search engines is enough to elicit the attention of the Department of Justice. Making enemies in the corridors of power will almost guarantee action of one sort or another. We remain mindful of the power games: if we believe ideology gets in the way of sound business sense, then we'll have to move on.

Source: Nike

Nike is another firm that isn't afraid of offending or dividing opinion by endorsing social issues. The masters of marketing were at it again when they launched their Just Do It campaign in celebration of its slogan's 30th birthday. The advert featured out of work NFL Quarterback Colin Kaepernick, best known for his own stance against injustice by taking a knee during pre-match national anthems. Reaction was fierce and largely derogatory towards the brand and the stock sank over 2% in initial trading following its reveal. However, within weeks it has become abundantly clear the decision to feature Kaepernick is starting to pay off big time. Nike has received a ton of free advertising whilst online sales have seen a significant boost. Research from Thompson Reuters suggests that within 10 days of the advert's launch, Nike's out of stock items on its online store soared 61% whilst at the same time it has managed to cut the number of items it had on discount. It was too soon for the Company to actually quantify their campaigns impact during its quarterly report (released on the 25th September) but the numbers were strong with revenues and net income growing 10% and 19% respectively year-on-year. Importantly, its direct-to-consumer sales channel saw revenue growth of 12%, driven by its digital strategy that grew revenues by 36%.

Proof content is king in the entertainment world was evidenced by The Walt Disney Company's sports programmer ESPN. In a press release announced on 20 September, ESPN claimed that its direct to consumer streaming service ESPN+ had hit 1m subscribers in just over 5 months – a stunning achievement for any subscription service. We can't wait to find out what's in store for subscribers when Disney launches its own subscription channel for Disney content. However, the Company's service will have to do it without the technology a successful buy-out of SKY Plc would have provided. 21st Century Fox's bid (backed by Disney) was outdone by its rival Comcast in a round of sealed bids adjudicated by the Panel of Takeovers and Mergers. Comcast's winning bid of £17.28 a share blew Fox's bid of £15.67 out of the water. Sources close to the matter claim that Comcast was determined to win with a sufficient-enough premium to sway other shareholders to back the bid. Disney has agreed to sell its 39% holding in Sky (acquired when it bought Fox) to Comcast, netting a windfall of some $15bn, money that can go towards reducing debt or programming. Shares have bounced back nicely following the news.

For further information please feel free to contact us:

Mark Bousfield Managing Director

t: +44 (0) 1481 732769

e: funds@ravenscroftgroup.com

Ravenscroft Investment Management Limited,
PO Box 222, Level 5, The Market Buildings,
Fountain Street, St Peter Port, Guernsey
w: ravenscroftgroup.com

Ravenscroft