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Britain's 'Warren Buffett' to launch trust to buy small businesses

Manager of the popular £1.4bn Buffettology fund says it has become too big to buy small stocks

By Richard Evans

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Britain's answer to Warren Buffett is to launch a new investment trust where he plans to mimic the strategy from his popular Buffettology fund but buy smaller British stocks, *Telegraph Money* can disclose.

Keith Ashworth-Lord has made strong returns for savers by using the "Sage of Omaha's" investment strategy – and his name, which is used under licence – to select stocks for his £1.4bn SDL UK Buffettology fund.

The new trust, UK Buffettology Smaller Companies, will be managed along similar lines as there were good stocks at particularly undemanding valuations to be found in Britain's smaller companies sector, Mr Ashworth-Lord said.

The UK Buffettology fund, established in 2011, is no longer able to benefit from holding such stocks as it has become too large to take positions in smaller businesses. The investment trust will instead aim to invest no more than £500m to allow much smaller stocks to influence returns.

"In the Buffettology fund we have had to sell smaller holdings because they would never make a difference in a portfolio of that size.

"The trust will allow us to go back to our roots – what was once accessible to our investors will be again," he said.

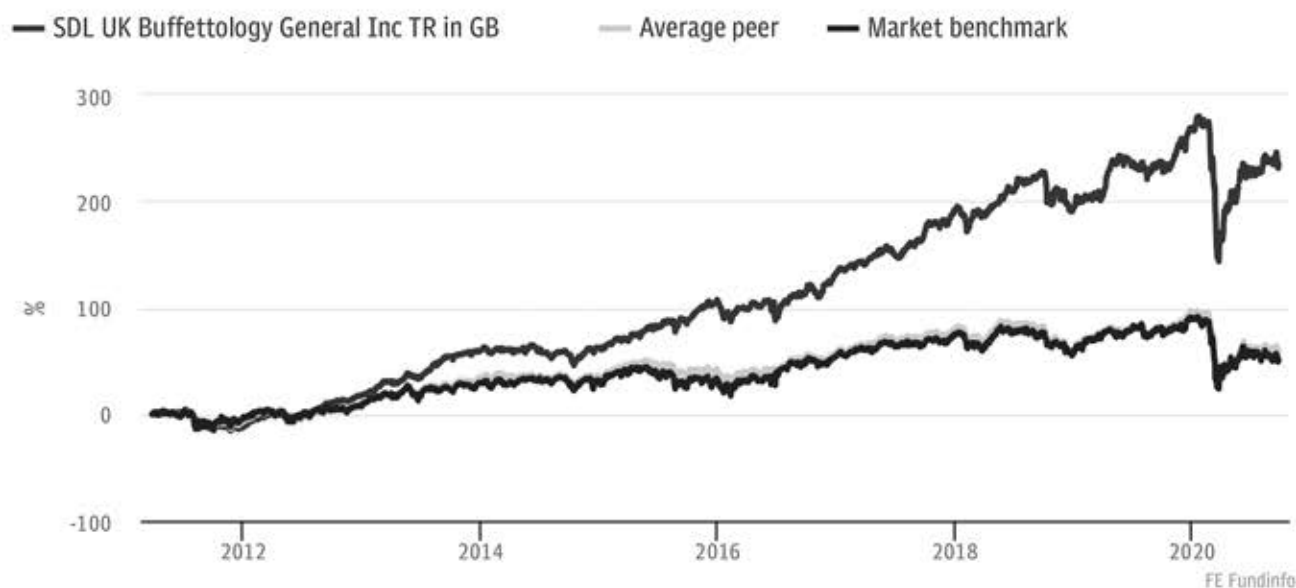
It will target businesses with a market value of £20m-£500m and the portfolio will be "concentrated" in 30-50 stocks.

He added: "We are used to running concentrated funds. It's a question of conviction – if you believe in a company you put a decent slug of capital into it.

"There are 600 stocks we can choose from. If they meet our standards of profitability, cash generation and returns on capital, the number falls to 200. Then we'll look at valuation to narrow it to 50."

Buffettology's returns were on the back of smaller businesses, but it's become too big to take advantage

Total returns since fund launch



Mr Ashword-Lord said he and his team had identified some 30 candidates from existing holdings in UK Buffettology and his firm's other fund, Free Spirit.

The trust would not be a "mirror" of either of those portfolios, he said, because the valuation was more important when buying new stocks and the trust would have to worry less about "liquidity". The funds must keep holdings in businesses that are easy to sell in case investors demand their money back at once.

However, the trust would be run "in exactly the same way" as UK Buffettology and Free Spirit. "We are one-trick ponies. We only know one way to invest," he added.

It is expected to cost about 1.1pc a year if the hoped-for £100m is raised in the flotation.

Investors will also be able to cash in their entire holding at close to net asset value after five years. This is to reassure savers who fear such a trust could trade at a discount to Nav – not uncommon for smaller company funds.

Mr Ashworth-Lord said no new shares would be issued to meet demand once it reached a value of £500m and shares would be allowed to trade at a premium – a likely outcome if the trust is in demand.

All the holdings would be British stocks. "It's a good time for them – Britain, and its smaller companies in particular, have been out of favour so there is value around," he said.

"It's an interesting time and valuations are not demanding in that part of the market. We want a few great businesses that we can buy at sensible prices."

He said many smaller British firms had been tested by the pandemic and had proved themselves to be resilient.

"The likes of Focusrite and Games Workshop have been resilient and that tells us that our investment methodology is working. Coronavirus is another filter – it's a case of if it can come through this, it must be a strong franchise."

Private investors will be able to take part in the flotation via a number of stockbrokers and investment shops.

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