FTF Clearbridge UK Smaller Companies

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is run by co-managers who operate within a highly collaborative team environment.
- The team demonstrates real passion and dedication to UK equity investment - but their thoughts are always framed by a healthy dose of Yorkshire realism!
- Dan Green specialises in the smaller-cap part of the universe. He has worked alongside Richard Bullas since 2015 as a small-cap analyst before being named co-manager on the fund in December 2017. He has real enthusiasm for the opportunities to be found within the smaller-cap arena, investing with conviction but within the bounds of the team's established approach to company analysis.
- We regard the managers as passionate and diligent investors.

Key characteristics and expected outcome

- There is no overt style bias. The core of the portfolio can be described as high quality in nature and overall, the fund features more established small cap businesses.
- The fund and benchmark include mid-cap companies (at the smaller end). There is limited overlap with the firm's dedicated mid-cap offering.
- For the managers, a more important motivation is the exclusion of companies seen as overly risky from a business, balance sheet or management perspective.
- Smaller-cap investments usually exhibit larger drawdowns in times of crisis than large-cap companies and can be higher risk. As a consequence, the fund would usually be part of broader equity portfolio but its diversified and balanced approach make it an appropriate holding for investors seeking dedicated exposure to this part of the market.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

The fund's risk characteristics are similar to that of mainstream UK small-cap equity indices. That said, the fund's exposure to the lower end of the small-cap market can sometimes result in bouts of higher volatility. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	09 October 2019
Manager(s) Since:	Richard Bullas (Jun 12) Dan Green (Dec 17)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Deutsche Numis Smaller Companies ex IT
IA Sector:	UK Smaller Companies

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A UK smaller companies fund that is thoughtfully constructed in order to provide balanced and diversified exposure to the asset class. The managers focus upon higher quality companies with strong balance sheets and are willing to invest in the lower end of the small-cap market. Within its sector, the fund features in our 'Smaller-Cap, Flexible' category.

Investment Team

The fund is co-managed by Dan Green and Richard Bullas. Mr Green is an established member of the Leeds-based ClearBridge UK Equities team, which is co-headed by Ben Russon and Richard Bullas. The team operates in a collegiate manner, with the managers working particularly closely with Marcus Tregoning and Courtney Westcarr on mid and small-cap stocks. Mr Bullas is also the lead manager of the FTF ClearBridge UK Mid Cap fund.

Investment Philosophy

The managers believe that, through detailed, fundamental research, they are able to uncover opportunities in small-cap companies. On the basis of this research, they seek to take a long-term view of a company, thereby being in a position to look beyond short-term news-flow that may impact upon sentiment and therefore a company's share price. Their emphasis is on long-term investment in higher quality companies, combined with a prudent approach to diversification.

Investment Process

The process is primarily bottom-up in nature, although macro-economic considerations are taken into account in order to create a framework for the team's research. The main thrust of their work is to analyse a company's business model, its balance sheet and its management. Their objective is to provide a degree of downside protection by dint of investment in companies with strong balance sheets and positive cash generation, on the basis that such companies have greater flexibility in their business planning.

Ideas are generated from a range of internal and external sources, including the team's knowledge, industry contacts, meetings with company management and conferences. The firm has a proprietary valuation tool and this is used to eliminate companies that are not of interest on the basis of balance sheet risks. By the same token, it is also used to conduct deeper valuation analysis and stress-testing on companies that are potential investments. Company meetings are not a pre-requisite but do occur where greater understanding is sought. Buy candidates tend fall into one of three categories: high quality growth; undervalued and overlooked; and, cyclical and recovery. They are prepared to take a more contrarian stance on stocks when mis-pricings have generated particularly attractive opportunities.

Portfolio Construction and Risk Controls

The portfolio is reasonably concentrated, typically featuring 40-50 holdings, but diversified, incorporating a mix of high-quality growth, undervalued and cyclical companies. Like its index, the fund incorporates some (smaller) mid-cap stocks. Investments typically have a market cap of between £100m and £1.3bn at the time of purchase. Risk is seen primarily in the context of the risk inherent in a company (business, balance sheet, management, valuation). The minimum stock size is 1.5% and the maximum 5%. Cash is typically maintained at a low level and turnover is also low.

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