

# FP Argonaut European Alpha

At 31 August 2019

Barry Norris

Lead Fund Manager

Greg Bennett

Co-Fund Manager



## Investment team

Barry Norris founded Argonaut in 2005 and manages the FP Argonaut European Alpha Fund using his "earnings surprise" investment process. Barry began managing money in 2002 at Neptune, having begun his career at Baillie Gifford. He was educated at Cambridge University and has an MA in History, and an MPhil in International Relations. He also holds the CFA charter. Greg Bennett CFA also helps run the fund.

## Fund aim

To achieve above average returns and attempt to perform a top quartile profile when measured against competing funds in the same sector.

## Fund overview

Sector	IA Europe ex UK
Launch date	12 May 2005 (GBP A Acc) 6 December 2005 (GBP I Acc) 16 July 2012 (GBP R Acc)
Fund size	£66.8m
Share class	Class A/Class R/Class I
No. of holdings	31
Sedol codes	A (Acc) – B4ZRCDO R (Acc) – B7MWS87 I (Acc) – B76L737
Bloomberg	A (Acc) – IMAEAAG LN R (Acc) – IMAERAG LN I (Acc) – IMAEIAG LN
ISIN	A (Acc) – GB00B4ZRCDO5 R (Acc) – GB00B7MWS872 I (Acc) – GB00B76L7377
Initial charge	5.25% (A Class Shares)
Ongoing charge GBP (as at 18/02/19)	A Acc Class Shares – 1.96% R Acc Class Shares – 0.96% I Acc Class Shares – 0.96%
Minimum investment	£500 (A Class Shares)
Minimum top up	£250 (A Class Shares)
Regular savings scheme	Yes (A Class Shares)
ISA option available	Yes (A Class Shares)
XD/Payment dates	01.03/30.04, 01.09/31.10

Any past performance or references to the period prior to 14 July 2012 relate to the Ignis Argonaut unit trusts.

All information as at 31/08/2019, unless otherwise stated and measured against the fund's benchmark index.

Funds performance based on GBP share class, return may increase or decrease as a result of currency fluctuations on each share class.

Investor information – This fund may not be appropriate for investors who plan to withdraw their money within 5 years.

## Fund Commentary

*"The asset diversification benefits espoused by Modern Portfolio Theory have now been usurped by the industrial buying of the same funds as everyone else; all looking for the same high-quality companies; all highly correlated to each other and the market"* - (Anonymous Fund Selector, August 2019)

The fund returned +0.47% over the month, compared to the IA Europe ex UK sector of -2.17%.<sup>1</sup>

The funds' biggest winner was German technology conglomerate Osram (+5%) which was subject to a takeover offer from Austrian semiconductor firm AMS. The fund also benefitted from its holding in

Norwegian online classifieds company Schibsted (+12%) which rose following positive noises around further industry consolidation and Russian mining blue-chip Norilsk (+6%) owing to its exposure to Palladium and Nickel metals. This was slightly offset by weak share price performance from Swedish telecom equipment behemoth Ericsson (-12%) and Danish wind turbine manufacturer Vestas (-11%).

Economic lead indicators continued to show a deceleration of economic activity owing to US-China and Brexit trade fears. It is our base case that there will likely be a "hard Brexit" on October 31st before a deal is subsequently struck. We also think that trade tensions between the US and China are likely to drag on, possibly for years ahead. This means that it is now probable that Chinese industrial production will suffer a "double dip" recession and that the German industrial complex is unlikely to see the previously expected H2 recovery.

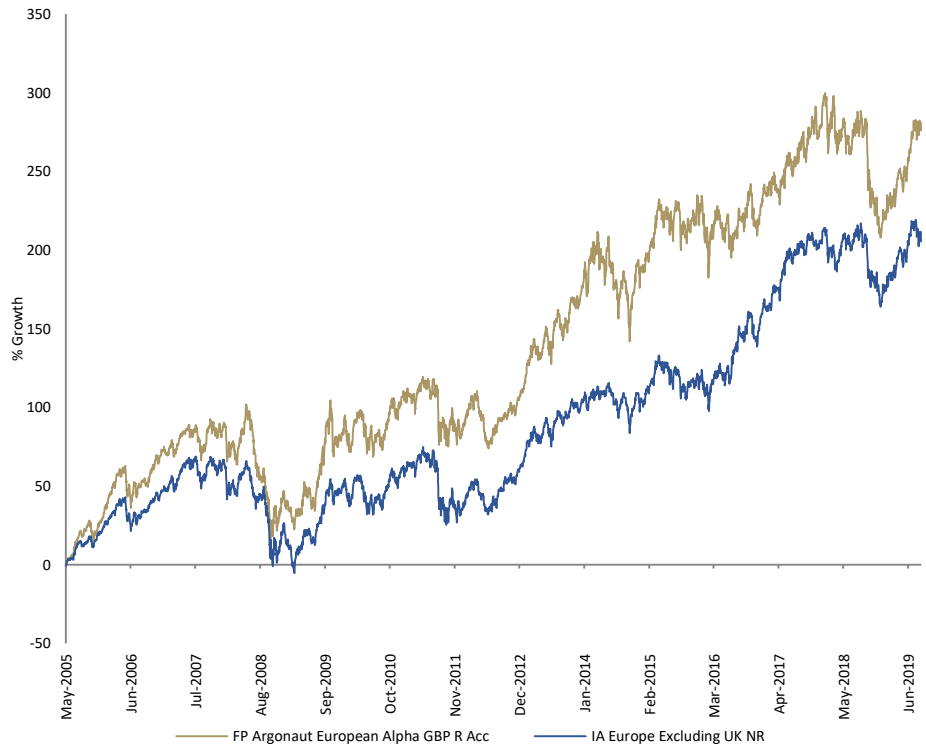
Markets currently expect Central Banks to aggressively ease monetary policy to cushion this economic turbulence. With the Federal Reserve expecting to follow its 25bps July cut with at least 3

<sup>1</sup> Lipper 31/08/2019, R Accumulation share class performance, in GBP with net income reinvested and no initial charges.

more times, with similar reductions and the ECB also signalling a further deposit rate cut and a return to asset purchases at its September meeting. In the Eurozone, investors now pay 69bps (from 45bps) to hold the German 10-year bund. Remarkably, every Eurozone sovereign apart from Italy and Greece has negatively yielding 5-year bonds. Over one third of all outstanding global bonds have negative yields. This is unprecedented and for us this is the single most important indicator of how low the bar now is for European equities as an asset class and a reminder of how, in contrast to Q4 2018 when central banks were hawkish, global liquidity is likely to remain supportive of the overall market level despite the economic gloom. It also explains the renewed bid for precious metals as a store of monetary value.

Since the financial crisis in 2008 high quality companies have consistently outperformed cheap stocks, a reflection, we believe, of a deflationary macro environment where profit growth is reliant on innovation rather than a rising tide floating all boats. It is worth remembering that it was not always thus: in the pre-financial stock market cycle, in which we first cut our teeth, commodity stocks with no obvious competitive advantage delivered stellar performers, whilst higher quality stocks struggled. Hence, it is often a difficult task to isolate a fund manager's skill from their inherent style bias, even if a long enough track record exists for this to be statistically significant. We take comfort from the fact that our stock selection process which involves the identification of companies likely to earn more profit than the market currently anticipates, whilst by no means flawless, has largely served our unitholders well over two very different cycles and should be flexible enough to adapt if the future is ever different to the recent past.

## Performance



£	Cumulative						Since Launch	Calendar					
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year		2018	2017	2016	2015	2014	2013
<b>Fund</b>	0.5	10.9	22.3	-0.2	19.5	37.3	281.0	-17.9	14.9	-1.0	16.1	4.0	31.7
<b>Sector</b>	-2.2	6.5	16.7	0.1	26.8	52.9	211.4	-12.4	17.4	16.8	9.3	-0.8	26.0
<b>Quartile Rank</b>	1	1	1	2	4	4	1	4	3	4	1	1	1

Source: Lipper 31/08/2019, Date from the 12<sup>th</sup> May 2005 – 16<sup>th</sup> July 2012 A class and 16<sup>th</sup> July 2012 – 31<sup>st</sup> August 2019 reflects class R units, in Sterling with net income reinvested and no initial charges. The sector is the IA Europe ex UK NR quoted in Sterling.

Past Performance is not a guide to future performance. The value of shares and any income from them may fall as well as rise and is not guaranteed.



**Fund Factsheet**

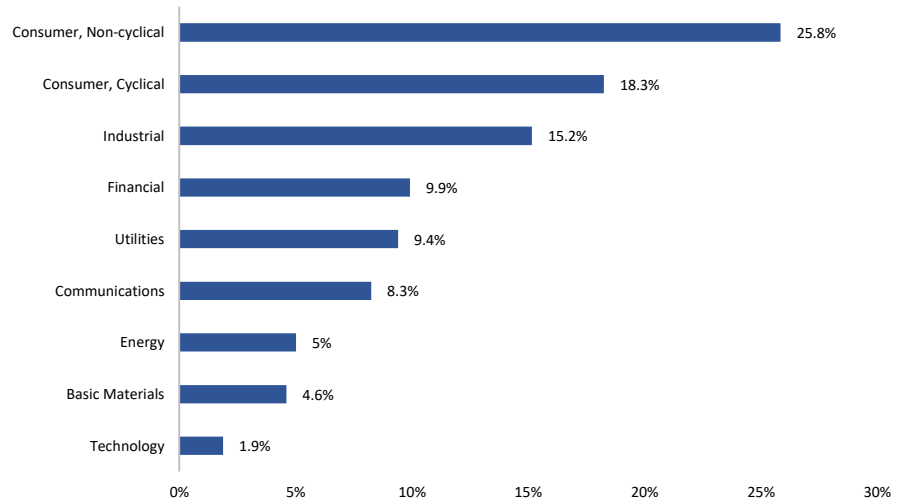
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**At 31 August 2019**

Top Five holdings	Fund %
Essity	7.2
Osram	7.0
Edenred	6.7
Schibsted	5.3
Grifols	4.7

Country Breakdown	Fund %
Germany	14.5
Spain	11.1
Sweden	8.9
Netherlands	8.8
France	8.5
Russia	8.5
Norway	6.4
Portugal	6.2
Denmark	5.7
Italy	5.7

Market Cap	Fund %
Mega Cap > €20bn	14.9
Large Cap €5bn – €20bn	59.2
Mid Cap €1bn – €5bn	20.9
Small < €1bn	3.3
Cash	1.7

**Sector Weights**


Risk Analysis	Since Launch	5 Year	1 Year
Beta	0.87	0.88	1.27
Standard Deviation (%)	16.65	12.34	16.95
Tracking Error	8.47	7.41	6.70
Jensen's Alpha	2.62	-0.83	-4.86
Sharpe Ratio	0.52	0.53	0.02
Information Ratio	0.20	-0.24	-0.56

Source: Lipper, all figures at 31/08/2019, these figures are subject to rounding. Date from the 12<sup>th</sup> May 2005 – 16<sup>th</sup> July 2012 A class and 16<sup>th</sup> July 2012 – 31<sup>st</sup> August 2019 reflects class R units. Tracking error is calculated ex post.

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Source: Argonaut Capital Partners, all figures at 31/08/2019, these figures are subject to rounding.

**Dealing Contact:**
**+44 (0)844 620 0290**

(UK only)

**+44 (0)1268 447403**

(from outside the UK)

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Other ISINs for this fund:

GB00B6TQCC60	GB00B6T6S066
GB00B5LJR434	GB00B6VYPP25
GB00BVPYB156	GB00B7JXMD51
GB00B76L7377	GB00B4ZRC005

**Glossary**

**Information Ratio:** a risk-adjusted measure of fund performance relative to a benchmark; the higher the number, the more risk-adjusted outperformance the fund has generated.

**Jensen's Alpha:** a measure of a fund's outperformance of a benchmark over a given period. Jensen's Alpha is used to evaluate the contribution of active management – higher alpha means better fund performance.

**Tracking Error:** measures the deviation of fund performance from benchmark performance. Funds with a high tracking error have historically deviated more from their benchmark, and vice versa.

**Beta:** a measure of the sensitivity of fund performance relative to changes in the market. A fund with a beta of one tends to experience movement in line with the market. A beta higher than one suggests the fund will go up by more than the market when it rises, but go down more when the market falls. A beta less than one will go up by less than a rising market, but fall less when the market is down.

**Standard Deviation:** shows how much variation in return exists from the average. The lower the standard deviation the less variation from the average.

**Sharpe ratio:** a measure of the excess return per unit of deviation in an investment asset or a trading strategy. The higher the figure means the excess return generated from the increase in risk undertaken.

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