Ninety One UK Special Situations

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Alessandro Dicorrado, an experienced value investor.
- The team's focus is the identification of inexpensive and out-of-favour companies which also have suitably robust balance sheets. Significant fundamental analysis is undertaken, with the company viewed through the lens of enterprise value, rather than market capitalisation, to ensure that all liabilities are accounted for.
- The team is committed to value investing and we admire their dedication to the contrarian cause. They possess the key attributes of patience and resilience, essential for those who operate in this often-challenging investment sphere.

Key characteristics and expected outcome

- Style wise, the fund resides firmly in the value camp. The manager aims to be highly rational when those around are being irrational and he is willing to head towards perceived danger when he believes the risk/reward prospects are skewed in their favour.
- This approach often leads him to initiate investments at an early stage, and, by the same token, to sell them early. This contributes to a risk/return profile that is clearly differentiated from many peers.
- That said, the approach also emphasises safety of principal and the manager exercises caution in respect of valuation assessments in case the investment thesis does not come to pass. He tends to be less tolerant of serial underperformers and is alert to the risk of value traps.
- The deep value, contrarian style can lead to periods of fallow relative performance, particularly at times when stocks are re-rating in the absence of improving fundamentals. In such circumstances, the manager's caution prevails. On the other side of the coin, the fund can also enjoy bursts of very strong relative performance.
- The fund is suited to investors with a long-term mindset who can tolerate the idiosyncratic nature of the risk/return profile. For investors who are concerned about shorter-term outcomes versus the benchmark, the fund should be blended with a growth-biased fund or treated as a differentiated satellite position.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. 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 6 means the fund's historic volatility is between 15% and 25%.

The strong style bias employed means that the fund has a highly differentiated outcome, interspersed by periods of powerful/challenging performance. Volatility has been materially higher than that of the index and peers. These characteristics are typical of most pure value approaches. Different share classes could have different SRRI scores



Key Fund Facts

Inception Date:	2 October 1978
Manager(s) Since:	Alessandro Dicorrado (Apr 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	FTSE All Share
IA Sector:	UK All 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 contrarian UK equity fund that is managed according to a value strategy. Philosophically, the manager looks to understand why conventional wisdom may be wrong, in doing so seeking to invest in companies that are priced at a significant discount to their true worth. Within its sector, the fund features in our 'Value-Biased' category.

Investment Team

The fund is managed by Alessandro Dicorrado, Head of Value at Ninety One. He is supported by deputy manager, Lorenzo Dicorrado. They work closely with a small team of equity analysts and have access to the firm's broader investment and research capabilities.

Investment Philosophy

The team believes that superior investment returns can be achieved by taking a contrarian stance and, in doing so, they look to take advantage of so-called "emotional arbitrage" and "time arbitrage". Emotional arbitrage describes their focus on being rational when others might be irrational. In particular, they seek to exploit investors' disposition to panic in times of uncertainty. Time arbitrage describes their willingness to exercise greater levels of patience compared to most market participants, as well as the ability to tolerate temporary disappointments with a view to achieving greater long-term success.

Investment Process

The main thrust of the team's work is the identification of stocks that are being shunned or neglected and where they see a clear disconnect between the current market price and their perception of the company's worth or potential. Ideas emanate from a variety of sources, including proprietary screens, their prior knowledge and broader industry/investment reading. Their screens highlight FTSE 350 companies that have underperformed by 50% from their peak, relative to FTSE All-Share, over the last 7 years. The shortlist of ideas is then spilt into five categories, namely: hidden assets, special situations, fallen angels, cyclical leaders and deep value.

Candidates for further research must demonstrate certain basic characteristics in terms of valuation, balance sheet, industry and corporate governance. The next priority is to assess whether the company operates in an industry they can understand, whether it has decent growth potential and whether its normalised earnings equate to a good return on capital. Selected stocks are then subjected to deeper analysis, with the aim of estimating a reasonable fair value range for the business. Their work has a particular focus upon balance sheets and through-the-cycle performance. They invest where they have confidence in the underlying business, where they expect at least 50% upside to the share price and where the downside (on a long-term view) is limited. The weight assigned to a stock at purchase depends upon their view of the upside/downside risk. In other words, they reserve their larger positions for good businesses that are out of favour, preferring to take smaller positions where the upside potential is attractive but the company is of lesser quality.

Portfolio Construction and Risk Controls

The fund features between 30 and 50 stocks, with at least 90% drawn from the FTSE 350 index. The small-cap allocation is less than 10% of the portfolio. There is also a cap of 6% on their initial committed capital to each investment, however they can hold more in a stock where they have high conviction in its upside potential.

This document is for financial professional use only. Fund Research Centre is a trading name of PSIR Limited, which is a company incorporated in England, company number 07791409. The information in this document, including information from asset managers and third-party sources, is deemed to be correct at the time of publication but Fund Research Centre takes no responsibility for its accuracy. This document has been written for illustrative purposes and as such is neither a solicitation nor a recommendation with respect to the purchase or sale of any securities. Opinions are always stated honestly and with careful consideration, but they can change at any time. Full fund documentation provided by the asset manager should be reviewed as part of any decision-making process. Any investment's value and any income from it may fall as well as rise because of market and currency fluctuations. Investors may not get back the amount originally invested. V.2 26/04