

finnCap Slide Rule UCITS Fund

UK Small-Mid Cap Equity

December 2019

Performance Returns Summary

The finnCap Slide Rule UCITS Fund returned +7.48% for the month of December (GBP Inst Founder Class), outperforming the benchmark by 261bps. **For 2019 as a whole, the fund has delivered +26.59%, outperforming the benchmark by 1,331bps.** Total outperformance since the fund was first fully invested (1/3/18) stands at 1,556bps. Net return since launch on 12th February 2018 is +12.56%.

Investment Objective & Strategy

The UK smaller companies universe 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 investment 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 Quality, Value, Growth and Momentum 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 December 2019

- **So another year has passed and once again all the action was in Q4.** Happily, instead of a major correction (Q4 2018), the market staged a strong rally, first in anticipation of, and then in confirmation of a decisive Conservative victory in the General Election. The smaller company benchmark rose +9.3% in Q4 2019 of which +4.9% was in December alone. For the year as a whole, the benchmark rose +13.3%. While this does not look bad in isolation, it made UK small cap nearly the worst developed market equity index in the World – only the Hong Kong Hang Seng index performed worse. For comparison, the Mid250 was up +26.7%. It is easy to suggest that economic uncertainty probably weighs most heavily on small caps, while the Woodford-fallout must also have been a factor. However, we would also suggest that the ongoing rate of earnings downgrades is a significant factor.
- **Fund NAV increased +7.48% in December, outperforming the benchmark by 261bps.** During the month there was no strong style bias to the market, instead our outperformance was driven by stock selection. For 2019 as a whole, Fund NAV increased +26.59%, outperforming the benchmark by 1,331bps.
- **46 companies (88% of the portfolio) delivered positive returns in December.**
- **Particularly good performers in December include: Somero (+40%), Dunelm (+39%), Learning Tech (+26%), Augean (+26%), Premier Miton (+26%), Kainos (+25%), Kier (+23%), Alpha Financial (+19%), Plus500 (+18%), Ideagen (+16%), Liontrust (+16%), Oxford Metrics (+15%) and Morgan Sindall (+15%).**
- **There was one poor performer in December: XLMedia (-30%).**

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 - £4bn 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£370m.
- **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-co. median.
- **Value:** the portfolio has a median free cash yield of **4.7%**, inline with the smaller companies median of 4.6%, 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%

The performance figures quoted above represent the performance of the finnCap Slide Rule UCITS Fund 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	£2.8 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: IE00BFFF4274 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

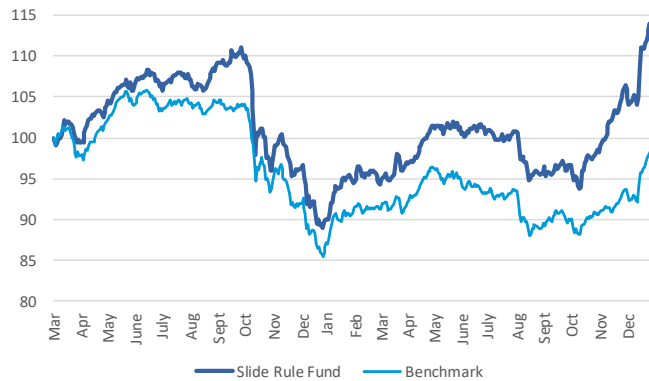
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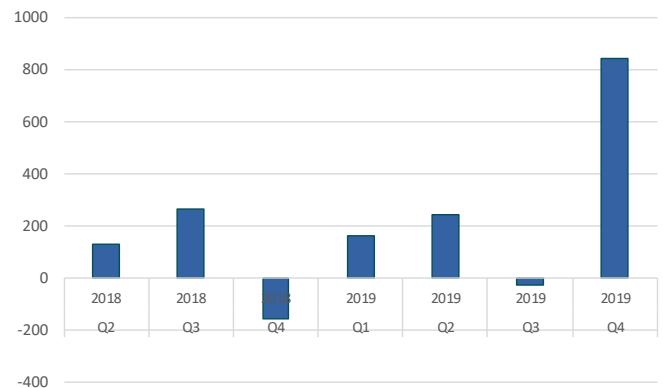
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Performance Charts

➤ Slide Rule Fund NAV absolute performance 1/3/18 – 31/12/19 versus Benchmark (rebased to 1 March 2018)

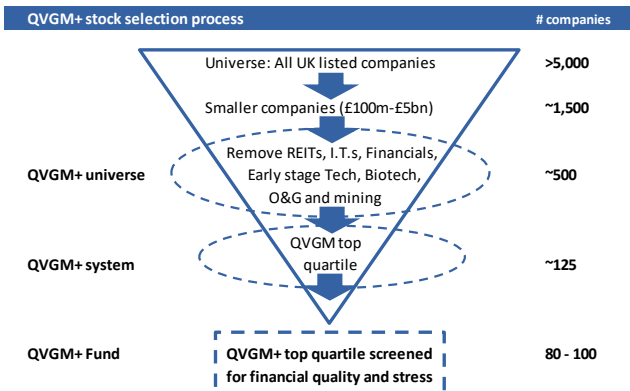


➤ Slide Rule Fund NAV quarterly relative performance vs Benchmark (bps)



Investment Strategy Chart

➤ The QVGM+ investment process illustrated



Contacts

➤ **UK sales:**
 Mark Whitfeld
 +44 (0)20 3772 4697
 mwhitfeld@finncap.com

How to invest

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

Contact Details

Investor Contact

MontLake Funds (UK) Ltd
 Park House, 116 Park Street
 London, W1K 6AF
 T: +44 20 3709 4510
 investorrelations@montlakefunds.com

Management Company

MontLake Management Ltd
 23 St. Stephen's Green
 Dublin 2, Ireland
 T: +353 1 533 7020
 investorrelations@montlakefunds.com

Investment Manager

finncap Ltd
 60 New Broad Street
 London, EC2M 1JJ
 T: +44 20 7220 0500
 info@finncap.com

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