Premier Miton Tellworth UK Select

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from experienced long/short fund managers who combine bottom-up stock picking with a heavily data-driven business cycle approach.
- It is the disciplined nature of the implementation and the deliberate avoidance of significant factor risk that gives us confidence in the repeatability of the steady performance outcome.
- The inputs of their colleagues in the UK Equity team, as well as the broader resources at Premier Miton, are also important contributions to the process.

Key characteristics and expected outcome

- The fund's formal objective is to achieve positive annual returns (after fees) in excess of cash (SONIA 1 month interest rate) over a three-year rolling period, with lower volatility than the Deutsche Numis All Share Index (an index made up of UK listed companies including those on the Alternative Investment Market).
- In practice, the fund takes a low-net-exposure approach, with the team aiming to be factor neutral to key market issues. Using this approach, they aspire to deliver an annual net return of 8-10% with volatility of 5-7%. As such, stock selection is expected to be the main driver of returns.
- The highly disciplined approach to offsetting risk typically results in a return profile that exhibits low sensitivity to equity market movements, as measured by beta, volatility and drawdowns.
- The corollary of this is that, although returns are expected to be steady, the fund is not positioned to benefit from strong market moves (up or down).
- We regard the fund as an attractive lower-risk investment that can be deployed as a differentiated holding in its own right or used as a way of diversifying and reducing the volatility of a broader equity portfolio. Investors must be comfortable with the extensive use of derivatives and the relatively sophisticated nature of the product.
- Note: the fund has a performance fee – see prospectus for details.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 3. 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 3 means the fund's historic volatility is between 2% and 5%.

The IA Targeted Absolute Return sector features a wide variety of mandate types and direct comparison between funds should be undertaken with care. We believe that a risk score of 3 is a fair reflection of the fund's lower risk approach. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	17 December 2014
Manager(s) Since:	John Warren (Dec 19) Johnnie Smith (Jun 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	SONIA 1 Month
IA Sector:	Targeted Absolute Return

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 long/short UK equity fund whereby the managers seek to deliver positive annual returns with controlled volatility. Net equity exposure is limited to +/-10%, with stock selection the main driver of returns. Within its sector, the fund features in our 'Long/Short Equity, Market Neutral' category.

Investment Team

The fund is co-managed by John Warren and Johnnie Smith. They joined Premier Miton Group in June 2024 as part of the takeover of Tellworth Investments. Tellworth was co-founded by Paul Marriage and John Warren in October 2017 but they have worked together since 2010 at Cazenove Capital, moving to Schroders in 2013 following the acquisition of Cazenove. They are members of the Tellworth UK Equity team.

Investment Philosophy

The managers aspire to generate an annual net return of 8-10%, with portfolio volatility in the range of 5-7%. They aim to achieve this outcome with a typical gross exposure range of 100-180% and a net exposure range of +/-10%. Philosophically, they believe that market inefficiencies exist in the UK large and mid-cap equity universe and that investors typically have behavioural biases which will orientate them towards one of the following factors: value, growth, momentum, macro, or more event-driven factors. They believe it is possible to hedge out those factor biases using sophisticated quantitative tools, resulting in a return stream that has very low market correlation and minimal factor risk.

Investment Process

Given the fund's low sensitivity to market direction and the managers' efforts to control factor risk, stock selection is the dominant source of alpha generation. The investment universe is composed primarily of UK stocks with a market cap greater than £500 million. The universe is narrowed using an array of quantitative tools, the most important being the 'UK Thermostat'. Developed by Tellworth's investment team, this is a suite of alternative data models that assess the underlying dynamics within the economy. This analysis is combined with the output of proprietary accounting-based screens, called 'Sinners', to highlight companies with elevated business risk, as well as other factor screens to hone the opportunity set further. This quantitative work is used alongside a qualitative overlay, incorporating fundamental analysis and meetings with company management teams.

To gain a further edge on the likely direction of shorter-term trends, the managers use alternative data and proprietary models which are applied to single-stocks and sector end markets. This is done in the context of their valuation work and their assessment of short-term sentiment. The investment team discusses all ideas at a twice-weekly 'stock idea' meeting, although the fund managers have the ultimate say on stocks that enter and exit the fund. Ideas are scored by the managers on a long and short-term basis to create an indicative conviction weighting and the risk model converts this into a portfolio weight (gross exposure). Volatility, beta and correlation are considered in the weighting decision.

Portfolio Construction and Risk Controls

The fund typically features 30-50 single stock longs and 30-50 single stock shorts. It also holds index futures, which can be used alongside a basket of stocks, as well as index put options to provide tail risk protection. Given the nature of this mandate, the managers operate with a strong sense of risk in the process of building and running the portfolio. A risk model is used to analyse the factor exposure of the fund to ensure it remains within its limits.

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