March 2016

ConBrio Sanford DeLand UK Buffettology

ConBrio OEIC

ConBrio THE SPIRIT OF INVESTMENT

| Fund Strategy |

The Fund Manager's investment methodology is based upon the principle of Business Perspective Investing. We also run a concentrated portfolio of investments and try to keep portfolio turnover down. Companies selected for investment consideration must exhibit several important criteria:

- Comprehensible business model;
- Transparent financial statements;
- Enduring franchise with pricing power;
- Consistent operational performance with relatively predictable earnings;
- High returns on capital employed;
- Strong free cash flow;
- Strong balance sheet;
- Management focused on delivering shareholder value; and
- No undue reliance on acquisition-led growth.

| Fund Objectives |

To achieve an annual compounding rate of return over the long term which is superior to the performance of the UK stock market.

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Money Observer Fund Awards 2015 Best smaller UK growth fund ConBrio Sanford DeLand UK Buffettology

Investors Chronicle Top 100 Funds 2015 Sanford DeLand Asset Management Ltd

Money Observer Rated Fund 2016

Performance Record

| Key Facts |

Fund Size:	£32.5m
Launch Date:	28 March 2011
Sector:	IA UK All Companies

| Top 10 Holdings |

	%
Cash	12.93
Bioventix	6.19
Scapa Group	4.86
Dart Group	4.39
NCC	4.23
Trifast	4.18
Domino's Pizza	3.85
Mattoli Woods	3.54
RWS Holdings	3.45
James Halstead	3.44
TOTAL	**51.06**

| Asset Allocation |

	%
Cash/Other	15.4
Financials	14.9
Chemicals	11.4
Pharmaceuticals & Biotechnology	11.2
Support Services	11.1
Travel & Leisure	11.0
Industrial Engineering	9.3
Food & Beverages	4.6
Software & Computer Services	4.2
Construction & Materials	3.4
Retailers	3.3

Discrete Annual Performance (%)

Share Type	2016(YTD)	2015	2014	2013	2012
Income	-5.4	27.2	1.5	36.0	34.2

Discrete Annual Performance to Quarter End 31 December 2015 (%)

Share Type	31/12/2014 31/12/2015	31/12/2013 31/12/2014	31/12/2012 31/12/2013	31/12/2011 31/12/2012	31/12/2010 31/12/2011
Income	27.2	1.5	36.0	34.2	-

Cumulative Performance to 29 February 2016 (%)

Share Type	3 Months	6 Months	1 Year	3 Years	5 Years
Income	-3.7	7.8	14.2	53.1	-
Official Sector	-4.4	-1.7	-5.2	17.4	35.5

Performance quoted on a total return, bid to bid, UK sterling basis. Past performance is not a guide to the future. The price of units and shares and the income from them may go down as well as up and you may get back less than you invested.

Source: Financial Express. 07/03/2016

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THE SPIRIT OF INVESTMENT

Fund developments and comments

Keith Ashworth-Lord, Investment Director & Fund Manager, Sanford DeLand

This is the second part of a commentary started last month. In it, I will discuss ratio analysis as applied to assets and cash. Let's start with assets. The strongest franchises with the greatest barriers to entry are normally reliant upon an invisible asset like proprietary technology, skill sets or brand strength. Indeed, it can be argued that invisible assets are the only real source of competitive edge that can be sustained over time. Notwithstanding, I am more concerned here with assets that can be quantified and measured, and with the returns that are being generated from those assets.

What we are looking for is how the sales, earnings and cash flow characteristics of the business are reflected in each balance sheet snapshot of assets. How are the movements in these assets developing? Are they static, declining or accelerating and why? Companies have a number of ways of financing their operations. The best do it internally via retained earnings, which are then reinvested at attractive rates of return. The worst do it externally by over-borrowing and/or continually passing the hat around with new share issues. Focusing on the make-up of the assets on one side of the balance sheet and the nature of capital and reserves on the other, tells you at a glance the shape of the business you are dealing with. A strong balance is not overly geared, sports little goodwill and a high level of retained earnings. Our trusty old friends return on equity and capital employed are helpful here too.

The worth of a business is related to what it will earn in years to come. However, accounting earnings can be 'restricted' in the sense that what comes out in free cash is less than what is reported as earnings because of the demands of working capital and capital expenditure (capex). There are a number of checks that can be made to compare the cash performance with the earnings performance. Not least is to compare the growth rate in free cash flow with that of earnings over a prolonged period. Another is the make-up of gross cash flow. Is it mainly operating profit (the best outcome), or does it rely heavily on add-backs such as depreciation or amortisation?

This then flows into a comparison of the depreciation charge against capex demands. Depreciation is a provision for replacing worn out plant and machinery. Absent inflation, the two measures should be similar in a static business. In a growing business, capex will often exceed depreciation. What is not acceptable is when the depreciation charge is consistently less than capex. In this instance, the reported earnings are being overstated. The same situation applies to businesses that capitalise expenditures (usually R&D) and then dribble it back through an amortisation expense over a number of years. Capitalisation and subsequent amortisation charge the balance sheet not the income statement in the early years. Another useful check is to look at how many times interest actually paid is covered by operational cash flow plus interest received. Also compare how cash taxes compare with the tax charge in the income statement. If cash taxes are persistently lower than accounting taxes, it could be a sign that the taxman is seeing less profit than is shown in the accounts.

Free cash flow enables the company to reinvest in its core business. Alternatively, it can be used to buy other cash generating businesses or to retire equity. An interesting aside is to evaluate whether the sustainable free cash flow is enough to service the debt burden that would arise on borrowing to buy the business in its entirety. This is the first port of call for private equity buyers.

In February, the Fund share price rose by 0.7% from 192.55p to 193.88p xd. Within the portfolio, there were 15 gainers led by Dechra Pharmaceuticals (+16.2%) and Provident Financial (+11.2%) – both following good results. Of the 12 fallers, none were double-digit. Together with January's inflows, the Fund has seen net new investment of £3.9m in 2016 to date. Advantage was taken of the continuing falls in share prices with £2.3m invested, after £2.9m in January. Much was concentrated in 'beat-up' existing holdings like Victrex, Rotork, IPF and AG Barr.

Fund Information

Initial Charge	General & Institutional 0%
Investment Adviser Fee	General 1.5%pa & Institutional 1%
Annual Management Charge	Combined ACD & Admin fee 0.2%pa (min £45,000pa)
Accounting Dates	28 February, 31 August
Payment Dates	27 May, 27 November
Valuation Point	12 noon, daily
Sedol Code	General Inc: B3QQFJ6 Institutional Inc: BKJ9C67
Share Class	General Income & Institutional Income Shares
Published Price	www.theconbriofunds.co.uk
Min. Investment	General £500, £50pm & Institutional £250,000
ISA eligible	Yes, stocks & shares

Investment Team

I Sanford DeLand Asset Management Ltd I

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