Ravenscroft

Quarterly Newsletter Q4 2021

COMMENTARY

by MARK BOUSFIELD

As we roll into 2022 it feels like – despite the huge advances we have taken in terms of vaccinations and boosters – we're starting off in a similar position to that of last year. The headlines are still dominated by Covid and, as I write, potential lockdowns and border closures. BUT, we mustn't forget that we have come a long way and are continuing to advance: it is vital to keep this in mind and look forward. I'm sure we have plenty of rough water yet to navigate, but navigate it we will. As a business, no matter the backdrop, we remain entirely focused on meeting our clients' investment objectives. That focus has never been more important than over the last couple of years.

Following a strong 2020 performance, 2021 has been tougher for our discretionary managed, multi-manager portfolios. Whilst our investment themes remain strong for the long term, some areas struggled during the year and this impacted the overall performance. In particular, our exposure to emerging markets has negatively impacted portfolio performance – along with some consumer staples.

Given the extremely strong economic rebound, thanks to the unprecedented monetary and fiscal injections and vaccinations, it is little surprise that some of the more cyclical and value driven areas of the market outperformed. This included some sectors we have little exposure to, given our thematic and valuation based approach, such as energy and banks, which rose by 41.4% [(1)] and 29.1% [(2)] respectively. On the positive side, our holdings in technology stocks, UK equites and our global value-plays, such as Lazard Global Equity Franchise, performed admirably.

It is also interesting that the performance of markets became very narrow as the year progressed. For example, only ten companies (including Microsoft, Apple, Facebook, Alphabet and Tesla) have delivered 40% of the MSCI World Index's return. As you know we have some exposure to these companies, but that exposure has reduced over time as valuations have become increasingly stretched. This is sensible, given our focus on long-term investing, as it is unlikely that these companies can continue to justify such lofty valuations moving forward, despite their positive fundamentals. At the same time, we remain confident that our preferred investments look attractive from a fundamental and valuation perspective and have the potential to deliver superior returns over the next few years.

> "Sometimes I feel like I've been here before
> It's like the past knocking on my door
> Sometimes I feel like I'm standing still
> Or better yet I'm running up a hill"
>
> ***Fresh Start** - Joan Jett and the Blackhearts (2018)*

As ever, and particularly after a year like 2021, we go back to basics and revisit our investment themes and decision-making process. This is all part and parcel of investing: we may have been working as a team for almost twenty years, but we are in a permanent state of evolution and learning. There won't be any major changes – our core themes remain very attractive, relevant investments, and will remain at the heart of our portfolios – but we will be seeking to add other themes, such as environmental solutions. We remain cognisant of the changing world and the potential risk of further interest-rate hikes and inflation, both of which my colleague Kevin Boscher will explain in more detail, on the following pages. Given this evolving macro backdrop, we are expecting a more uncertain and volatile investing environment, but this will provide us with the opportunity to make new long-term investments, or top up some existing positions should they reach attractive levels.

In Q1 2022 we will be launching a new fund in our offshore fund range, Ravenscroft Global Solutions. We are capitalising upon our robust, repeatable investment process which will have environmental solutions at its core with satellite positions in highly thematic equity exposures, such as basic needs, resource scarcity and energy transition. We believe that companies which help to solve the world's chronic challenges should experience faster growth, fewer regulatory problems, and superior profitability far into the future. Further information on the fund can be found in the "Theme in Focus" section of the newsletter.

As ever we'd like to thank all our clients for their ongoing support, we are here to help if you have any questions, and as stated earlier, the team is entirely committed to ensuring we meet your long-term objectives.

PORTFOLIOS

CAUTIOUS PORTFOLIOS: LOWER RISK

by ALEX CHAMBERS

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 Income strategy returned 2.2% [3] over the final quarter of 2021, bringing the performance for, what has been another somewhat volatile year, to 4.6% [4].

Looking back a bit further, since the start of 2020 we have quite clearly been in a volatile environment with extreme changes to the value of equity markets and, more recently, periods when bonds generally looked to be challenged by the desire among central banks to raise interest rates in order to stem inflation. So, despite the choppy waters, we are pleased to have delivered a smooth investment journey for investors in the Cautious strategy. Over the whole 'pandemic period' (2020 & 2021) the strategy has returned 9.1% [5], versus the sector average of 6.8% [6] and, when one takes a step back, we would like to think we have achieved the key goals the strategy aims to achieve over the long term.

Turning to the latest quarter, the strategy was ahead of the sector average, which is pleasing. This was partly attributable to the equity allocation: all of the funds within this part of the portfolio beat their respective sector, IA Global Equity Income, which returned 6.1% [7]. Three of the four equity funds in the portfolio returned nearly double this; the relative laggard, Fidelity Global Dividend Fund, returned 6.3% [8] before currency hedges. The manager of the Fidelity fund has a strict valuation discipline and kept the fund out of some of the 'hotter' areas of the market, i.e. US technology exposure. While this did act as a headwind more recently, it also provides the overall portfolio with some diversification should market leadership alter from the (currently) very small set of favoured stocks.

The portfolio's bond allocation had a relatively tough quarter since central bankers were deciding how to tackle the topic of inflation while also considering the fact that we're not yet through the Coronavirus pandemic. Most of the bond funds in the portfolio were therefore roughly flat with the main standout performer being US Treasury Inflation Protected Securities. This position was implemented to help the portfolio navigate a period of uncertain inflation levels and it has performed over and above what we would have expected in the scenario that has played out. On the other hand, PIMCO Global Investment Grade Credit was the biggest detractor, falling 0.6% [9], struggling with the arrival of the Omicron variant thanks to its pro-cyclical stance. We remain comfortable that the fund is being managed well and would expect nothing less from an investment manager with PIMCO's pedigree. Another detractor was Pictet Short Dated Emerging Market Corporate Bond Fund: this was mainly hit by the negative news regarding the Chinese property developer, Evergrande. While the fund did have a small exposure, we are happy with the way the team managed the situation and believe that, from here, it should still deliver strong returns over the next few years.

We are looking to introduce a newcomer to the portfolio and will write in more detail about this fund once it has been implemented. The Sanlam Hybrid Capital Bond Fund offers something genuinely different to the other fixed-income exposure in the portfolio. We believe it to be an idiosyncratic opportunity – run by a very experienced and successful team in this niche sector – that could benefit the portfolio's overall return over the next few years.

Looking forward, we are hopeful for a more favourable environment for investors while remaining confident that our quality assets have the ability to provide healthy returns over the longer term. We would like to take this opportunity to thank all of our investors and clients for their continued support and to wish you all a Happy and Prosperous New Year.

12 MONTHS ROLLING PERFORMANCE

	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017	Annualised Since Inception 31/12/11
Cautious Portfolio	4.6%	4.3%	11.2%	-3.3%	4.7%	5.3%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results. Source data: Ravenscroft Investment Management Limited and FE fundinfo; collated 05/01/2022.

BALANCED PORTFOLIOS: MEDIUM RISK

BY GEORGIE FLETCHER

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.

In short, after many years of strong performance, 2021 was tougher for the portfolio: some holdings underperformed and some sectors struggled, whilst areas to which we do not have any exposure experienced a rebound.

We would expect total transparency from our underlying fund managers, whether good or bad. With that ethos in mind, we have highlighted where the portfolio has underperformed, relative to peers, and the relevant steps we have taken in addressing this as we plan for the year ahead and beyond.

The Balanced strategy posted 1.1% [10] for the final quarter of the year, versus the IA Mixed (20-60%) Sector at 1.8% [11]. This brings the strategy's 2021 performance to 4.2% [12] versus the sector at 7.2% [13]. When considering a Balanced mandate, monitoring performance across these short-term periods can be useful; however, it is also necessary to consider your investment time-horizon and take a step back to look at returns over a longer time frame. If we look at the strategy versus the sector over the last five years, the strategy is still comfortably ahead at 37.3% [14] versus 26.2% [15].

November was a particularly tricky time for markets with the emergence of the newest Covid-19 variant, Omicron, weighing on investment sentiment. We saw bond yields lower along with further decreases in commodity and oil prices. Omicron has stoked fears that restrictions may be reintroduced (lockdowns having already been seen across Europe). What this means for businesses, however, has remained opaque. That said, we are expecting a continuation of the economic recovery, albeit with some likely volatility along the way. We would highlight that markets have not reacted in the way in which they did in February of last year.

Casting our minds back to 2020, the world was catapulted into new ways of living: although home-schooling and working from home seemed novel at first, life soon became both tedious and monotonous. Nevertheless, people and businesses very quickly adapted – and our investment themes shone through the lockdown gloom.

We realised that, however inadvertently, our long-term investment themes provided to be "pandemic-proof" and we had built a portfolio which very successfully weathered the Covid-19 storm. Advancement in technology, the importance of healthcare, and reliance on every-day essentials had never been more relevant and our tried and tested investment thesis protected the portfolio on the downside while ensuring that we regressed a lot less than our peers during the most turbulent market environment.

PORTFOLIOS

A year on, I think many of us are shocked (and, at this point, utterly frustrated) that Covid-19 is still the main topic of conversation across the dinner table and that lateral-flowing remains part of our morning routine. However, the one thing that is noticeably different this year is how markets have handled the pandemic: it has been pleasing to see them stay buoyant and investors largely optimistic, 2021 however, has been a much tougher environment for the strategy and our investment themes.

The first half of the year, saw investors switch their preference away from growth stocks (where we actively look to gain exposure) towards areas of the market dubbed as "value". Despite a lot of chatter concerning the divergence, this has been a neutral factor for the strategy after a growth rally in June/July of this year. Both indices are virtually in line, year-to-date. The main culprit this year has been the UK vs. Emerging Markets ("EM") and specifically our type of EM exposure to the emerging consumer, which has been particularly weak.

Over the last decade, we have successfully invested into global themes to meet our clients' needs and wants. However, following a tough period for the UK with BREXIT uncertainties, we witnessed a clear disparity between the UK region and US for instance, and took steps to take advantage of this growing investment case.

Whilst we took the opportunity to invest, our exposure to the UK was still somewhat underweight relative to the peer group, alongside a higher allocation to emerging markets. Some areas of EM have been better than others this year: yet in a world where the UK region has been rallying since mid-February, this would translate to a large headwind and a large part of the reason why the strategy has lagged this year.

Across the quarter we again addressed this, by reducing our Latin America exposure, held via Brown Advisory. Using the proceeds, we introduced a new holding into the portfolio – RobecoSAM Smart Materials, which sits at a 2% weight within the thematic equity allocation. This holding creates exposure to an area called "environmental solutions" which Shannon discusses further in her "Theme in Focus" on the following pages.

RobecoSAM offer a more comprehensive approach to sustainable investing, one which goes beyond simply investing in natural resources. The team specifically invests in companies which seek solutions to addressing the challenges of resource scarcity: namely areas targeting the more efficient processing of innovative materials, technologies enabling more automation and efficiency in industrial manufacturing, as well as the recycling and re-use of materials.

Looking forward to 2022, we believe we have a robust and well-constructed "navigation portfolio" and an understanding of how we would like the portfolio to look in the months to come. We remain attuned to world events and their potential impacts on the strategy, while staying true to our ethos of sticking to high-quality, global, businesses with an alignment to our long-term investment themes. As mentioned, there are a few funds and areas we are seeking to introduce into the strategy throughout the year and we look forward to communicating these changes to you as and when opportunities arise.

12 MONTHS ROLLING PERFORMANCE

	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017	Annualised Since Inception 31/12/11
Balanced Portfolio	4.2%	7.7%	12.4%	-1.4%	10.4%	8.7%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results. Source data: Ravenscroft Investment Management Limited and FE fundinfo; collated 05/01/2022.

GROWTH PORTFOLIOS: HIGHER RISK

by SAMANTHA DOVEY

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%.

If only life was simple. Unfortunately, if history teaches us anything, life seldom is. Just when we thought we had turned a corner on the pandemic, the Omicron variant raised its spikey head at the end of November and markets started to jitter once again! Although it should be said, markets did not fall anywhere near the levels we saw in February 2020.

Considering this backdrop, the Growth strategy posted 1.5% [16] versus the IA Mixed Global (40-85%) Sector at 2.7% [17] for Q4 2021, which brings the year-to-date numbers to 7.5% [18] and 10.9% [19] respectively. It is never a nice feeling to underperform the sector average and the following paragraphs will explain why this has happened; the last few will give you an insight into our plans for the strategy. However, before we delve into what we saw happen, in terms of performance, we made one active trade across the quarter.

We made the decision to re-introduce RobecoSAM Smart Materials back into the strategy at a 5% allocation. This was funded through the Brown Advisory Latin America proceeds, coupled with a 1% trim of Pictet Global Environmental Opportunities Fund, bringing the strategy's overall environmental solutions exposure to 10%. The investment case for RobecoSAM has been communicated on factsheets and is detailed within this newsletter in the Balanced strategy commentary. Of course, should you require any further colour, please do feel free to make contact.

So, what happened in 2021 and what were the lessons learnt?

Brown Latin America – this Fund wins the biggest detractor of 2021 and cost the strategy 1% in terms of performance. The allocation has been a bugbear over the last few years – you have to go back to 2016 since it really outperformed. Regular readers will hear us continually discuss the open, honest, and transparent communication we expect from our fund managers and, looking back on the correspondence we had with the team at Brown Advisory, maintaining a position in the Fund made sense given the information at the time. We had been incrementally decreasing our position until the full exit in November 2021; however, and in hindsight, an earlier exit may have been the best course of action. Having said this, Brown Advisory had a strong third quarter of this year; moreover, at several points during 2021 it served us well by going up when other holdings were falling.

The lesson learned on this exposure? Sometimes regions are hated far longer than they should be and, for that, you need to be compensated in the form of growth to negate the currency depreciation. Looking forward, never say never, but in future we will access this region via our global emerging market managers.

Lindsell Train Global Equity – you may have seen Nick Train (the "Train" of Lindsell Train) in the business news a lot over 2021. Overall, it has tended to be about lagging performance. It should be made clear however that the Fund we hold and invest in, the Lindsell Train Global Equity Fund, is run by Michael Lindsell (the "Lindsell" of Lindsell Train).

We have been exceptionally happy holders of the Fund since its launch back in March 2011, which up until 2021, had posted an impressive 369.1% [20] versus the MSCI World Index of 274.1% [21]; an outperformance of 95% over 10 years, a simple 7% per annum outperformance, to find a fund with this kind of consistent outperformance is a rare animal indeed.

Performance for 2021 has indeed been the only blot, on an otherwise spotless copy book for Lindsell Train, as they posted 0.6% [22] versus the MSCI World at 22.9% [23]. The divergence in relative underperformance started in March of this year, and as regular readers know, we have a very strong monitoring process on all your underlying holdings, so this did not go unnoticed. The key however, is to understand why.

We have spent a lot of time over the last nine months understanding this deviation and asking ourselves if we want to own this exposure going forwards. The current exposure in the strategy amounts to approximately 8%; if we look back to 2015, this was 15% – we have been trimming on the back of high valuations, as we recognised the underlying investments were quite expensive.

As we did with Brown Advisory – what was the lesson learnt? The upshot is, just because you have held a fund for a long time (and its track record from inception is exceptional), it should not be cut any slack in terms of underperformance. We have a formal process in regard to reviewing underperformance relative to benchmark, no matter who you are.

Life has not all been bad during 2021; in fact, there have been some excellent bright spots! We had five holdings which added more than 1% each in terms of their contribution to performance. Lazard Global Equity Franchise, our global equity value exposure that found 2020 very difficult, added over 2% this year. Similarly, Ashmore Emerging Markets Frontier Equity, which struggled last year, posted 25.3% [24] for 2021; at a 4.5% allocation, this added a healthy 1.3% for the year. Small but mighty!

2022 and Beyond

As Mark has highlighted, we have not taken the performance of 2021 lightly, and whilst we have kept up with our relevant sectors (and well ahead on a 5-year basis), the market we are currently navigating has demanded a long, hard, look in the mirror. I have certainly identified a far greater number of wrinkles!

Therefore, you may have noticed that over the last twelve months we have added exposures you may not normally have expected from us, such as Polar Capital UK Value, the first pure UK fund held in 10 years. The investment case is mentioned in the Balanced strategy commentary on the previous pages; essentially, it was highlighted as an attractive investment opportunity based on the valuation dislocation between our long-term themes and the unloved UK market.

We bought this Fund back in the beginning of March this year and it has posted 15.9% [25] since we invested. As we continue to question ourselves and review past decisions, there will undoubtedly be further changes in 2022 as we reassess our investment environment.

To all our investors, thank you for your continued support. It is greatly appreciated since we quite literally cannot do this without you. From a personal perspective, I would also like to add my own best wishes for 2022. I absolutely love the fund world in which I operate and only you can make this happen.

12 MONTHS ROLLING PERFORMANCE

	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017	Annualised Since Inception 31/12/11
Growth Portfolio	7.5%	9.7%	15.0%	-3.1%	13.0%	10.0%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results. Source data: Ravenscroft Investment Management Limited and FE fundinfo; collated 05/01/2022.

GLOBAL BLUE CHIP PORTFOLIOS: HIGHER RISK

by BEN BYROM

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.

The Global Blue Chip strategy returned 4.3% [26] whilst the MSCI World Index produced a total return of 7.4% [27]. Year to date, the strategy returned 15.7% [28] despite inflation fears creating a volatile backdrop for equities. During the quarter all areas of the portfolio contributed to performance in a positive way. Our overweight to healthcare and consumer staples aided performance despite a number of the underlying holdings facing headwinds during the quarter. Our best contributing sector was consumer discretionary, driven by our stock picks in luxury. Stock picks within the communication sector also outperformed, but the overall return was marginally negative as Alphabet's positive contribution was offset by market concerns over Disney+ subscription growth and Omicron disruption fears. The biggest under performance was in technology, as stock selection was impacted more by inflation induced volatility than the broader sector, whose returns were focused on a select few big tech names such as Apple. As one can see in the charts below, it was another strong quarter for the more cyclical sectors in the portfolio as investors sought inflation plays. Investors in the Global Blue Chip strategy will know only too well that we do not favour this area of the market because of its high capital expenditure demands, little control in setting product prices, and varied profitability as a result.

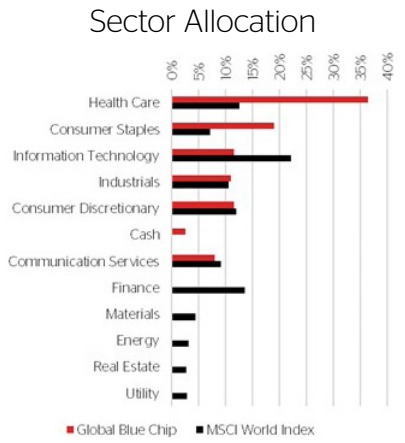
Turning to the underlying businesses, GlaxoSmithKline was our best performer after the drug-maker beat expectations with strong growth from both its pharma and vaccine units. We expect growth to continue into 2022 and beyond as the ongoing turnaround strategy starts to bear fruit. Importantly, we feel the demerger of its world-class consumer business unit will help generate a change in investor attitudes with the underlying strengths of the separate businesses becoming more visible. We remain very positive on GSK despite the negativity in the press.

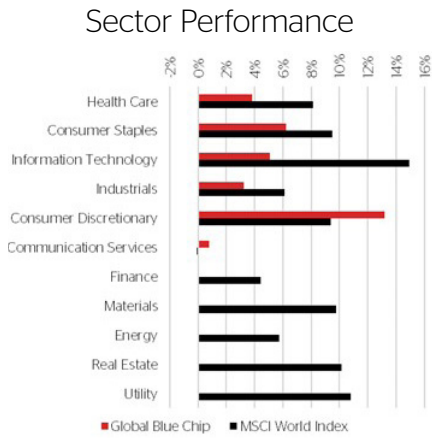
Roche also provided investors with a nice surprise during its Q3 trading update as stronger-than-expected performance led to them raising their full-year outlook. Additionally, Roche struck a deal to re-acquire a significant holding of its shares from Novartis – we consider the terms of the deal to be reasonable and likely to add per-share value for shareholders.

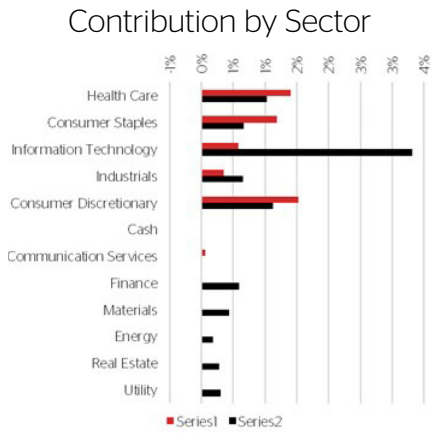
Microsoft announced Q1 2022 results on October 26th that beat both top and bottom-line estimates. Revenues grew 22%, net income 48% and the Company guided Q2 revenues ahead of consensus. With inflation eating into corporate profitability, Microsoft expects an acceleration of cloud adoption as businesses look to improve efficiencies and bring down operating cost structures in a bid to keep product-pricing competitive.

A strong trading update from LVMH aided its share-price performance as it reported robust growth and little disruption from China's common prosperity policy – LVMH management indicating that the policy 'seems to be positive' for the sector with the 'bulk' of LVMH's sales derived from the upper or affluent middle class.

We had been for some time edging out of Richemont, the luxury jeweller best known for its high-end range of wrist watches. For reasons unbeknown to us, the shares went on a tremendous run for much of this quarter, culminating in a parabolic move up so we decided to edge-out at various stages into this strength since the Company's valuation had, from our perspective, disconnected wildly from its fundamentals. It will, therefore, take some correction for us to want to get back in, but we do like the business and we will reconsider if we think the valuation is attractive enough. The capital raised was used to initiate in some new holdings explained below.







The charts above map the Fund's holdings against that of the MSCI World in terms of sector weight, sector performance (we gross-up the weight and return of the stocks within each sector) and then by contribution to offer readers a rough estimation of where and how returns have materialised. Source: FactSet, compiled by Ravenscroft Investment Management Limited

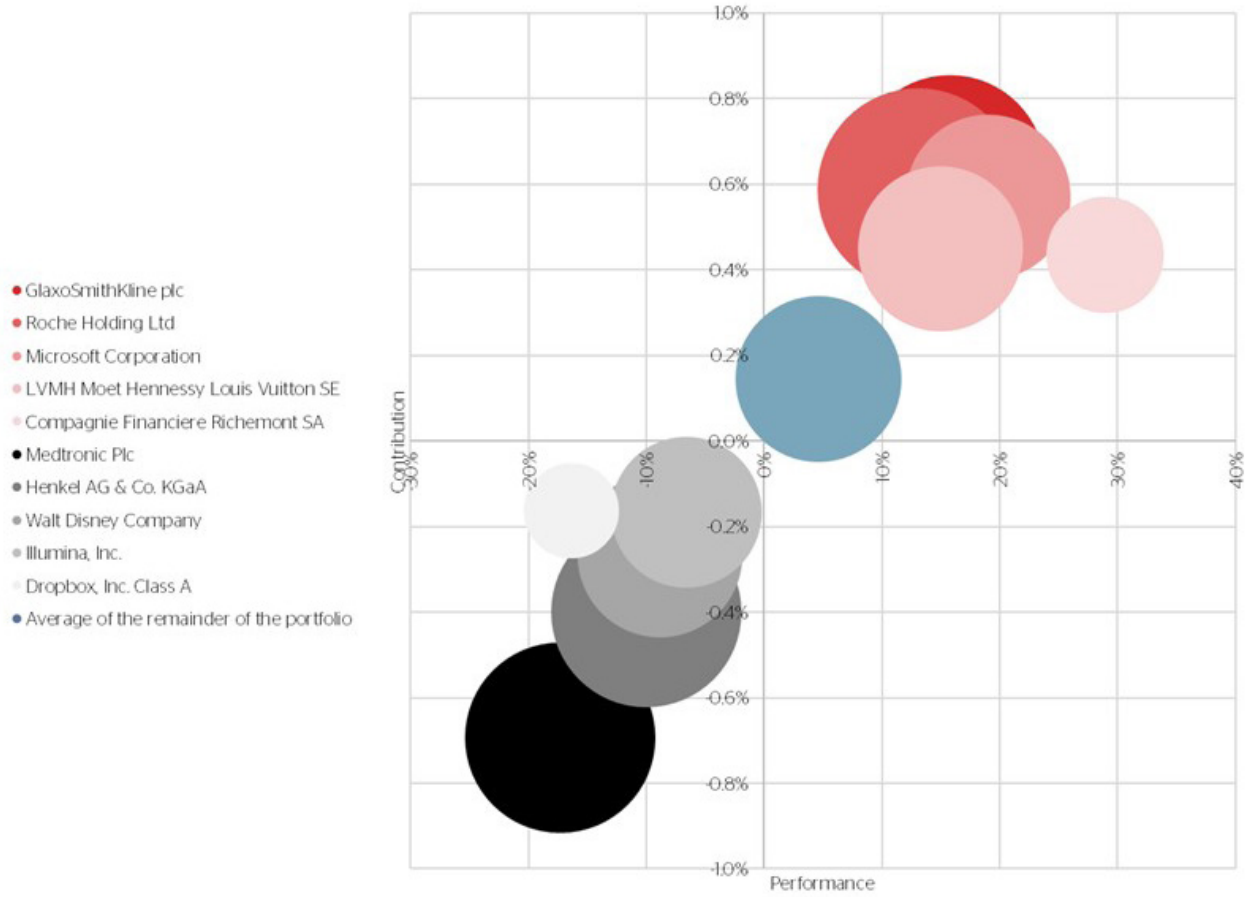
Onto the detractors and we can see in our bubble chart that Medtronic led the charge lower as sentiment around medical device makers deteriorated due to COVID-19 challenges, particularly in the US market, and continued shutdowns internationally. Reduced revenue guidance from management in its latest announcement and the prospect of supply-chain issues delaying the roll-out of their new surgical robot assistant, 'Hugo', (an estimated impact of up to $50m-$100m in lost sales) darkened the mood. The delay in its Renal denervation trials for hypertension also weighed on sentiment and contradicted management's narrative that a robust pipeline would be a positive catalyst for sales.

Henkel disappointed shareholders with its Q3 earnings report as it cut Full Year 2021 guidance whilst stubbornly high raw material inflation looks like it may start to eat into FY 2022 estimates. More pressing is the fact that the Company has been investing into its consumer business for over three years without any meaningful signs of a turnaround.

Sentiment around Walt Disney soured after the Company missed on streaming subscriber numbers for its flagship Disney+ service. The Company was not alone as Netflix also disappointed. Both businesses pointed to the impact the COVID-19 pandemic had on pulling forward subscriptions as people were asked to stay at home. Despite disappointing an optimistic Wall Street on short-term estimates, the Company stuck to its longer-term forecasts of between 230-260m subscribers by 2024. The outbreak of Omicron in the US also weighed on shares as investors feared renewed restrictions and the possible impact this would have on revenue for its Parks and Resorts business unit. We added to our position on the weakness as we believe in the Company's long-term streaming prospects.

Illumina's shares have been rather jumpy of late following the re-acquisition of GRAIL, a business it had spun-out in 2016. The transaction has attracted the ire of regulators – especially in Europe as they had not yet approved such a move. Illumina believes it has acted properly, since GRAIL has no business in the EU. Nonetheless, we feel investors might be a bit perturbed by the price paid ($8bn) and the impact integrating GRAIL will have on the financials in the short-term: GRAIL currently has no meaningful revenue. Bears also argue that the deal creates conflicts with a number of Illumina's existing clients who may be looking to develop their own liquid biopsy cancer screening tools; however. Illumina counters that it is committed to providing equal access to all. Whilst it is a

Global Blue Chip Strategy Bubble Chart



The bubble chart above maps the top five and bottom five contributors to performance. The horizontal axis represents the stock's absolute performance over the time period whilst the vertical axis outlines that stock's contribution to performance through the period. The size of bubble represents the average weight in the portfolio. The blue bubble represents the average of these metrics for the remainder of the portfolio. Data Source FactSet, compiled by Ravenscroft Investment Management Limited.

big bet, we believe it is a bet that has asymmetry on its side: the market for early cancer detection is predicted to be between $30Bn-$130Bn in the US alone.

Despite beating on the top and bottom line that prompted many Wall Street analysts to upgrade their price targets, shares in Dropbox got punished in November as part of a broader tech-driven sell-off. There are, however, a number of things to like about this software as a service ("SaaS") company. 1) it continues to grow both revenue and free cash flow with Average Revenue Per User ("ARPU") climbing steadily higher as the number of paid subscribers reaches 16.5m. 2) Management continue to drive innovation in order to meet customer needs and maintain the relevance of their product. 3) Cash flow generation continues to scale with the growth of the business and management expect it to grow to over $1bn by 2024 which they intend to distribute to shareholders through buy-backs (which hit $181 million last quarter). Dropbox's share count could be down considerably over the next few years, which will continue to improve the earnings and free-cash-flow-per-share dynamics, and thus be value-accretive for holders as this Company continues to grow. 4) the Company looks cheap on a number of valuation metrics relative to SaaS peers.

During the quarter we carried out a number of transactions. The two main ones were the introduction of Adidas in late November and Netflix in mid-December. You can read all about Netflix in this quarter's stock in focus and why now is the right time for Blue Chip to own this streaming juggernaut.

We introduced Adidas since the Company is attractively priced by our metrics and is doing some fundamentally interesting things. Weighing on shares have been concerns about growth due to supply chain disruptions and a consumer-led boycott of Adidas products in China. (The Company, as part of a consortium of Western brands, raised concerns over forced labour allegations in the country's Xinjiang region.) Whilst the slowdown in China is serious, there are things the Company can do to mitigate the impact and win over consumers, but it is likely to take time. However, we particularly like what Adidas has been doing with regards to its direct-to-consumer ("DTC") strategy. We know from owning Nike what a successful DTC strategy looks like and the impact it can have on customer engagement, sales, and profitability. Should we see something similar take place with Adidas then we feel shares are undervalued even with the China situation ongoing. Overall, we like the athleisure market: we all know (deep-down!) after a heavy Christmas that we should be moving around more, and we see no reason why this trend should abate anytime soon.

Both positions were funded by removing companies from the portfolio. We sold Richemont, for the reasons mentioned above, and Novartis, the Swiss healthcare conglomerate. There are things to like and not to like about Novartis. We considered that, on balance, the R&D engine was coming up short on new innovative products and that its conglomerate configuration may have something to do with that. There were also woes with its generics business and the CEO is looking at options to streamline the business whilst at the same time look to augment existing product lines and tap into new exciting markets through a series of acquisitions. Growth by acquisition carries significant risk and whilst all major pharma companies are 'at it' we have a preference for those that can also innovate at the same time. At this point we feel Novartis has some work to do.

12 MONTHS ROLLING PERFORMANCE

	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017	Annualised Since Inception 31/12/11
Global Blue Chip Portfolio	16.0%	10.7%	21.3%	3.1%	10.7%	12.6%

Data is based on sterling based model portfolios net of a 0.75% per annual management fee. The models are run in real-time in line with our equivalent client portfolios and provide a fair representation of actual performance achieved by clients in our opinion. The models are maintained internally and are not subject to external auditing. It is important to note that past performance is not a reliable indicator of future results. Source data: Ravenscroft Investment Management Limited and FE fundinfo; collated 05/01/2022.

THEME IN FOCUS:
Global Solutions
by SHANNON LANCASTER

To round up the year, we are excited to share with you that we are launching a new fund in 2022. In this quarter's 'Theme in Focus' we will explore the core investment themes in our new Ravenscroft Global Solutions Fund which is initially being launched into our offshore fund range and is currently not available to UK investors.

If you are a regular reader, you will be familiar with our global thematic investment style. Changing demographics, emerging economies, accelerating innovation and environmental solutions are key themes. We believe that investing in funds which are exposed to these long-term structural trends will result in faster growth than the broader market. Over time, the investible opportunities within our themes have grown and we have found some very attractive funds in more niche areas, for example: decarbonisation, oncology and nutrition.

The newest member of the offshore fund range will be invested solely in equity funds that have exposure to a number of themes. At the heart of the fund, we have selected investments that focus on environmental solutions. We have existing exposure to this theme in our funds currently through Pictet Global Environmental Opportunities and KBI Global Sustainable Infrastructure – both of these funds will sit within the core of Ravenscroft Global Solutions.

Alongside the core sit the smaller satellite positions which will be investments in niche sub-themes, such as: basic needs, emerging equality, energy transition and resource scarcity.

All the funds share a common characteristic – they invest in solutions for the world's greatest problems. We believe that companies which help to solve the world's chronic challenges could experience faster growth and significant profitability far into the future.

We explore some of the sub-themes in more detail, below.

Basic Needs

We believe that clean water, adequate waste management, education, nutrition and access to healthcare should be available to everyone. This sub-theme provides exposure to businesses working along the value chain in these areas, for example: helping efficiently to preserve and treat water; or hygienically and cost-effectively to manage waste. Other examples, within nutrition, include: innovations to improve productivity in farming; increasing efficiency in food transportation and processing; and, maximizing the nutritional content of food.

Energy Transition

Over the next few decades, the energy sector requires a huge transformation as we transition to using more clean and efficient energy. Switching from non-renewable energy sources like oil, natural gas and coal to renewable energy like wind or solar requires technological advancements and a societal push toward sustainability. Although there is an urgent need for the energy sector to decarbonise, traditional energy companies are still very much an important part of the global energy mix. Moreover, as traditional energy companies switch their asset-bases towards renewable power, they could be part of the solution rather than part of the problem. To ensure a sustainable future, significant investment across the energy value chain is required – into areas like renewables, electrification, energy infrastructure and efficiency.

Resource Scarcity

It is predicted that by 2045 there will be nine billion of us on this planet; that is nearly two billion more people demanding food, water, energy and materials. As the global population rises and economies develop, resource scarcity is an unavoidable side-effect and an increasingly important factor to consider. As we deplete our stock of finite resources and environmental issues intensify, it is essential to consider one of our greatest resources, our ability to innovate. Banking on human ability to innovate and create is a promising investment approach of the future for the materials, food, water and energy sectors and beyond.

Emerging Market Opportunities

As a result of this rapid population growth, the number of middle class in developing countries will rise, pushing up incomes and the demand for resources like cars and electronics. This brings with it an acceleration of urbanisation, as hundreds of millions of people move from rural areas to cities, placing increasing demands on energy production and waste handling.

In addition, these regions are where the most extreme risks and opportunities associated with the environmental transition will play out over the coming decades. Many developing countries will likely feel the effects on climate change most acutely. The businesses in these regions must create environmental solutions in order to protect their populations and economies.

As a species we need fundamentally to alter the way we build our cities, generate energy, travel, grow our food and clothe ourselves. There is a wave of change coming over coming decades that will touch every single company in the world to some degree. We believe that the Global Solutions Fund will benefit as recognition grows.

We look forward to updating you all with further information on Ravenscroft Global Solutions. As always, if you have any queries please do not hesitate to ask.

Wishing you and your loved ones a happy and healthy 2022.

STOCK IN FOCUS:
Netflix
by BEN BYROM

In our 2018 annual presentation we spoke about how we were 'Investing in a Mad World'. During my part of the presentation, I discussed the importance of understanding the fundamentals and being able to value them as an essential part in cutting through the 'madness' that surrounded us at the time – in order both to protect ourselves and to maximise the potential from our investments.

To bring my point to life I compared Walt Disney, which had been a recent addition to the portfolio at the time, to Netflix. The difference between the two companies was stark: Walt Disney was flush with cash, content, and a proven business model that reinforced itself through the 'flywheel effect': Franchise Box Office hits would be monetised through ticket sales, DVDs, licence agreements with cable networks, theme park visits and merchandise sales – all of which would support, promote and reinforce Disney's most valuable franchises.

In contrast, Netflix at the time didn't have the franchises (it still relied heavily on licensing titles from the likes of Disney), it wasn't flush with cash as it was spending aggressively on building-out its own content slate since it did not have, at the time, a great deal of high-quality Netflix-produced content. In short, it didn't have a proven business model that one could consider sustainable.

From a valuation perspective, things did not get much better – Netflix was priced as if it would hit the moon and Disney wasn't – it's why the comparison worked so well for the presentation. The conclusion drawn at the time, and one that we carried with us for a while thereafter, was that the investment case for Netflix was riddled with uncertainties that were not compensated for in the valuation of its stock and that Disney was a much safer play on the direct to consumer entertainment industry.

So, after a price appreciation of >100% why are we buying in now?

A lot has happened over the intervening 3.5yrs through which the investment case for Netflix has only strengthened. From a financial perspective the Company has de-risked considerably. Subscription revenues are now at an inflection point where the Company can self-fund its own content production without having to assume more debt – this was a major stumbling block for us in 2018. Back then, cash flow was negative and debt was soaring, the threat of equity dilution was a real concern of ours. Today, the debt burden does not look unreasonable with various leverage ratios suggesting its balance sheet is now healthier than Disney, earnings before interest payments and tax also comfortably cover the interest payments the Company is obligated to pay on this debt and management have suggested that they are more likely to pay down debt than increase it in the near term. As Netflix continues to build its own content slate and revenue grows the debt argument will become less of an issue than it is today. To add icing to Netflix's financial cake, its balance sheet received an investment-grade credit-rating in October from S&P.

Today's content slate is brimming with quality and the Company has established a global network of production studios and content buyers that have the potential not just to engage locally, but on a global scale. This differentiates Netflix from many other content brands, in our opinion. For example, Disney owns some fantastic brands and content which it will happily export globally to anyone willing to pay, but it is very American in nature (although this, too, is changing). Netflix understands that there is an opportunity for locally created content that will enable it to build a stronger foothold within that region, building stronger ties to the region's subscriber base. In addition, the same content could itself become suitable for a global audience – for example Squid Game – adding value at no extra cost to its global streaming subscriber base. This 'Glocal' production model is a differentiator and competitive advantage in our mind and will help Netflix grow subscribers over time.

Another chief factor in Netflix's success is the Company's culture that devolves power to those at the coal face in each region. This empowerment allows talent to shine in cultures that may well be very different to the corporate board room at home. The trust top executives have in their regional teams comes from a process that involves hiring and retaining only the best people. In fact, Netflix's self-coined 'talent density' is another competitive advantage as it allows a host of other 'no rules, rules' to be implemented, aimed at reducing bureaucracy and free talent to flourish at the things they do best. We recommend Reed Hasting's book No Rules, Rules for those looking to learn more about the culture behind Netflix.

So, what about the value?

We introduced Netflix into the strategy around the $590 level which placed the shares on a price to earnings multiple (the amount of times one year's current earnings per share are reflected in the share price) of 45x (using 2022 earnings per share estimates) and 34.9x (using 2023 earnings per share estimates) according to current average market estimates produced by FactSet. To the purists this may still sound expensive, but we would counter that you are still buying a growing company with expectations of 15% future revenue growth per annum over the next five years which will result in annual revenues of over $50Bn. We expect Netflix to continue ramping up its content spending; whilst this will become a greater expense it will also add value. A greater slate of quality content will attract new subscribers and retain existing ones even in the face of future price increases since the value proposition will continually improve. This is important to note, since the profitability of the business gets better and better as the number of subscribers grows. Pleasingly, subscriber churn rates for Netflix are one of the lowest in the industry and

there is no reason to expect it not to stay this way. It is therefore entirely reasonable to expect the business to scale into a highly profitable one. Using our discounted cash flow approach, we believe, at $590, one is acquiring a business on an attractive Internal Rate of Return ("IRR") of ~12%.

What's going to drive the growth?

We don't see the race for the living room abating anytime soon. In fact, we see it getting hotter – attracting new entrants and a greater demand for original programming. However, we feel comfortable with Netflix because it continues to break new ground in the streaming industry. The company has a rich history in pivoting its business model at critical moments. Experimentation is encouraged and management is not shackled to legacy business units at the expense of innovation. At Netflix, you don't lose your job for making a bet that doesn't work out. You lose it for failing to deploy your chips in a manner that enables big things to happen or for showing consistently poor judgement over time.

Netflix will continue to benefit from the global expansion of the internet, which, in turn will attract streamers that both have a TV and those that don't – in other words they stream direct from a portable device. In addition, the company is looking at other mediums to attract subscribers, including gaming. Where the entertainment industry and the business models of those operating within it go is anyone's guess, but the trend is obvious to us and the price to enter this mega-opportunity on the coat-tails of a market leader and innovator is compelling.

BOSCHER'S (BITE-SIZED) BIG PICTURE: THE GLOBAL ECONOMY IS IN TRANSITION BUT THE OUTLOOK REMAINS FAVOURABLE

by KEVIN BOSCHER

The world economy is in transition from the recovery-boom phase, brought about by extreme monetary and fiscal stimulus, together with vaccinations, toward its pre-pandemic and secular steady-state growth. Although inflation remains a concern and longer-term threat, it is expected to turn down and gradually ease over the course of 2022. Central Bank policy is also changing, with the Fed leading the way as it removes some of its hyper-stimulative settings and starts to tighten policy. Having recovered very strongly from their Covid-induced lows, financial markets are also going through a transitional phase.

Given the evolving macro background and uncertainty around slowing growth, sticky inflation, and the emergence of Omicron, equities have likely entered a period of reflection with an increased risk of correction and elevated volatility for a while. However, the longer-term outlook remains favourable, and I expect a combination of Chinese policy easing, a less hawkish Fed and easing inflation concerns to support markets next year.

The global economy is slowing and remains out of sync as the Covid-induced and extremely powerful stimulus fades and activity reverts to its pre-pandemic and secular trends. This is especially true in China, where the economy has slowed substantially. The US economy is still expanding around a 5% annualised rate but will inevitably slow toward its secular trend of between 1.5-2%.

It is too early to know what impact Omicron will have on the outlook for next year, but the initial concerns and subsequent government reactions are a reminder of this acute economic vulnerability. A lesson from Delta is that it's very hard to stop the spread of virulent new variants but that vaccinations should continue to be very effective in reducing serious illness or deaths.

Inflation

The consensus view seems to be that the recent outbreak of inflation in the US and Europe is structural, and thus, sticky. The key argument put forward is that the combination of large monetary expansion together with huge fiscal injections has sown the seeds of excess demand. The post-pandemic disruption to global supply and demand across a range of goods, services and workers has also contributed significantly and is likely to last for some time.

As previously explained, I side more with markets and central banks here and don't share these inflationist views. The experience of Japan over several decades, together with the US since the Global Financial Crisis in 2008, confirms that monetary expansion alone is neither necessary nor sufficient for rising inflation.

If the money created is not used for economic activity, and is instead added to global savings, this tends to put downward pressure on both growth and inflation. This has, indeed, been the case for most developed economies for some considerable time with secular trends playing a major role. An ageing population (and shrinking work forces) means that there is a clear tendency to spend less and save more, leading to lower investment. At the same time, rising debt levels encourage austerity and repayments, which is a key factor behind sclerotic credit growth. Technological disruption also adds to these trends since it substitutes labour for capital and boosts productivity.

It's true that wages are rising in some sectors; however, increasing wages do not translate directly to inflation. If productivity in the affected industries is also rising, then this will offset some of the higher employment costs. In addition, this will not necessarily lead to increased demand since income could still be declining in real terms due to higher inflation. Given the uncertain backdrop, consumers might also wish to add to household savings rather than spend the extra income. Both structural and cyclical forces point to inflation falling next year – although nobody can be certain where inflation will end up.

Central Banks

How central banks and governments react to slowing growth and sticky inflation will also be a key factor for markets. Central banks are in a difficult position and under mounting pressure to "do something" about rising inflation.

The Fed is accelerating its balance-sheet tapering over the next few months, paving the way for rate rises in the second half of next year whilst the Bank or England has started to raise interest rates.

However, central banks are also aware that they need higher inflation and nominal growth to break away from the deflationary threat; hence, financial repression and keeping bond-yields low remain key objectives. I expect the Fed and other central banks to stay on the dovish side and to keep policy very supportive, particularly if growth weakens more than expected or inflation pressures start to ease. I also expect the People's Bank of China to end its austerity and ease policy next year.

Investment Outlook

I remain positive on the investment outlook for the next 12 months or so, although threats to growth and markets are rising. Global bonds should continue to be supported by several factors such as slowing global growth, an abundance of global savings, accommodative monetary policy and easing inflation concerns. In addition, bonds have already priced in a lot of bad news regarding inflation and could perform better than expected should it become clear that the Fed must back away from rate hikes. This is likely to result in lower US Treasury and other sovereign bond-yields. US inflation-linked securities (TIPS) should also perform well in this environment.

Equities face several challenges over the next few months and it is possible that the early part of 2022 will be met with rising price volatility and periodic shakeouts. Longer-term, however, stocks will continue to be buoyed by multiple factors. Provided that the Fed steps back from tightening policy too much, then the US economy should avoid recession and global growth will maintain its above-trend path for the next 12 months at least. Corporate earnings have been strong and should continue to grow next year, albeit at a slower pace; the current monetary environment remains hyper stimulative; global savings are huge, hence

global liquidity will continue to flow into risk assets; supply disruptions have started to ease and inflation is likely peaking; and, valuations are stretched in some areas, but they are some way below their historic highs. In some cases, they still look very cheap in absolute and relative terms, most notably the UK.

Our long-term themes remain attractive given an accelerating pace of digitalisation and technology spend, increasing spend on healthcare, a greater determination to address climate change and environmental challenges, and growing consumer power. Although cyclical and value stocks may struggle for a while given the changing economic environment, they should enjoy support from an eventual China easing, a more dovish Fed and falling inflation as next year progresses. Growth stocks should also perform well if bond yields remain low.

The cyclical profile of emerging markets remains bearish going into 2022, largely due to slower Chinese and global growth, a low vaccination rate, stagflation risks, a strong US Dollar, and recent rate hikes. However, the outlook for EM should improve as the year progresses.

The world economy, policy and financial markets will go through major transitions next year. I expect this to fuel increased volatility in financial asset prices and precipitate big leadership changes in global equity markets, and perhaps currencies. A barbell investment strategy remains sensible with an appropriate balance between value, growth, cyclical, and defensive equities with hedges in place against the prospect of both higher inflation and weaker growth. A more active investment strategy, rising volatility, a greater dispersion of returns both within and across asset classes and stock selection could all play a key part in performance next year. A significant China easing, the Fed turning more dovish, inflation concerns subsiding (or Omicron proving less dangerous than feared) would almost certainly be bullish for markets. It makes sense to be cautious and stay a bit more defensively positioned for now. However, the longer-term investment outlook remains favourable, and we will be looking for opportunities to add to our themes and other preferred holdings over the next few months.

Data Sources

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11. IA Mixed Investment 20-60% Shares Sector, Total Return 30/09/2021 to 31/12/2021. Source: FE fundinfo.
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All performance data above was collated on 05/01/2022.

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