

UK ALL COMPANIES OPEN-ENDED INVESTMENT COMPANY

CFP SDL UK BUFFETTOLOGY (GB00BFOLDZ31)

BUY

Back UK winners with Buffettology

Bull points

- Strong outperformance
- Rigorous process
- Divergence from the broader market
- Low turnover

Bear point

- Risky approach

Hints of greater clarity around the Brexit process have started to draw investors back to UK equity funds. Investors put a net £119m into Investment Association (IA) UK All Companies sector funds in November and £93m in October. By contrast, during the previous four months UK All Companies funds had experienced net outflows of around £1.5bn.

But the road to Brexit could be long and uncertain, meaning that investors in UK equities should be prepared for volatility. Sterling made large gains in the immediate wake of Boris Johnson's December election win, but relinquished these over the remainder of 2019 as Brexit uncertainties emerged. The currency has continued to sink against the US dollar in recent weeks amid shaky economic data and expectations of an interest rate cut.

So exposure to the UK should be diversified across different sectors and company sizes to account for moves in sterling, and shifts in sentiment towards domestic and globally oriented businesses. It could also be worth getting this exposure via a fund that holds competitively positioned, high-growth companies.

One such fund is **CFP SDL UK Buffettology (GB00BFOLDZ31)**, whose manager, Keith Ashworth-Lord, invests via a strategy partly based on the methodology of renowned US investor Warren Buffett. Mr Ashworth-Lord looks for businesses that trade on a discounted price, but come with strong operating franchises and experienced management teams. The fund is highly concentrated, with just 34 holdings at the end of 2019, and turnover of its holdings tends to be low. Mr Ashworth-Lord also tends to back companies further down the market capitalisation scale. For example, the 10 largest holdings at the end of 2019 included FTSE 250 constituent Games Workshop (GAW) and Liontrust Asset Management (LIO), which is included in the FTSE Small Cap index.

This approach, and the tendency to

deviate significantly from its peers and the FTSE All-Share index, have helped the fund deliver remarkable outperformance. It has returned 25.3 per cent over one year, 61.1 per cent over three years and 131.5 per cent over five, putting it well ahead of the IA UK All Companies sector average return and the FTSE All-Share index. CFP SDL UK Buffettology also holds up well against more growth oriented parts of the market, having outperformed the FTSE Small Cap and FTSE 250 indices, and the IA UK Smaller Companies sector average over each of these periods.

Fund ratings agency RSMR notes that CFP SDL UK Buffettology's investment process involves a strict set of stages. Mr Ashworth-Lord screens the metrics of companies in his investment universe, including profitability, growth, return on equity and free cash generation, which results in him excluding around 95 per cent of the companies in it. Companies that pass this screening process are then subject to further scrutiny, including an analysis of more than

10 years of financial data. Other elements of his investment process include forecasting business performance and meeting with companies' managers.

CFP SDL UK Buffettology is highly concentrated, and holds small- and mid-cap companies, so it has a higher risk profile and could at times be volatile. If you invest in it you will need a strong stomach, a long time horizon and a high risk appetite.

However, these characteristics and the fund's tendency to deviate from broad UK indices and its peers mean that it could be a good complementary holding to a core exposure of more mainstream UK equities. And smaller companies have greater potential to deliver strong growth over the long term. So, if you are patient, and can tolerate the ups and downs in your portfolio that investing in the UK and smaller companies is likely to involve, CFP SDL UK Buffettology's rigorous process and proven record of outperformance means that it could be a good way to get this strong growth. Buy. *DB*

IC TIP RATING

Tip style: GROWTH

Risk rating: HIGH

Timescale: LONG TERM

CFP SDL UK Buffettology

Price: 144.75p

IA Sector: UK All Companies

Fund type: Open-ended investment company

Fund size: £1.5bn

No of holdings: 34

Set-up date: 23 March 2011

Manager start date: Keith Ashworth-Lord: 28 March 2011

Mean return: 17.08%

Sharpe ratio: 1.44

Standard deviation: 10.65%

Ongoing charge: 1.19%

Yield: 0.90%

More details:

www.castlefield.com

Source: Morningstar as at 23 January 2020

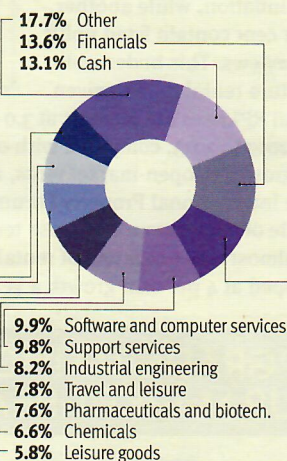
Top 10 holdings

Games Workshop	5.8%
Dart Group	4.8%
Liontrust Asset Management	4.1%
AB Dynamics	3.9%

London Stock Exchange	3.1%
RWS Holdings	2.9%
Focusrite	2.90%
Next	2.90%
MJ Gleeson	2.70%
NCC Group	2.70%

Source: CFP as at 31 December 2019

Sector breakdown



Performance

Fund/benchmark	1-year total return (%)	3-year cumulative total return (%)	5-year cumulative total return (%)
CFP SDL UK Buffettology	25.31	61.12	131.56
IA UK All Companies sector average	17.77	23.39	40.08
FTSE All-Share index	15.7	21.39	39.7

Source: FE Analytics as at 23 January 2020