

# finnCap Slide Rule UCITS Fund

## UK Small-Mid Cap Equity

February 2020

### Performance Returns Summary

The finnCap Slide Rule UCITS Fund returned -9.45% for the month of February (GBP Founder Class), outperforming the benchmark by 10bps. For the 2020 year to date, the fund has delivered -6.97%, outperforming the benchmark by 335bps. **Total outperformance since the fund was first fully invested (1/3/18) stands at 1,774bps.** Net return since launch on 12th February 2018 is +4.71%.

### Investment Objective & Strategy

The UK smaller companies universe (£100m - £5bn market capitalisation) is full of excellent investment opportunities but it is very large (1,500+ stocks) and suffers from limited and inconsistent research coverage. The finnCap solution is an internally-developed quantitative analysis tool, The Slide Rule, to dramatically simplify the identification of the best companies. Using The Slide Rule, finnCap has developed a stock picking system, called QVGM+, which is used to find the “best” 60-80 stocks. It is these companies into which the fund will invest. The system’s core factors are carefully tailored Quality, Value, Growth and Momentum metrics plus a screen for financial quality and stress. The typical company in the resultant portfolio is one with above average growth and above average ROCE (return on capital employed).

### Monthly Commentary for February 2020

- **The modest market retreat in January became a proper correction in February:** as we pointed out in our January market update, valuation multiples were looking somewhat exposed while earnings momentum was very negative. The coronavirus ‘situation’ prompted a substantial market retreat: YTD the smaller company benchmark has declined -10.3% (AIM -10.8%, FTSE small cap -9.9%). This wasn’t as bad as the Mid250 which fell -12.2%. While the market has now moved down from near cyclical peak valuations one month ago, it is hardly in bargain territory (13.4x EBIT and 15.6x Earnings) and will have to cope with ongoing downgrades which are likely to intensify in the next few months as the fallout from COVID-19 becomes more apparent.
- **Fund NAV decreased -9.45% in February, outperforming the benchmark by 10bps.** The ‘mini crash’ in the last week of the month was very broadly based, but hit ‘Value’ companies particularly hard. Total outperformance since the fund was first fully invested (1/3/18) stands at 1,774bps.
- **5 companies (9% of the portfolio) delivered positive returns in February.**
- **Particularly good performers in February were few and far between but included: Kier (+25%), Tristel (+14%), Plus500 (+10%), IMI mobile (+6%) and Tracsis (+4%).**
- **With the broad sell-off, there were many poor performers in February and we would highlight: BOKU (-30%), Focusrite (-26%), Anglo Pacific (-25%), Equals (-25%) and Premier Miton (-24%).**

### Key Fund Characteristics

- The current portfolio contains circa **55** smaller companies that have been picked using our **QVGM+ quantitative process**. These companies are the **best blend of quality and growth** in the UK smaller companies market (£100m - £5bn market capitalisation) after testing for cash flow quality, dividend affordability and financial stress.
- The portfolio aims for broadly an **equal-weight** in each company and the median market capitalisation of portfolio holdings is currently c£350m.
- **Quality:** the portfolio has a median Free Cash Flow Return on Capital Employed (RoCE) of **24.7%**, nearly 3x the UK smaller companies median of 8.6%.
- **Growth:** the portfolio has a median revenue growth rate of **10.7%** and operating profit growth rate of **23.1%**, both growth rates approximately double the UK smaller companies median.
- **Value:** the portfolio has a median free cash yield of **5.0%**, inline with the smaller companies median of 5.1%, despite a far higher ROCE and growth rate versus the market.

\*The Benchmark is the simple average of the FTSE AIM all-share and the FTSE Small Cap index

### UCITS Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2018	-	-1.15%	-0.54%	4.49%	2.41%	0.17%	0.46%	1.95%	0.50%	-11.77%	-0.47%	-6.65%	-11.08%
2019	5.24%	-0.47%	2.94%	4.63%	-0.41%	-0.63%	0.32%	-5.03%	1.06%	1.64%	7.79%	7.48%	26.59%
2020	2.74%	-9.45%											-6.97%

The performance figures quoted above represent the performance of the finnCap Slide Rule UCITS Fund (GBP Founder Class) since launch on the 12th of February 2018. These performance figures refer to the past and past performance is not a reliable guide to future performance.

### The Manager



### Raymond Greaves

Head of Research, finnCap

Raymond Greaves, Head of Research at finnCap, originally built and developed the Slide Rule investment tool and the QVGM+ stock selection system. Raymond has a first class degree in Mechanical and Aeronautical Engineering from Brunel University. He has worked as an equity analyst for over 20 years, on both buy-and sell-side at N.M. Rothschild, Merrill Lynch, Collins Stewart and finnCap.

### Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	£2.7 million
Inception	12th February 2018

Share Class	Founder Shares
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.00%
Perf. Fee	0.00%
Min Init. Sub.	1,000
ISIN Codes	EUR: IE00BFFF4Z74 USD: IE00BFFF4H92 CHF: IE00BFFF4G85 GBP: IE00BFFF4F78

Share Class	Class A Shares
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.00%
Perf. Fee	10.00%
Min Init. Sub.	1,000
ISIN Codes	EUR: IE00BFFF4K22 USD: IE00BFFF4N52 CHF: IE00BFFF4M46 GBP: IE00BFFF4L39

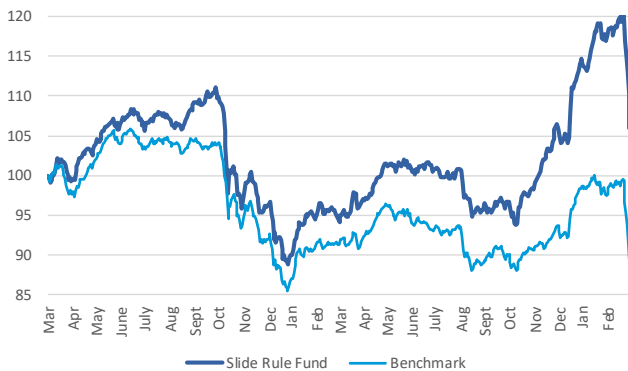
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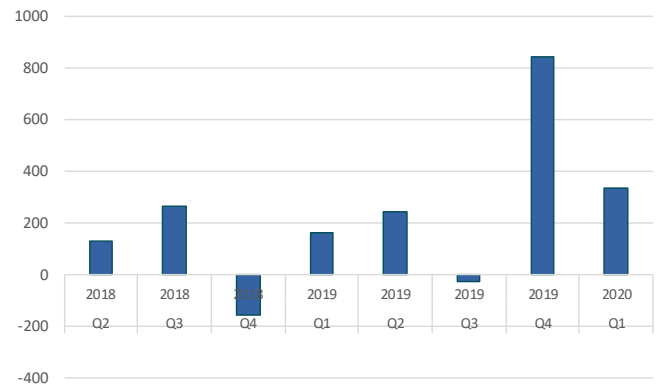
February 2020

### Performance Charts

➤ **Slide Rule Fund NAV absolute performance** 1/3/18 – 29/2/20 versus Benchmark (rebased to 1 March 2018)

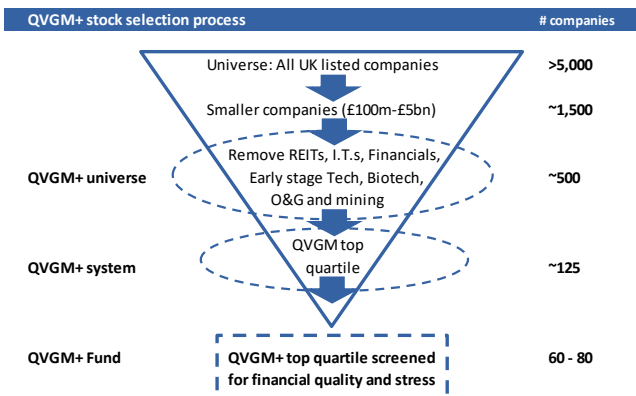


➤ **Slide Rule Fund NAV quarterly relative performance vs Benchmark** (bps)



### Investment Strategy Chart

➤ **The QVGM+ investment process illustrated**



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### How to invest

All relevant documentation is on the MontLake website:  
<http://www.montlakeucits.com/funds/>

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