

Spring Capital hosted BoutiqueFest on the 22nd of November on the 42nd floor of the Cheese Grater in London.

This was an opportunity for clients to hear the latest thoughts directly from Spring Capital's investment partners with presentations from Chelverton, CrossBorder, Evenlode & Zennor.

The event also featured an inspiring presentation from guest speaker Chris Moon on the vital importance of positivity and resilience, and two panel sessions for a deeper dive on the topics of income investing and the ingredients that help to make a successful investment boutique.

Introduction from Malcolm Arthur, Director, Spring Capital

Malcolm opened proceedings with a brief introduction to the business he co-founded in 2004. He explained how Spring Capital has consistently applied careful thought to the investment boutiques with which it chooses to work, the result being a high quality range of funds offering exposure to UK and global equity markets. Although these funds reflect a range of styles and strategies, they share their active nature, the room they have to grow and blossom without compromising their ability to perform, their longevity and their passion for positive client outcomes.



Challenging the Concept of Limitation

– Chris Moon, MBE

Chris Moon then told his remarkable story of survival through sheer determination and positive thought. Following a brief career in the military, Chris joined The Halo Trust, a charity involved with clearing landmines in war-torn communities. In 1993, he became one of the few westerners to survive capture by the Khmer Rouge in Cambodia, by overcoming his natural “fight, flight or fright” instincts to calmly change the way his captors felt about executing him and his two Cambodian colleagues.

Two years later, his right leg and hand were blown off in an explosion while clearing landmines in a remote part of Mozambique. In considerable pain and losing a substantial amount of blood, Chris needed to treat his own injuries but was determined to stay alive by focusing on his family, friends and the vital importance of his work. When he eventually reached hospital sixteen hours later, doctors were astonished to find him still alive, having never before seen anyone survive having lost so much blood.

Less than a year after receiving these life-changing injuries, Chris ran the London Marathon and he has since completed numerous ultra-distance footraces, including the infamous Marathon Des Sables across the Sahara Desert.

Very few people have the experience to speak as compellingly about the importance of resilience, positive thought and how these characteristics can help us overcome adversity in all walks of life.

Implementing Liquidity Insights: Where to Invest in 2023

– Michael Howell

Michael Howell is the Managing Director of CrossBorder Capital, which provides specialist macroeconomic research and manages fixed interest and equity assets on behalf of its clients. The company is founded on a belief that “money moves markets”, with analysis of the global liquidity cycle at the centre of its asset allocation decisions. Liquidity in the global financial system tends to follow a clear 5-6 year cycle and our position on that cycle has a significant influence on how different asset classes are likely to perform. CrossBorder’s proprietary models provide a constant, real-time indication of our location on the cycle which, coupled with an analysis of investor positioning, give it actionable insights on how to position the CrossBorder Macro Equity Fund.

With the world’s major central banks currently increasing interest rates rapidly, the team believes we are currently approaching the point of “maximum pain” for global liquidity. This is normally the point in the cycle when something in the financial system breaks, which ultimately leads central banks to reverse course. Hence, global liquidity trends could soon start to improve, with Michael drawing parallels to the Global Financial Crisis in 2008, when the failure of Lehman Brothers eventually led to a substantial injection of liquidity via quantitative easing. This time, Michael expects problems in the US Treasury markets may lead to the Fed “blinking” – the Bank of England has already evidenced this thesis by intervening in the gilt market earlier this year.

Although the current predicament is not as serious as the financial crisis, the near term outlook is challenging for many asset classes as a result. Nevertheless, the CrossBorder Macro Equity Fund remains



**“If you’re lying on your back,
things are looking up.”**

Michael Howell

well-placed to deliver positive progress. The strategy aims to deliver a steady return through all market conditions and can access asset classes that are less threatened by the current liquidity backdrop, (cash), which now provides an acceptable return for the first time in more than a decade. With this in mind, Michael positioned the fund as an appealing option for investors in the current environment.



Finding Gems in Japan

– David Mitchinson

Zennor Asset Management was founded in 2020, as a specialist Japanese equities investment boutique. David Mitchinson co-manages its first fund, the Zennor Japan Fund, with James Salter. David started by looking at Japan’s epic bubble, which burst before many of the audience had started their investment careers. This saw Japan’s stock market rise six-fold during the 1980s, peaking in 1989 at more than 60 times earnings, whilst for a time, a square foot of Tokyo property was valued at 350 times its equivalent in Manhattan.

What has unfolded since then has been sobering for anyone involved in the Japanese stock market, and indeed, the entrenched mindset of what has survived of corporate Japan has changed from “cavalier to conservative”. Encouragingly, another transformation has been gradually improving the investment landscape in Japan in recent

**“Japan is an incredibly rich
opportunity set of
businesses open to change
and improving returns.”**

– David Mitchinson

years. Historically, Japan’s corporate governance standards have been roundly criticised, with widespread cross-shareholdings and close relationships between customers, suppliers, their banks and competitors, being blamed for driving inefficient capital allocation and poor decision-making.

The late Shinzo Abe’s government commenced a push to overhaul corporate governance in 2014 as part of a broader effort to make Japanese companies more competitive on the global stage. A new corporate governance code was introduced in 2015, and ongoing revisions since then have focused on specific issues, including the unbundling of cross-shareholdings. These initiatives have been very successful and, although some companies have embraced the changes much more readily than others, David now sees significant opportunity for better capital allocation to drive higher profitability and returns.

David and James focus on investing in businesses that trade at a wide discount to their intrinsic value and where they can identify a catalyst. Often, this catalyst will involve an indication that management is open to change in order to improve returns. David was keen to point out that engagement doesn’t always work, and that they sometimes have to walk away where change is not forthcoming. But overall, if there is a chink of light already visible from behind the door, pushing it wide open can be incredibly rewarding for shareholders in the long run.



“A cow for her milk, a hen for her eggs, and a stock, by heck, for her dividends.”

– Jake Moeller, Square Mile
(quote originally attributed to John Burr Williams)

Income Panel

– David Mitchinson, Ben Peters, Dave Taylor and Jake Moeller

David then joined Ben Peters (lead manager of the Evenlode Global Income Fund) and Dave Taylor (co-manager of the Chelverton UK Equity Income Fund) for a panel session, moderated by Jake Moeller of Square Mile, to discuss the outlook for income investing around the world.

In the volatile conditions that have characterised 2022, Jake was keen to understand how this has changed the opportunity set for each strategy. Ben commented that the bifurcated market was starting to create opportunities, with the Evenlode Global Income Fund gradually moving back towards the technology sector, where selective valuations are starting to look interesting again. Dave Taylor observed that many investors are still reducing exposure to UK stocks, which has weighed on share prices. From an operational perspective, however, dividends from holdings in the Chelverton UK Equity Income Fund are generally holding up reassuringly well. Meanwhile, David Mitchinson noted that Japan has not yet experienced a meaningful post-Covid economic bounce, but this year's volatility had provided an interesting opportunity to build positions in domestically-focused businesses that are now poised to benefit from the re-opening of the Japanese economy.

Each of the speakers also commented on share buybacks in their regions. David highlighted that this year is already the biggest ever for buybacks in Japan, which is a positive consequence of the aforementioned shift in attitudes towards shareholders among many Japanese management teams. Meanwhile, Dave noted that more UK companies were buying back shares than ever before, a discipline that he likes to see for distributing excess capital alongside steady dividend increases. With his global remit, Ben has seen a similar trend in Europe with buybacks becoming more common across the continent.

Jake then asked if the managers felt the discipline of investing for income was coming back into fashion, after a period in which valuation measures like free cash flow and dividend yield had appeared less important to many investors. Ben agreed that a focus on dividend and yield had become more helpful to performance recently, although what clients should focus on is identifying fund managers that can demonstrate a constant process through time, which is a key characteristic of the Evenlode approach. Dave Taylor has seen a similar trend emerge in the UK, noting that when “growth gets over-rated, cash flow analysis becomes under-rated”. Fundamentals have become more relevant again recently, but if the market doesn't fully recognise the extreme undervaluation of the cash flows being generated by certain UK businesses, Dave expects that corporates will step in to take advantage.

In Japan, David Mitchinson finds many highly cash generative businesses that are trading at a discount to their intrinsic value. Increasingly, management teams are signalling that they won't hold, or indeed waste, cash anymore, which David believes is a very positive development in the region.

Overall, each fund manager was positive on the outlook for income from their region, and encouraged by the stock market's renewed focus on fundamentals in recent months.



“One thing we believe very strongly in is giving the companies we invest in time to deliver. The benefits of compound growth become ever more powerful over longer time periods.” –Chris Elliott

Investing in Resilience and Innovation

– Chris Elliott

Evenlode was founded in 2009, with its original funds focused on generating income. The investment approach has always had a disciplined focus on identifying quality businesses and in the early days, they found a lot of opportunities that met their criteria but that were excluded from the original funds because they didn't contribute enough income. However, the founders retained that list of high quality businesses, and it ultimately provided the inspiration for the

Evenlode Global Equity Fund, which was launched in 2020 and is co-managed by Chris.

With a focus on quality, Chris looks for companies that are asset light, deliver high returns on invested capital, and have a business model that benefits from some form of durable competitive advantage. These all combine to provide resilience to a business.

Chris offered the example of Nestlé as a business that has maintained a clear and enduring competitive advantage; this has allowed it to earn a reputation as a “classic compounder”, delivering an incredibly consistent growth rate through time.

Another characteristic which is important to the team is innovation. Nestlé has been able to deliver such amazing compound growth because it has invested in itself in order to innovate. The original Nestlé business was solely involved in the provision of milk products and nothing else. By 2001, only half of its business was devoted to milk products, because it had innovated and evolved by investing significantly in other revenue streams. Indeed, that process has continued to the extent that milk products represent just 12% of Nestlé's business today.

Overall, achieving an appropriate balance between investing and innovating whilst not taking excessive risk, is hard for any management team. But essentially Chris is looking for businesses that can maintain their competitive advantage by using excess cash flow not only to reward shareholders through an attractive and growing dividend stream, but also to reinvest within the business to deliver future growth. This may involve a combination of growth capex, research and development, and merger and acquisition activity, but can ultimately lead to a repeatable cycle that reinforces quality, resilience and innovation – in other words, the ingredients for a successful long-term growth compounder.

Europe: Not Just for Skiing

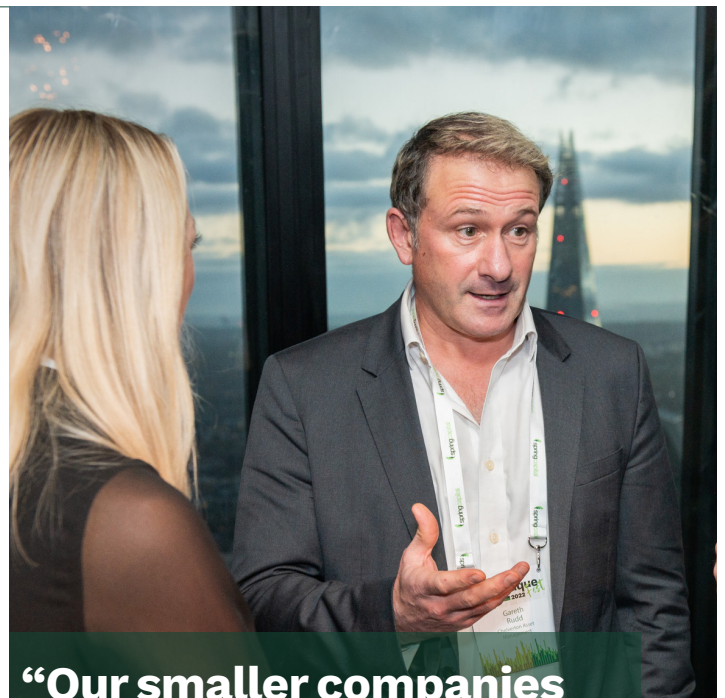
– Gareth Rudd

Former professional skier, Gareth Rudd, is co-manager of the Chelverton European Select Fund. During his time as a proprietary trader at ABN Amro, one of his most interesting investment ideas came from his analysis of the British construction company, Jarvis. His inability to reconcile stated profit to the company's poor cashflow performance coupled with its high debt burden led him to take a short position in the company, which proved to be highly successful, given the subsequent share price demise. This experience whetted Gareth's appetite for free cash flow analysis, which remains a central part of his investment approach. This is always a complex exercise, but the results represent fact, as opposed to the opinion of profit.

Gareth guides investors in the Chelverton European Select Fund to expect two enduring characteristics – a material free cash flow yield premium to the broader European market alongside a lower level of net debt. In order to achieve this, the team pursues opportunities across the market cap spectrum, but tends to focus its research efforts towards small and mid-sized companies, where regulation has reduced analytical coverage, thereby increasing the frequency and extent of mispriced opportunities.

Gareth explained how the portfolio is targeted towards certain attractive clusters of stocks involved in areas such as the energy transition, commodities & the environment, and technology & digitalisation. The team prefer to access these themes via a “picks and shovels” approach, investing in service providers and suppliers. Fugro, for example, is a world-leading geologist, whose services are in demand by the many businesses looking to develop land for wind and solar plants around Europe and beyond.

The result is a portfolio that is much less cyclical than the broader market, and capable of delivering higher levels of growth, as well as the premium free cash flow yield that is so central to the investment process.



“Our smaller companies are robust, resilient and capable of capturing the growth opportunities that lie ahead of them.”

– Gareth Rudd



Boutique Founders Panel

– Hugh Yarrow, James Salter,
David Horner and Jayne Sutcliffe

The final event of the day was a panel session with some of the founders of Spring Capital's investment partner businesses. Hugh Yarrow of Evenlode, James Salter of Zennor and David Horner of Chelverton, joined moderator Jayne Sutcliffe, a founder herself of Charlemagne Capital and now chair of WHEB Asset Management.

Jayne tied the main topics of the discussion to the event's music festival theme, by linking them to well known songs. "What doesn't kill you makes you stronger" by Kelly Clarkson came first, in a discussion about the process of discovery that's involved with founding an investment business, and the lessons that can be learnt from mistakes. Hugh Yarrow formed an analogy between endurance sports and investment, noting that some markets just have to be endured. Building the Evenlode business took time, patience and open-mindedness, but the feeling that accompanies achievement and success ultimately makes the process worthwhile. David Horner agreed with Hugh's sentiments, recalling Churchill's mantra "keep bugging on" to describe the persistence required to develop Chelverton over the years. James Salter, meanwhile, sees benefits of "flying under the radar", maintaining a relatively low public profile but relying on strong client relationships to build a business with solid foundations. He highlighted the importance of continuous learning, pragmatism and evolution, as an investor and as a founder.

Referring to the classic Beatles song, "The long and winding road", Jayne turned the conversation towards time horizons, asking what long-term means to a founder of an investment boutique. David reiterated the patience that is required in developing any business, highlighting the importance of nurturing the organisation and the people within it. Hugh agreed with this, commenting that, right from the start, Evenlode was guided by a desire to build a business that the team would be keen to invest their own savings with. The team has always avoided using the phrase "my fund", reflecting the client focus that runs through the Evenlode business. James formed Zennor in 2020, having previously worked at Polar Capital for over 18 years. He is committed to Zennor for at least ten years, noting the importance of bringing in high calibre people, nurturing them, but keeping the business small and focused.



"If you don't look after your company, its people or the environment around you, you will ultimately be punished."

– Hugh Yarrow, Evenlode

With REM's "It's the end of the world as we know it", Jayne asked the panel about the impact the current focus on Environmental, Social and Governance (ESG) issues is having on their businesses. David noted that ESG considerations have always been important for Chelverton, which has a particularly keen focus on inclusivity. James agreed with this, commenting that at both Zennor and Polar Capital, he had always strived for a diverse team. Hugh, meanwhile, said that Evenlode was in the process of becoming a certified B Corporation, which involves demonstrating very high standards of social and environmental performance.

Finally, Jayne asked each founder to capture their approach in three words. James summarised with "endurance, pragmatism and adaptability", David went for "honest, hard-working and flexible", while Hugh's response was "collegiate, client-focused and long-term".

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