Investment Commentary

All good things must come to an end and regrettably, our run of 9 consecutive months of positive returns ended this month with a 0.65% loss for the A share class

For a market which has been relatively benign for most of the month, the FTSE 100 has thrown up some real shocks in the last few weeks which have taken many investors unawares. By far the biggest decline was in Provident Financial which fell an extra-ordinary 58.71% during the month and in total over 17% of the FTSE fell by more than 5% during the period.

Regrettably, although we did not hold Provident, we were not immune to all of these falls. We are fortunate that, on the whole, the defensive way in which we approach our investments mitigates the worst of the effects of the falls, however one investment which hurt us badly was WPP. This fell 8.51% during the month and cost us 28bps of performance. It also breached our stop loss position which meant that we closed out our position

This is an unusual occurrence for us as we try to ensure that the sizing of our holdings is appropriate to the risk inherent in the position so that we do not hit our stop loss which is 60 bps per position. However, the recent declines in WPP followed earlier slower declines which had already eaten through our margin of safety and seen the position move offside. The interim earnings announcement on the 23rd, although they beat estimates, was the catalyst for the fall as the outlook for the next few quarters was revised significantly lower.

We should make it clear, that we did not exit WPP just because it hit our stop loss. That stop loss is there to ensure a thorough review of the holding is undertaken and the reason for the move is understood. We closed our position because the review, which would automatically have taken place following the earnings announcement raised some real questions about the moat that WPP enjoyed. It raised even more fundamental questions about the future of advertising as we have traditionally known it and what that means for the major players in that industry.

Although it is too early to say for certain, it is becoming increasingly possible that advertising is facing the same type of disruption that retail has faced from Amazon, with Facebook and Google now believed to be accounting for 75% of discretionary spending online. There are times when industries fundamentally change and these are generally not good times for the incumbents, particularly the dominant players.

There were many positives during the month and overall the Fund is well positioned to restart its run of positive returns but for the moment, we have taken one step back. Now it is time to make sure that this minor setback is just that.

Fund Facts

Launch Date
14 January 2003
Fund Manager
Richard Harwood (since inception)
Fund Structure
UCITS V
Domicile
Dublin
Currencies
GBP, USD, EUR, CHF
Administrator
CACEIS Ireland Ltd
Dividend Yield
Target 6% 2017 Est 6.22%
Dividend Policy
Distribution
Dealing Days
Daily
Fund AUM
£71.4m
Min Subscription
50,000 for individuals, 10,000 for platforms and designated bodies