Sanford DeLand

ASSET MANAGEMENT

Review of 2016

Economic, Political & Stock Market Developments

One word sums up 2016 – momentous. Few inside the London bubble contemplated the historic vote to leave the EU though those of us outside knew it was a distinct possibility. Ditto the election of Donald Trump as POTUS. Again, anyone on the ground in Florida in September, as I was, could see with their eyes and hear with their ears how unpopular Hillary Clinton was in a key swing state. Probably most unpredictable was the reaction of stock markets to these events. After a huge spike in volatility, who would have imagined that the FTSE would end the year at an all-time high? Yet the underlying reasons are sound enough. Not surprisingly, the dire propaganda of 'Project Fear' has proven to be baseless. The UK economy has powered on in the wake of Brexit with strong GDP growth and some major inward investment announced by overseas companies. Meanwhile, the sharp devaluation of sterling post the 23rd June vote has been of great benefit to exporters and those who earn their corn in US dollars and euros. Not surprising then that the powerhouse of stock market performance in 2016 were the oil & gas producers (up over 50%) and the miners (twice that amount).

Fund Performance

Given that UK Buffettology owns companies in neither of these sectors, we should have been at a material disadvantage. However, we don't own much in the poorest performing sectors like retailers, telecoms and food producers either. And we have a useful skew toward exporters in the portfolio. Excluding cash, an approximate breakdown of our geographical earnings exposure puts the UK at about 45% (boosted not least by four domestic financial services companies), Europe 25%, Americas 15%, Asia-Pacific 5% and RoW 10%. By market capitalisation, the Fund owns holdings in 6 FTSE 100 companies, 8 FTSE 250s, 5 fully listed in the small cap or fledgling indices and 9 quoted on AIM.

In fact, the year ended with the larger I Class share price ahead by 11.1% from 205.82p to 22.39p set against a 12.5% gain for the UK stock market. According to FE Trustnet, the gain on a total return basis, including dividends reinvested, was 13.0% compared to a total return for the IA UK All Companies Sector – our peer group – of 10.3%. Whilst this was only good enough to place the Fund in the second quartile for one-year performance at 103rd out of 266 funds, it remains the 3rd ranked fund in the sector over three and five years (out of 255 and 254 funds, respectively). Accolades during 2016 included retaining Money Observer's best smaller UK growth fund award and winning Wealth & Finance International's best UK flex-cap equity fund. The fund was included in the Investors Chronicle Top 100 Funds list for the third year running.

Investments

The low portfolio turnover was the result of having sold only the holding in International Personal Finance during the year. Two new investments were added, Restaurant Group (on the 'Watch List' since Day 1) and MJ Gleeson (under research for over a year). At the time of writing, we have a contested bid situation going on with TVH Group and Loxam fighting it out for control of Lavendon.

The stand-out performers among the ownership interests in the portfolio were:

Holdings	Share price	Comment
Lavendon Group	+79.1%	bid situation
RWS Holdings	+69.3%	performance and currency considerations
Trifast	+60.6%	performance and currency considerations
AB Dynamics	+59.0%	performance ahead of market expectations
Scapa Group	+55.5%	outperformance and currency considerations
Liontrust Asset Management	+37.3%	performance and well received acquisition of Alliance Trust Investments Ltd
Rotork	+31.9%	recovery in oil price
Dechra Pharmaceuticals	+22.9%	performance and well received acquisitions
Mattioli Woods	+21.5%	performance and perceived beneficiary from pension reforms
Air Partner	+19.5%	outperformance and well received acquisitions

The main detractors from performance were:

Holdings	Share price	Comment
IPF	-41.7%	share price down to point of final sale, Polish regulatory developments
NCC Group	-40.1%	contract deferrals and cancellation in acquired businesses
Dixons Carphone	-29.2%	currency considerations and worries about consumer spending
Hargreaves Lansdown	-19.3%	profit taking
Dart Group	-16.7%	currency considerations leading to worries about 'staycations'

Past performance is not an indicator of future returns. The Value of your investments can go up as well as down and you may get back less than you invested.

Outlook

For the first time since the Global Financial Crisis, investors are likely to be faced with a tightening of monetary policy. Modest interest rate rises may be needed to offset the reflationary fiscal policies of the incoming new US president. This need not necessarily be a bad environment for the stock market. What certainly would be is a movement against free trade. However, President Trump will be operating in a political system that the Founding Fathers ensured is full of checks and balances. The rhetoric of the stump is likely to give way to a more measured approach in the White House.

Meanwhile in the UK, we will make our first moves to free ourselves from the EU. Whilst it is in everyone's interest to ensure an orderly divorce, the early signs from across the Channel are not encouraging. My big worry is not so much the implications for the UK economy – which I think will surpass the 1.2% GDP growth pencilled in by the 'experts' – but the effect on the already moribund eurozone. Perma depression is not a good place to find your trading neighbours in. And there are a number of important elections coming up in France, Germany and the Netherlands that could further upset the apple cart.

These big political events point to a volatile market as sentiment swings one way and the other. Yet one thing that makes me optimistic for the stock market in 2017 is the amount of cash sat on the sidelines. Several managers took cash out in the run-up to the Brexit vote and are still sitting on it having been whipsawed by the reaction to the vote and the US election. I make no attempt to position for political or macroeconomic scenarios because calling the market is a fool's errand. A second favourable pointer is the glass half-empty mentality of market participants at present. Bear markets are forged on the anvil of excessive optimism not scepticism and pessimism. Mark Dampier of Hargreaves Lansdown describes this as the most unloved bull market he has known in his career. I concur.

It follows, therefore, that I shall continue to plough my lonely furrow investing in the best businesses I can find and letting global events take care of themselves. I am quietly confident that with the Fund having made only modest gains in 2016, such has been the strength of our companies' operating results that they are well positioned to make share price progress in 2017.

Keith Ashworth-Lord

Investment Director & Fund Manager, Sanford DeLand

The fund manager has over 30 years of equity market experience and is a seasoned practitioner of 'Business Perspective Investing' as championed by Ben Graham and Warren Buffett. Prior to founding Sanford Deland Asset Management, Keith worked with a variety of stockbroking, fund management and private investor clients. Keith is a graduate of Natural Sciences with a Masters in Management Studies, and is a Chartered Fellow of the Chartered Institute of Securities & Investment.

Want to know more about Keith and 'business perspective investing'?

Why not read his book *Invest in the Best* ? Click **here** to find out more.