DART CAPITAL

Investment Brief

January 2022

Introduction

Richard Whitehead
Chief Executive

In my role I am often asked by my clients where successful people gift capital beyond that to friends and family, both during and at the end of their lives. This is a very personal subject and one that requires careful thought. In order to assist, it is essential to understand the full family circumstances as well as exploring hobbies, interests, aspirations and beliefs. This takes time and we are always happy to be involved and then bring in experts who can help with the implementation.

In my 20's whilst working for Coutts I had the fortunate experience of working alongside one or two inspirational people who understood this area more than most. One was the late (Brigadier) Bev Smalley in the Coutts Leeds Office, my boss at the time within the bank. His obituary in The Yorkshire Post in 2018 described him as "..one of the pioneers of private wealth management in the North of England". At the time he was the senior relationship banker for Coutts in Leeds having worked for NatWest in a similar role until his promotion across to us, something which provided him with a much bigger office, a frock coat and a better car!

Private Banking back then was still regarded as the pinnacle within the wealth management world before it sadly became tarnished with the financial crisis and regulatory failures and fines. Bev's traditional role then was quite similar to ours at Dart Capital – to help families manage their wealth and also to help them understand their long term strategy for the direction of this capital. To be an effective Investment Manager or Private Banker you have to understand both the short and medium term objectives but also the ultimate purpose for the capital.

Bev's ultimate success, as with so many, came from a remarkable ability to get on with everyone around him and take the time with people, whether they be a Bradford lottery winner, a Harrogate Entrepreneur selling their family business or a 10,000 acre landowner from Ripon. His skill was knowing his clients well, often through spending hours with them listening to their life stories and understanding what motivated them to be the successful people they were. He would then get to know the wider family and then surround himself with the most suitable external advisers (outside of the bank) thus working as a collaborative team in formulating and executing the agreed financial plan. Much of this work was needed outside of office hours so the cost to his own family must have been immense.

It is from working closely with characters such as Bev and many more in the years since that has helped me to try to perform my role within Dart Capital holistically and to pass those skills to those who work closely with me in looking after you. We know a good number of you already have well formulated long term gifting plans in place and for these it is a simply a question of small adjustments to the documents when required.

For those of you who are new to the world of giving, the starting point to this is agreeing the plan with the immediate family. Once this is established it may be useful to include wider members of family through a collaborative process with as many relevant parties. This is perhaps the most difficult stage as circumstances change and trying to be too generous too early may not leave enough capital for your own needs. However, simple steps such as ensuring an up to date Expression of Wishes nomination for pensions and a current signed Will are all starting points. Both these documents should be reviewed on a regular basis.

For those considering further gifts to other parties, including areas of philanthropy, this brings in a myriad of considerations. My strongest advice is keep this as simple as possible and avoid the temptation to overcomplicate the financial structures. I have had the privilege of knowing some very generous individuals, whether that be the establishment of inner city foodbanks, the advancement of molecular science via a family foundation or small donations to charities and community projects, it has all helped. This all comes at a time when we are even more aware of the need to build a more resilient and sustainable world and where resources for some charities and other causes are becoming ever more stretched due to Covid, it is never too early to consider the future.

House View

Alexander George, CFA
Associate Director of Research

2021 was a strong year for equities, with the recovery in corporate profits, and supportive government policy propelling markets higher. Whilst we retain an overweight position in equities on the back of reasonable valuations and improving corporate fundamentals across many areas of equity markets, we have added greater ballast to portfolios over recent months through modest increases in exposure to out-of-favour safe haven currencies, government bonds and higher quality equities. This more balanced view derives from Central Bank and government fiscal policy becoming slightly less supportive alongside our wariness of the speculative behaviour within pockets of asset markets that have pushed valuations in these areas up to excessive levels.

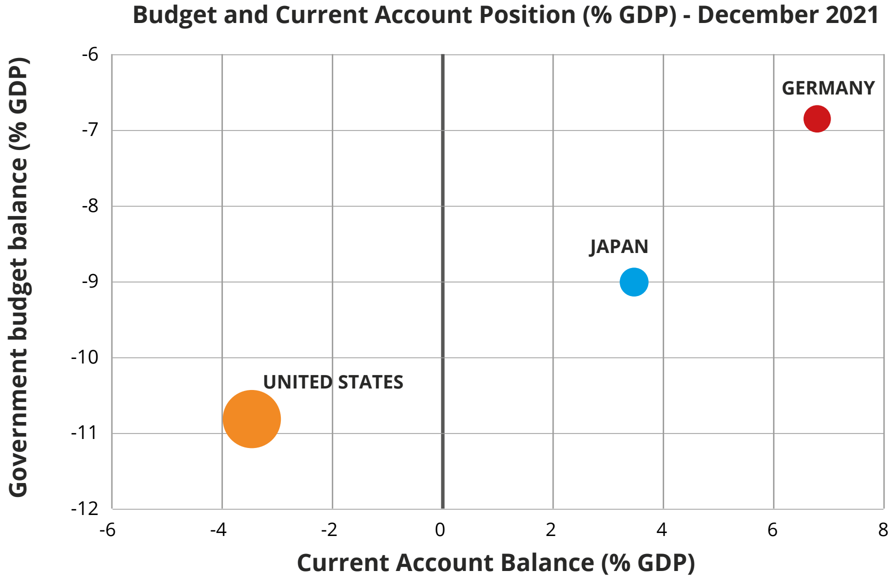
Macro outlook

The near term outlook for the global economy remains reasonable, with the recent fall in cases and hospitalisations in those areas first affected by the omicron variant, firstly South Africa and most latterly London, indicating that the Omicron variant is unlikely to de-rail the global economic recovery. Whilst there will undoubtedly be future variants which may cause concern, the presence of vaccines and effective treatments for COVID patients should mean that widespread lockdowns should become less likely in future case spike periods.

In our view, what is more disconcerting is how markets will digest the modest tightening of monetary and fiscal policy, which are both likely to move closer to more normal, pre-pandemic settings. Since the onset of the pandemic in March of 2020, the financial world has been awash with liquidity, as fiscal policy – in the form of furlough and direct cash handouts to households – was allied with zero interest rates and Quantitative Easing programmes by Central Banks. Whilst these supportive forces won't reverse completely, conditions are becoming less agreeable as Central Banks react to stubbornly high inflation by tentatively tightening monetary policy whilst governments simultaneously tighten their belts in order to trim their fiscal deficits. In combination with some easing of supply chain pressures this should place some downward pressure on inflation rates over the second half of 2022, although we expect it to remain above Central Bank targets over the entire year.

The US fiscal stance is particularly important given its position as the world's largest economy. Over 2021 the US government ran an 11% fiscal deficit, which, alongside the extremely accommodative policy of the US Federal Reserve, served to flatter the balance sheets of households and corporates, with much of the excess savings of these two groups finding its way into stock markets, as well as more nascent, speculative investment areas such as crypto currencies. As the government reins in this unsustainable level of deficit, households will feel slightly less affluent and corporate profit margins will start to be squeezed, albeit from very elevated existing levels.

The US fiscal position will retrench from extremely accommodative current levels



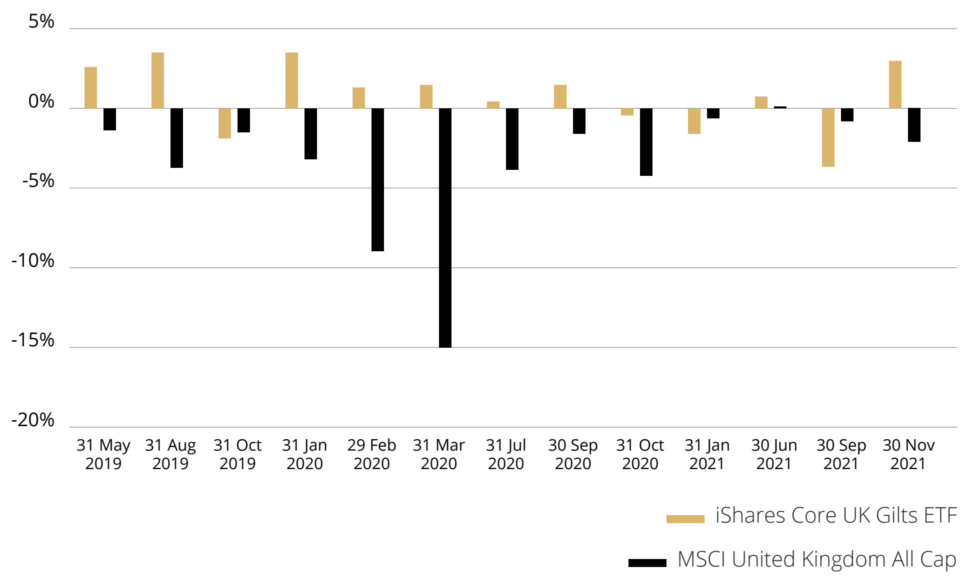
o Bubble size = real GDP in billions of US$

Source: Reuters Eikon

Fixed Income

As outlined in our House View piece three months ago, we used September's rise in government bond yields to add to a holding in longer-dated Gilts, having previously held a notable underweight in duration across portfolios. With Gilt yields ending the quarter broadly unchanged, the yield curve is pricing in a terminal base rate of around 1.25% in this rate hiking cycle. Following the Bank of England's decision to raise the base rate by 15 basis points to 0.25% in their December meeting, this would require another 100 basis points of rate increases over the next couple of years, which whilst eminently achievable, is by no means guaranteed given some of the medium-term challenges the global economy faces. Importantly, and as shown by their strong performance on the initial news of the spread of the Omicron variant in late November last year, both Gilts and Treasuries are likely to deliver positive performance during negative shocks to the global economy, and thus provide some cushion for portfolios during more challenging periods.

Gilts performance vs UK Market in negative months (3 Yr monthly data)



Source: FE Analytics

Corporate bonds look increasingly fully valued at this juncture, given that credit spreads (the additional yield corporate bonds provide over government bonds) have returned to very tight levels which leaves little margin for error. Similar to our view on equities, faced with this backdrop we are emphasising quality, and have been reducing exposure to lower quality High Yield bonds correspondingly with the aim of protecting portfolios should there be an exogenous shock, such as corporate fraud or an equity market sell-off, which drives a dislocation in corporate bond markets.

Equities

Within equities, we retain a tilt towards high quality cyclical stocks that remain attractively valued following a strong bounce-back in profitability which are well positioned to weather a sustained period of inflationary pressure. Over recent months we have supplemented this with greater exposure to more defensive, established businesses which have underperformed over the last 18 months. Our largest underweight position is to the most highly valued companies (relative to their level of cash flows and profits), which look most at risk from tightening monetary policy and have benefitted most from inflows of speculative capital. However, we continue to monitor this area and have a number of funds which we would feel comfortable allocating to should we identify a sufficiently attractive opportunity.

Cyclical stocks generally struggled over the second half of 2021, with the share prices of many companies declining even as profit levels rebounded. As a result, in a relatively benign economic environment, we see significant upside for areas such as financial stocks such as Standard Chartered, which trade on less than half of their book value despite having avoided significant damage from the COVID recession. Volkswagen, Hugo Boss and WPP are other examples of cyclical value stocks, which possess strong franchises within their respective industries and have seen a strong return to growth over the last year.

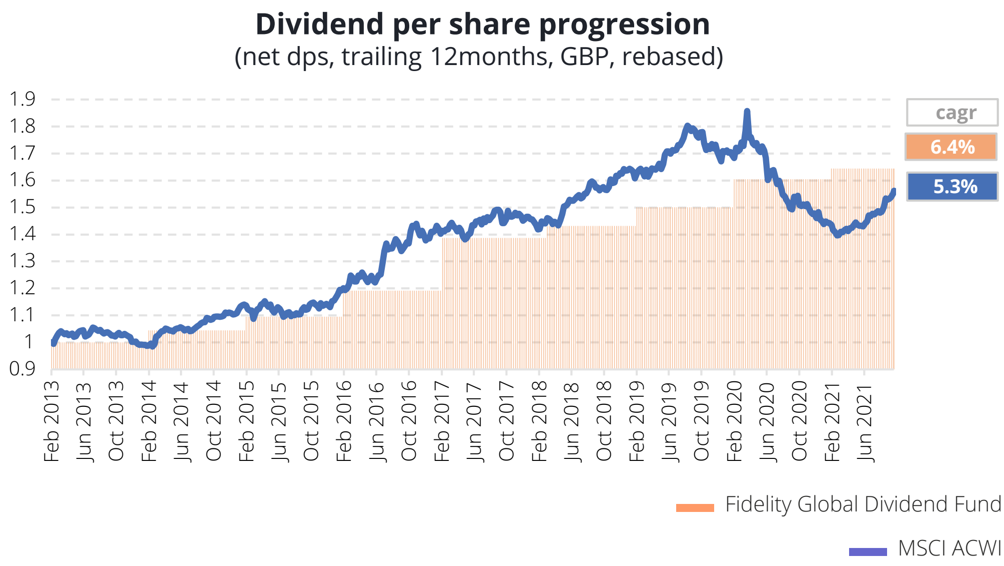
Having outperformed strongly during the market sell-off of the first quarter of 2020, traditionally defensive sectors, such as consumer staples, utilities and areas of healthcare, have underperformed markedly, as investors have favoured higher growth technology stocks, and, more latterly, energy and financial businesses with recovering profits. Given the underperformance of this style over the prior 18 months, and the unpopularity of the steady, resilient businesses our managers in this area own, we view it as particularly well positioned should some of the speculative activity in markets unwind and investors return to favouring companies which can generate sustainable cash flow.

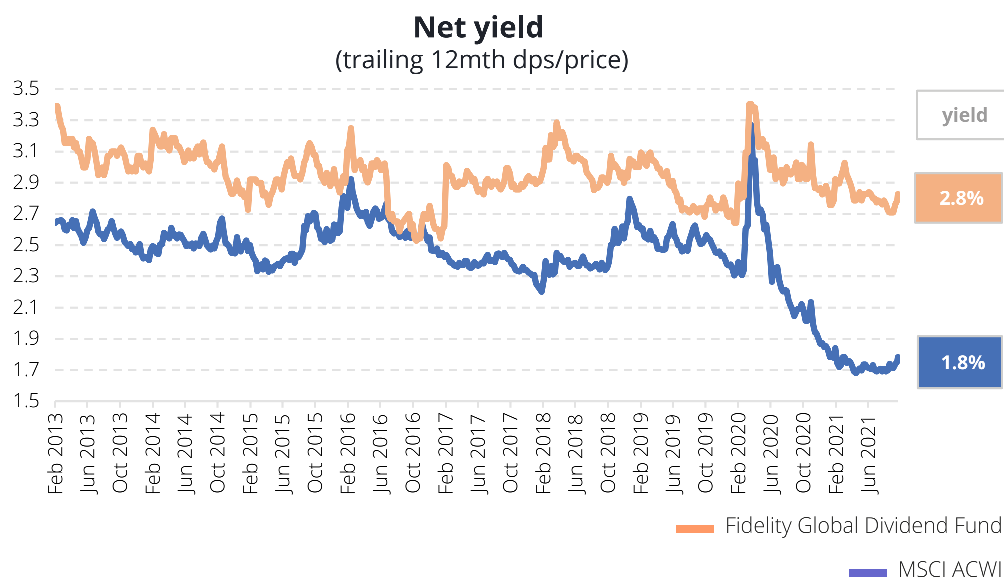
One of our favoured funds that has significant exposure to this area is Fidelity Global Dividend, a strategy which is held across all risk strategies and was topped up in December across higher risk strategies which had held the fund at a lower relative weighting prior to the move. As shown below, despite the fund's dividend growth having been stronger than the global equity index since the fund's launch in 2012, the fund's yield premium to the global equity index, MSCI ACWI, has widened to historically high levels as many of its stocks have fallen out favour.

Fidelity Global Dividend's portfolio of growing companies delivers an attractive dividend premium to the global index

Security name	Portfolio weight (%)
Unilever	4.3
Procter & Gamble	4.3
Cisco	3.7
RELX	3.6
Deutsche Boerse	3.3
Roche	3.2
Sanofi	2.7
Taiwan Semiconductor	2.7
Samsung	2.6
Blackrock	2.5

Source: Fidelity, Bloomberg



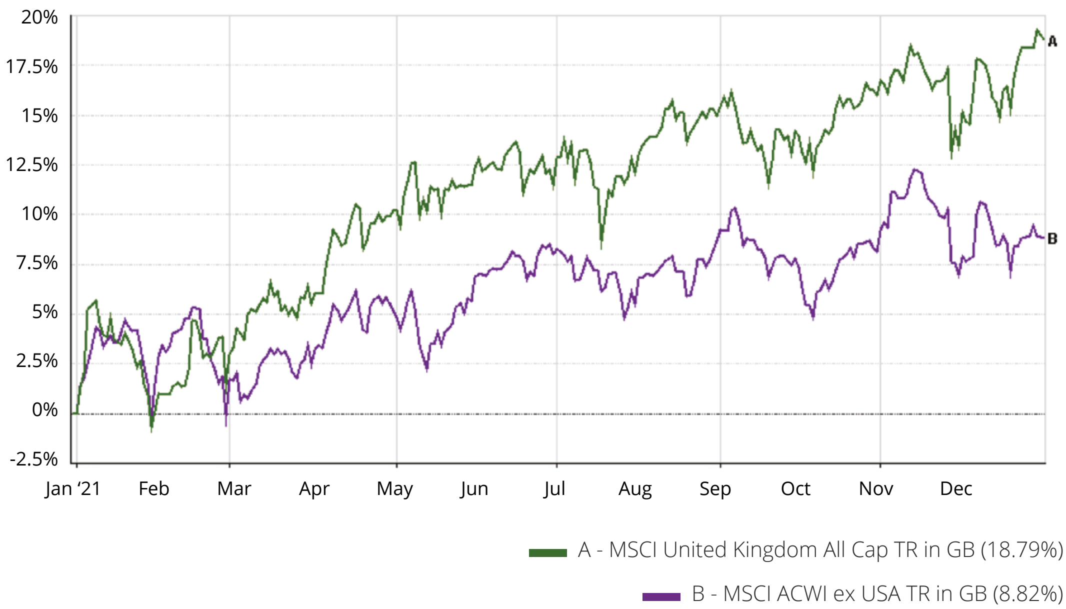


Source: Bloomberg

Regional views

The increase in exposure to more defensive equities was funded through another reduction in exposure to the UK index, following a reasonable year for UK equities when compared to overseas, non-US, markets and good performance from those sectors, such as energy, financials and industrials, which are well represented within the UK index when compared to most other equity markets. These moves also gave us a greater exposure to out of favour safe haven currencies such as the Japanese Yen and Swiss Franc, which, in sharp contrast to the Pound, tend to appreciate during weak equity markets.

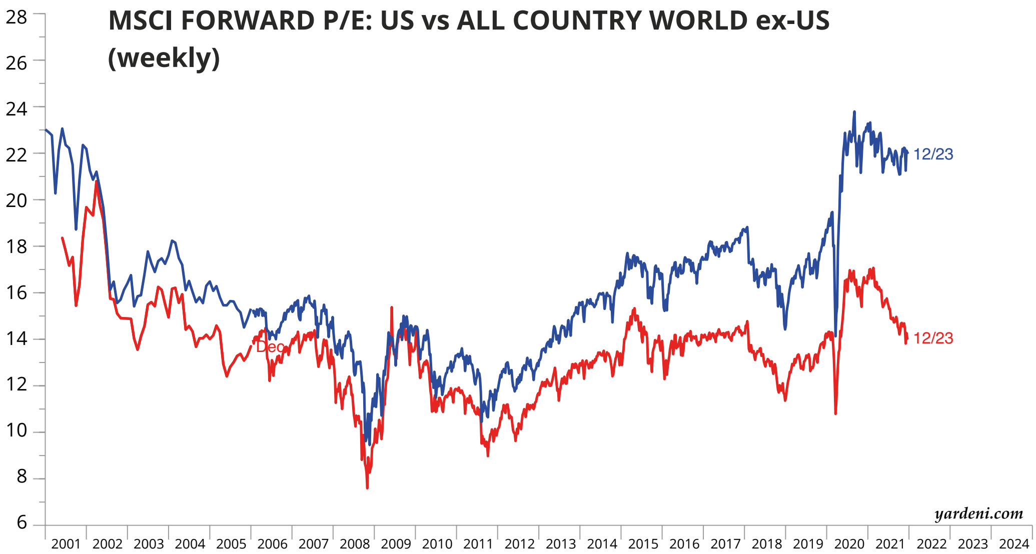
The UK market outperformed most other non-US markets last year



Data from FE fundinfo 2022
31/12/2020-31/12/2021

Whilst we remain comfortable with having a sizeable exposure to the US's S&P 500 index given its tilt towards the likes of Apple, Microsoft and Google (Alphabet) which are highly profitable and have dominant positions within growing industries, we do note that flows of capital back into US stocks over the second half of 2021 has driven the valuation gap between US and non-US large-cap stocks close to its highest level in over twenty years. Furthermore, the speculative behaviour within pockets of the US market, demonstrated by the wave of highly valued Initial Public Offerings (IPO's) last year indicating an elevated level of risk sentiment that, at least historically, hasn't tended to bode well for future returns. With many investors crowded in American stocks, we believe this valuation gap should start to close, or at least cease widening, as investors seek more attractively valued opportunities and thus we retain a modest underweight to the American market.

The valuation gap between US and non-US markets has increased to its widest level in over 20 years



Forward P/E*

US (22.0)

ACW ex-US (14.1)

*Price divided by 12-month forward consensus expected operating earnings per share. Monthly through December 2005, then weekly.
*Forward P/E – stocks current price divided by mean EPS (Earnings per share) estimate for next Fiscal Year

Source: Yardeni Research

We topped up exposure to European equities last year, as the region's lead in environmental technologies, and relatively unloved status when compared to US stocks, make the region an attractive proposition. One particular opportunity which our favoured managers in the region are benefitting from is the implementation of carbon taxes on imports from outside of the EU, as the trading bloc seek to punish companies with less environmentally friendly production methods. The expectation is that the imposition of carbon taxes will give pricing power to many European industrial companies which were previously under huge competitive pressures from low cost, carbon intensive imports from south-east Asia and have suffered from weak profit margins as a result.

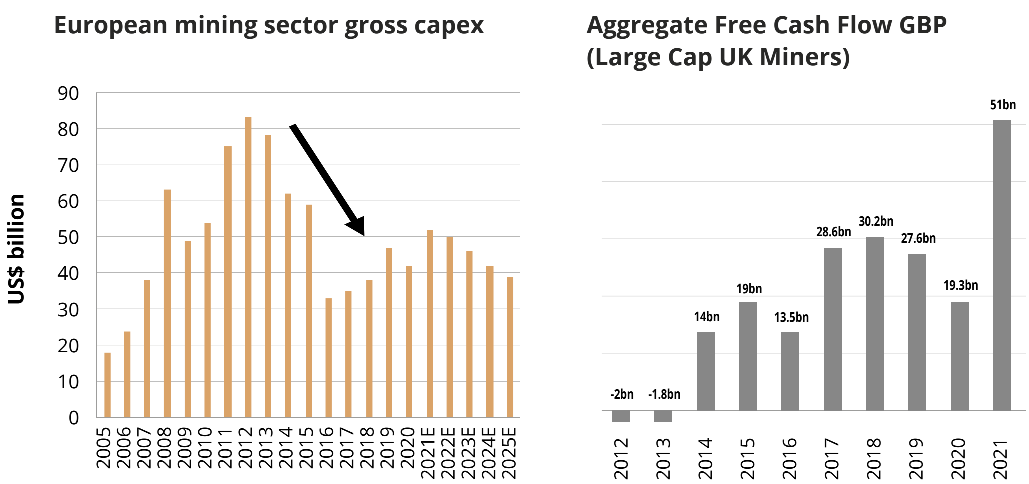
We remain optimistic on the prospects for Japanese equities, as the government's push for more shareholder friendly corporate governance is starting to have a significant impact on the behaviour of corporate management who, up until recently, had been comfortable sitting on ever growing cash piles. In addition to most companies increasing their dividend pay-outs, and in some cases, share buybacks, the pace of takeovers of smaller companies has picked up, with a number of businesses bought at large premiums by their parent companies.

Emerging Markets broadly underperformed over 2021, as investor flows returned to Developed Markets amid weaker sentiment towards the Chinese economy. At this juncture, we believe that concerns over China are broadly priced in, with the Chinese authorities having started to stimulate the economy by reducing reserve requirements for banks. Within Emerging Markets we have exposure to a blend of hard-to-replicate businesses with solid earnings prospects, trading on attractive valuations. This includes technology businesses, such as Korea's Samsung, which has a strong market position across vitally important industries such as semiconductors and memory chips, widely used ecommerce platform Alibaba in China, and profitable and growing financials on low valuations, such as Banco Bradesco in Brazil. For patient investors who can tolerate the volatility, we believe this area can deliver over coming years, and thus we retain a sizeable weighting across higher risk strategy portfolios.

We also have a position in a specialist mining fund across higher risk strategies where volatility remains elevated despite the very strong balance sheets of constituent companies which have paid down most of their debt over the last 5 years. We continue to believe that the sector is well positioned to benefit from the energy transition, with demand for metals such as copper likely to increase strongly, particularly across the US, Europe and India, due to its role in the global transition away from traditional fossil fuels. In recent years, mining companies have committed to prudent asset allocation as they re-structured business models and reduced debt levels, with these moves now paying dividends with these businesses generating strong levels of free cash-flow over 2021.

Large-cap mining companies have cut back on capital expenditure, and are generating significant free cash flow

Supply: capital discipline reigns



*UK Large Cap Miners - Glencore, BHP, Anglo American & Rio Tinto Source: BlackRock/Morningstar

Commodities

Physical gold remains a defensive position within portfolios, with the precious metal historically delivering strong performance during risk-off market environments as well as useful long-term inflation protection.

Property

Our favoured property REITs, BCPT and SLI Property Trust, enjoyed a strong 2021, as a combination of improving sentiment towards UK commercial property and asset disposals at attractive valuations helped drive a narrowing of the discount to their net asset value (NAV). From here, both are still trading at significant discounts to their NAVs, whilst delivering a combination of attractive dividend yields and share buybacks which we expect to continue to support their respective share prices.

Closing thoughts

As we start a new year, we note that last year most of the fervour in markets had been concentrated in a few specific areas, such as high growth technology companies and electric vehicles. This has left many less exciting areas largely undisturbed from a valuation perspective, and we have increasingly shifted capital into solid companies operating in these unloved areas of equity markets. However, we continue to remain agile, and are poised to take advantage should the tightening of policy by governments and Central Banks cause a dislocation across asset markets.

Market Commentary – Q4 2021

Alexander George, CFA
Associate Director of Research

UK

Having surprised the market by deciding to hold the base rate at 0.1% in their November meeting, the Bank of England's Monetary Policy Committee (MPC) voted 8:1 to raise the base rate to 0.25% six weeks later, whilst maintaining their asset purchase programme at £895bn. In addition to the move higher in the inflation figures that were released the day prior to the MPC's meeting, which saw the year-on-year change in the Consumer Price Index (CPI) increase to 5.1%, the Committee cited the strength of the labour market, which showed little sign of weakening following the end of the furlough scheme in September, as well as healthy wage growth which is running above pre-COVID levels. Whilst these factors were enough to overcome the Committee's concerns about impact of the spread of the Omicron variant, the prospect of future restrictions being unknown may weigh on consumer sentiment and could potentially slow the MPC's pace of rate hikes over the next 12 months.

Having had a strong year up to that point, the Pound came under pressure over October and November, before rallying following the BoE decision to end the year at $1.35 and €1.18 against the US Dollar and Euro respectively. Having risen strongly in September, Gilt yields followed a similar path, with the 10 year Gilt yield ending the quarter broadly unchanged at 0.97%. MSCI UK All-Cap ended the quarter up 3.7% in capital return terms.

US

In mid-December, Jerome Powell announced a quickening of the pace of the Federal Reserve's tapering of their asset purchases, whilst signalling up to three rate increases next year. The Federal Reserve's pivot to accelerate the tightening of policy is an attempt to re-anchor inflation expectations, with the 6.8% increase in the CPI index in the 12 months to November, clearly putting pressure on the monetary policy setting Committee (known as the FOMC).

Late in November, progress was made towards the passing of President Biden's $1.75trn economic stimulus plan, which will provide further payments to lower income households, as well as another $1.2trn infrastructure bill, which will provide significant investment in decarbonisation projects amongst others. However, these stimulus plans came under pressure in December, as one Democrat Senator indicated that he would vote against the plans. The S&P 500 gained 10% over the quarter in US Dollar terms, although this was largely driven by a small number of technology companies.

Europe

In line with the US and UK, Eurozone inflation has moved higher over recent months, with the latest figure for November showing a 4.9% year-on-year growth in the CPI figure for the currency bloc. However, in contrast to policymakers elsewhere, the reaction from the European Central Bank (ECB) has been more sanguine, with ECB President Christine Lagarde actively pushing back on the idea that the ECB will be forced into raising the base rate until 2023 at the earliest. The increase in COVID cases across the currency bloc, and the economic restrictions governments have brought in in order to slow its spread, drove economists to lower their expectations for Eurozone growth for the fourth quarter. MSCI Europe ex-UK gained 6.7% in local currency terms, although this return was lowered to 5% in sterling terms owing to the weakening of the Euro over the quarter.

Asia

China's economy has continued to slow over recent months, as a combination of sporadic COVID shutdowns driven by their zero-tolerance COVID policy and weakness in the property market served to impact growth. However, government stimulus measures have already started to take hold in areas of the economy which the government want to support, such as electric vehicles and renewable energy, whilst the Central Bank accelerated this support by cutting the base rate in December. MSCI China ended the quarter down 6.1% in US Dollar terms.

In Japan, the most notable event was the general election at the end of November, which saw the ruling LDP party gain a far larger majority in the important lower house of Parliament than many political commentators had expected. The country's sharp decline in COVID cases, which has allowed the government to end the state of emergency in major cities, likely bolstered support for the ruling party. Now that they have secured a solid majority, Prime Minister Fumio Kishida and his party are planning on increasing fiscal stimulus and boosting the incomes of the middle class, whilst continuing to pursue many of the economic policies championed by his predecessor Shinzo Abe. Given the stability the result provides, we believe it should act as a positive catalyst for the Japanese market, particularly for those companies which are benefitting from the loosening of COVID restrictions, many of which are still trading on attractive valuations with strong cash positions. MSCI Japan returned -1% over the period.

Sustainable Investing – Navigating the Landscape

Daniel Patterson
Investment Analyst

Perhaps catapulted by the announcement of the European Green Deal at the end of 2019, the previous two years have seen a wave of investor capital flows into more sustainable funds and companies. Europe is expected to invest c. €1trn over the next decade to drive the 27-country bloc closer to its 2050 carbon neutral goal and has become one of the largest hunting grounds for ESG companies. Whilst the increased conscience of investors is necessary to help drive change and protect the world we live in; like any new theme or topic, it won't start perfectly. Currently, sustainable investing has a large degree of ambiguity therefore placing a greater emphasis on due-diligence in order to gain the correct exposures to companies. This ambiguity has also created high dispersion within markets more broadly, with companies deemed to be more ESG-friendly, in most cases, being rewarded with higher valuation multiples which has helped support attractive returns in recent years.

This ambiguity can also be seen in measuring ESG performance. Over the last few decades, traditional stock analysis using financial metrics has enabled even the smallest companies to be recognised by global investors for their profitability and growth. However, this is not yet the case for ESG reporting. ESG continues to remain a relatively nascent style of investing, where hard, reliable metrics are hard to come by. Whilst independent rating providers are gaining sophistication, they're far from perfect and continues to divide opinion within the ESG investing community.

Sustainability Ratings Inefficiency

Information disclosure remains one of the toughest ongoing challenges within the sustainable investing universe and is why many of the top beneficiaries of investor flows have been larger companies given their larger resource. Calculating a company's sources and scale of emissions along their supply chain is both time consuming and costly, but this level of disclosure is required for stocks to be graded by third-party ratings providers in order to subsequently be considered for allocation within a number of ESG-related funds. So whilst larger companies have been able to take on this additional reporting, many smaller companies have not, and as a consequence have not benefitted from the investor flows that equivalent larger companies have, regardless of the positive environmental impact they may be having. This creates an interesting backdrop towards how ESG investing could progress moving forward with the potential for exciting opportunities available to active managers willing to deviate away from official ratings that may overlook these companies and instead engage directly to find solutions in improving disclosures surrounding ESG practices.

Investing in Change

Suppose that this inefficiency in disclosures was eliminated and each company accurately reflected their carbon emissions, would this result in a fair distribution of capital amongst the companies that are contributing the most to a more sustainable world? Most likely not in our view. One example of this is a company called Danieli, an Italian business who are the global leader in the production of electric arc furnaces and held in the R&M European fund, a core holding within our models. Global steel production accounts for c. 8% of global emissions and is the world's most important and widely used engineering and construction material which can importantly be recycled over and over again without loss of property. Steel can be produced, one of two ways, either using a traditional blast furnaces or using electric arc furnaces, the latter currently accounting for only c.25% of the world production because it requires the use of scrap (recycled) steel and is cost disadvantaged, however is around 70% less carbon intensive. As the cost of carbon within industrial processes is set to rise over the next decade if not sooner, alongside reducing steel output from the world's largest exporter China in a bid to curb emissions, it's expected these economics will flip and steel production through electric arc furnaces will become cost advantaged, to which Danieli will be perfectly positioned to benefit from. Despite this, the nature of Danieli's industry means it is viewed as a dirty steel producer and is unlikely to be found in many ESG-conscious funds because of its naturally higher carbon footprint, despite the huge contribution that Danieli can make over time. Frustratingly, companies continue to be selected for their absolute carbon footprint instead of their relative one within their respective industry, a method of identifying sustainable companies that is in itself unsustainable and presents, in our view an example of inefficiency within ESG investing which needs to change. Without these type of companies, it will be some task to transition to a lower carbon-intensive future in the required timeframe set by governments.

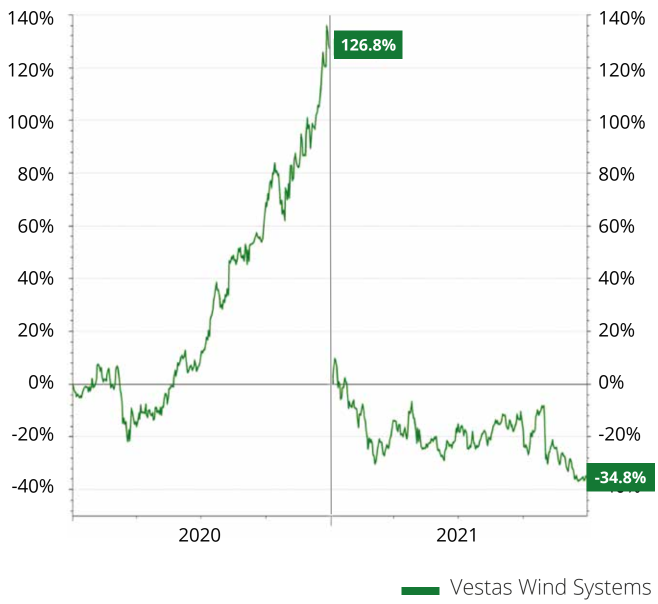
Beware of valuations

Disclosures and the reluctance to invest in higher carbon industries has meant that large sums of investor capital has found its way into a very narrow pool of the most directly attributable stocks, and left others untouched, increasing volatility and distorting valuations. This is well showcased by Vestas, a Danish producer of wind turbines, who were one of the largest beneficiaries of ESG investing capital flows throughout 2020 and is held as a top holding in many impact strategies. Whilst this company will continue to vastly benefit from the move towards renewable energy sources, this doesn't ensure strong returns for shareholders without a valuation discipline. If you had observed these strong gains and then simply invested in Vestas at the beginning of 2021, you would be down over 30%, which included a fall of 18% in one day after Vestas cut full year profit guidance because it experienced lower wind speeds within Europe showcasing how many of these stocks are priced to perform to perfection. On the other side of the coin, the copper miners that are essential to electrify the world's power or the gas producers that are leading the shift away from the most harmful fossil fuels have been forgotten. Simply forgetting about these businesses will only lead to underinvestment and be detrimental to progress further the down the line, after all we're transitioning to renewable energy, not switching.

Our View

At Dart we try and take into account all of the nuances within ESG to expose our portfolios to the areas we believe will continue to generate attractive shareholder returns through an active commitment to making the world a more sustainable place. This means selecting pragmatic active managers that are mindful of valuation discipline, managers that consider not just Facebook's naturally low carbon footprint, but their ethical use of data when making investment decisions, and managers that are finding attractive opportunities within smaller companies and encouraging disclosure to attract investor flows and boost returns. There continues to be many overlooked opportunities but we do remain cognizant of the popularity in ESG and will only allocate to strategies where we feel that is an attractive risk/reward dynamic. In our view, sustainable investing will continue to evolve and become more sophisticated, encompassing a larger variety of businesses into what is regarded investable and as wealth managers, we look forward to making a difference through investing.

Vestas discrete share price performance in GBP



Source: Refinitiv Datastream

Fund Spotlight – Nomura Global High Conviction

Joe Healey
Investment Analyst

Launch Date:	11/03/2020
Fund Size:	£99.6m
Asset Class:	Global Equity
Managers:	Tom Wildgoose & Ilan Chaitowitz

Tom Wildgoose

Ilan Chaitowitz

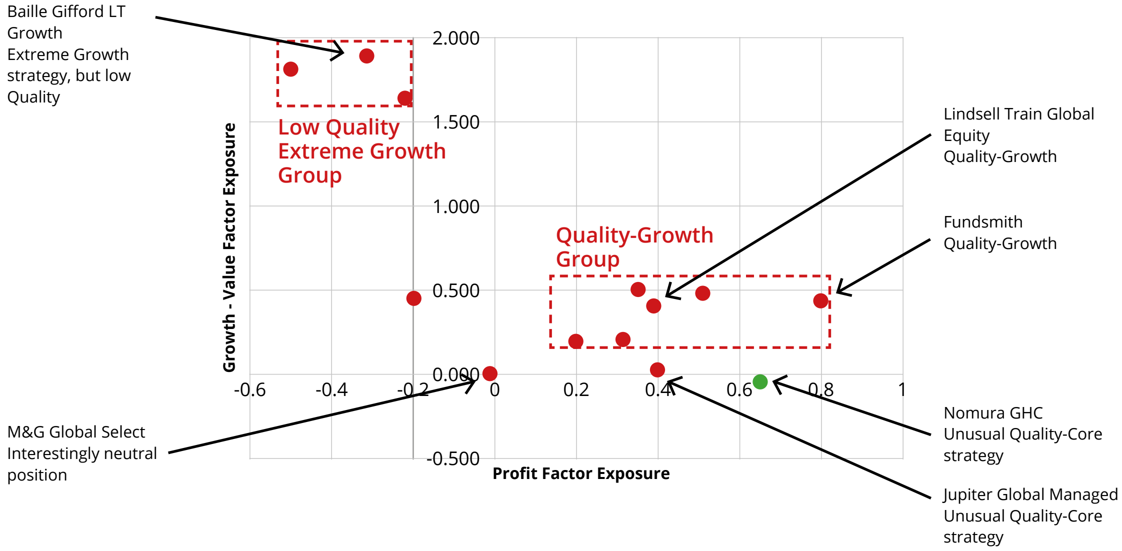
The Nomura Global High Conviction fund was added to mid and lower risk strategies towards the end of December this year. The strategy is a quality biased global equity fund that emphasises profitable and established businesses. Given the speculative fervour in some global growth names, particularly in the US as a result of loose monetary policy and retail speculation, this strategy is intended to offer a greater degree of downside protection should we enter an environment where valuation multiples become challenged given the strong cash-flow generation and business models of its underlying holdings. Using the MSCI ACWI Quality benchmark, quality as a factor has outperformed other styles such as value over the last decade, however, more recently, Nomura Global High Conviction has underperformed the wider global & US market, because of its reduced exposure to some of the big drivers of index performance such as Tesla and Nvidia. We are comfortable with this, noting the valuations on these types of companies in our view are priced close to perfection and therefore should we see rising valuation pressures spurred by factors such as Central Bank normalisation, it is likely these companies would face significant headwinds.

This is where we feel the strategy offers something different relative to other funds in the space. Although the companies within the portfolio exhibit quality characteristics such as strong, proven business models and robust earnings growth, they are trading at more reasonable valuations. Therefore, the short term underperformance in our view has created an attractive entry point.

As demonstrated in the chart opposite, the fund offers a different exposure than other traditional quality-exposed strategies. Despite having a strong profit factor exposure (quality proxy) the fund does not exhibit excessive growth characteristics which can often imply higher valuations. The scatter chart on the following page illustrates the style positioning of the fund, the higher up the y-axis indicates the larger tilt towards growth-exposed companies and the further to the right on the x-axis indicates the tilt towards companies exhibiting quality characteristics.

Headed up by Tom Wildgoose, Head of Equities at Nomura, in addition to the wider equity team, the strategy's core philosophy is to acquire quality companies that are trading at discounts to their intrinsic valuation. Underpinning this philosophy is the belief that share prices tend to deviate away from intrinsic value as a result of short-termism and fear of loss. The process is designed in Tom's view to help mitigate those biases through in-depth analysis and peer scrutiny allowing the team to take advantage of mispricing within the market.

Quality vs Growth-Value Exposure



Source: Morningstar, Bloomberg as at mid June 2021

A differentiator within the team compared to some of your more traditional quality managers is that they don't view growth and quality being analogous, instead placing a greater emphasis on high return-on-capital and strong cash flow generation over very high revenue growth. The strategy utilises quantitative and qualitative factors to identify companies that exhibit desired characteristics before being put forward for portfolio inclusion, in addition to a comprehensive ESG process that has enabled the fund to be classified as Article 8 - an official designation stating the strategy promotes ESG characteristics.

We are confident that the team's proven process will continue to provide attractive shareholder returns over the medium to long term.

Furthermore, we believe the strategy offers an exposure away from the areas that arguably carry heightened speculation, instead offering exposure to companies that are generating strong levels of cash-flow alongside entrenched positions within their respective industries. We believe this will help provide outperformance should we see deflation in some of the speculative excesses within the market whilst doing so at an attractively priced 0.25% OCF.

A - S&P 500 TR in GB (104.13%)
B - Nomura - Global High Conviction I USD in GB (88.91%)
C - MSCI ACWI TR in GB (77.62%)

Data from FE fundinfo 2021
22/12/2016-22/12/2021

A Day in the Life of a Portfolio Manager

Emma Boorman
Portfolio Manager

As a Portfolio Manager at Dart Capital, I often get asked what my job role entails. This question sometimes takes me off-guard as each day can vary significantly. However, to give you a better idea of our roles at Dart Capital, I thought I'd walk you through a typical day of my life as a Portfolio Manager.

6:45 AM

I wake up and have a quick flick through the BBC News, Financial Times and Stocks app, so I'm aware of any news that may have happened overnight in international markets which may be important for the day ahead. I note that, today, the Omicron variant has had a noticeable negative impact on markets. Whilst I get ready for work, I run over my client meetings for today in my head:

- 10:00 AM – A client whose pension has recently surpassed their Lifetime Allowance.
- 11:30 AM – A couple who have requested running through a cash-flow forecasting exercise.
- 3:30 PM – A prospect client who has recently received some inheritance.

Having already completed the preparation for these meetings, I feel calm leaving the house knowing that my morning can be spent responding to client queries that I have received overnight.

7:30 AM

From my flat in Balham, just a 3 minute walk away from Balham tube station, my morning commute to work is roughly 30 minutes door to door. I usually pull out a book for the 25 minute train, and after a brief read, it feels like no time at all before I'm surrounded by a crowd of suits heading towards the exit of Bank tube station.

8:00 AM

As I exit Bank tube station, it's a sunny but crisp morning so the greetings exchanged as I walk into the office are particularly cheerful. I retrieve my laptop and note-pad from my locker (we have a strict clear desk policy at Dart), start up my computer and firstly check my emails. A meeting has been booked in with one of my clients in 2 days' time, so I add "complete meeting prep" to my 'to do' list for today.

Following this, I log onto Figaro, AJ Bell's system which gives us access to all of our clients' portfolios, to complete my daily liquidity checks. The purpose of this is to ensure that we are aware of any high cash balances which may require investing. A client of mine has recently deposited further funds into her portfolio which we have been phasing (drip-feeding) into the markets over several weeks and, as the markets are down following the news surrounding the Omicron variant, today may represent a good opportunity to invest another portion of her deposit. After agreeing this with Chris, the client's Investment Manager, I open up the trading system to review the portfolio. Our goal is to ensure that the portfolio is consistently invested in line with the client's agreed risk strategy for the portfolio and the target weightings for the model, determined by our Investment Committee. I input my proposed trades and print a copy to be confirmed and signed off by Chris. The trades are then committed.

9:00 AM

After some morning tasks, a number of us congregate in the kitchen over breakfast. Whilst there is often a queue for the toaster, it's a good time to chat to other teams within the business. As Alex (Head of the Research Team) is waiting for his turn, we have a discussion on todays pull back in markets and he explains to me how the recent changes in the portfolios put forward by the Investment Committee, such as the addition of longer duration Gilts, has helped provide some downside protection in today's events.

9:30 AM

Andrew is the Investment Manager attending my first meeting with me, so we sit down together to go through the meeting prep. I sent over an Investment Manager Briefing a couple of days earlier, detailing portfolio values, performance figures, whether ISA subscriptions and Capital Gains Tax allowances have been used, whether the client holds Fixed Protection for their Lifetime Allowance, and any specific action points which need discussing in the meeting. As the value of the client's SIPP is approaching their protected Lifetime Allowance of £1.5m, the main point of discussion revolves around their maximum tax-free cash entitlement. Once Andrew and I are happy that we have all the materials we need for the meeting, we head through to the boardroom to get ready for our Zoom call.

10:00 AM

In order to provide good financial advice, it is essential that we have accurate and up to date information about our clients so our client meeting begins with a general catch-up, before moving on to discuss the withdrawal of tax-free cash. I note down an overview of our discussions, trying to keep up with the pace of the conversation to ensure the meeting notes are thorough and precise. We agree to proceed with the withdrawal of the client's tax-free cash, and will look to re-invest any cash the client does not require into their Investment Portfolio.

11:00 AM

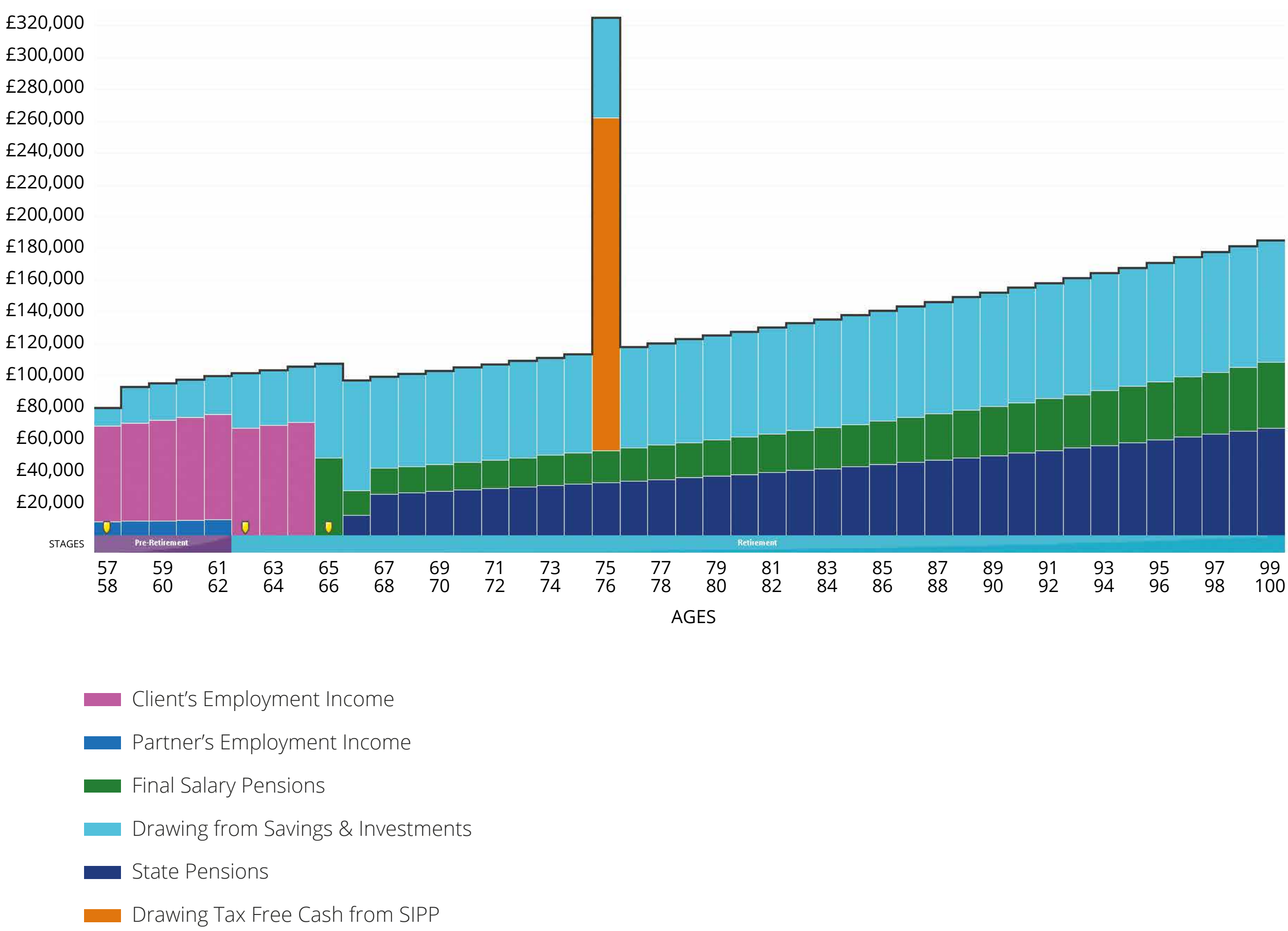
Before we can proceed with the withdrawal of the tax-free cash, a report needs to be sent out to the client detailing our recommendation. Therefore, I sit down with Josh, a member of our Portfolio Structuring team, to go through the client's circumstances and explain Andrew's recommendation to him. Josh kindly agrees to prepare this report and send this out to the client.

As the purpose of my next meeting is to undertake a cash-flow forecasting exercise, I log onto Voyant, our financial planning software, to look over the client's plan. Prior to the meeting, I contacted the client requesting updated values for their income, expenditure, cash balances, external investments and property values, which they kindly forwarded to me. These were then entered into their Voyant financial plan and used to form the basis of their cash-flow forecast. I run through this with Chris, the client's Investment Manager, making a few tweaks before heading over to prepare the boardroom for our meeting.

11:30 AM

Chris and I greet the clients in the boardroom and spend the first 10 minutes of the meeting catching up before moving onto the financial plans. We talk them through the charts, explaining that this software enables us to forecast their future expenditure, and the sources from which income can be drawn to fund this. The purpose of this is to map out the next 5, 10, 20, 30 years of our clients' lives to be able to create a secure and sustainable plan for the type of retirement they want. Over recent years, cash flow modelling has become an increasingly integral part of the financial planning process allowing us and our clients to map out and stress test their current and projected finances to see what the future might look like based on a reasonable set of assumptions. Cash flow modelling enables a conversation around our clients' goals and what may be required to reach those goals either in a required rate of return or by amending their level of spending. The flexibility of the modelling software allows us to incorporate a variety of different scenarios e.g. market crashes, education spending or one-off expenditures and we can move these expenditures to different points in the modelling to see what effect this has on our clients retirement. We spend some time creating different scenarios - including a higher investment growth rate, gifting cash to the clients' children and upsizing their property - to see the effect this will have on their financial plan.

An example of our Voyant financial planning tool, modelling future sources of income during the transition into retirement.



13:30 PM

After lunch, I spend the first 15 minutes sifting through new emails that have come in whilst also dealing with some smaller administrative tasks. The next 45 minutes are spent completing the Investment Manager Briefing for my meeting in 2 days' time, which I manage to get sent over to Richard before Clair and I nip out for our daily afternoon coffee run.

3:15 PM

In advance of our meeting with the prospect client, Richard, Anna and I (the meeting attendees) exchange what we know about the client and I show them the documents I have prepared: a fact find detailing information on the client, fact-sheets of our different risk strategies and our models' asset allocation. Richard also asks me to prepare some graphs showcasing our model returns against inflation, which I quickly save to file before heading through to the boardroom.

3:30 PM

Richard begins the Zoom call by introducing Anna, an Investment Manager at Dart Capital, and myself as a Portfolio Manager, explaining the role we play within the business. We obtain more information on the client and their current situation and discuss how our services may be of use them. We agree to send them over a Service Summary report for them to read, along with the forms to sign up as a client should they decide to proceed.

4:30 PM

As I return to the main office, I see Joe and Dan from the Research Team, along with the rest of the Portfolio Management team, grab their notepads and walk towards the boardroom. Today is our monthly update meeting from the Research Team. I particularly enjoy these sessions as they help tie together what's going on in markets and the news with the changes we're making in portfolios. Joe and Dan run through the slideshow they have prepared and answer any questions we have. They outline that they are looking to potentially alter the investments in portfolios in the coming week, due to a change in market dynamics. Portfolio Managers are responsible for implementing the trades in portfolios, which can sometimes take up a whole day's work, so I make a mental note to ensure I complete all other work prior to this.

5:00 PM

For the remainder of the afternoon, I begin typing up the meeting notes from my first meeting of the day.

6:00 PM

I begin to pack away my belongings as I see James and Joe head into the kitchen following a challenge on the pool table. As one of the biggest office rivalries, this is always an interesting game to watch, so a number of other colleagues and I follow them. After a busy day in the office, it is a fairly regular occurrence that a mini tournament begins after work and I definitely fancied giving it a go tonight to work my way up the leader board.

Investment Managers

Richard Whitehead
richard.whitehead@dartcapital.com

Chris Bellchambers
chris.bellchambers@dartcapital.com

Andrew Savage
andrew.savage@dartcapital.com

Anna Whittle
anna.whittle@dartcapital.com

Research Team

Alexander George
alexander.george@dartcapital.com

Joe Healey
joe.healey@dartcapital.com

Daniel Patterson
daniel.patterson@dartcapital.com

Dart Capital
61 Queen Street London EC4R 1EB
Tel: 020 7283 1117
Fax: 020 7283 0891

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