

MARLBOROUGH MULTI CAP INCOME FUND - GBP

INVESTMENT RESEARCH NOTE
FEBRUARY 2024

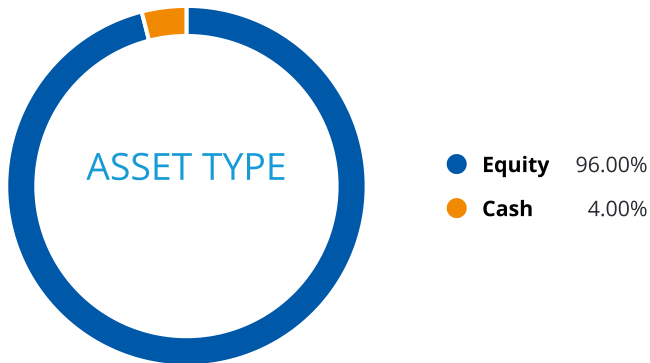
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Marlborough Investment Management ("Marlborough") was established in 1986, now managing c.£6bn of assets. Hargreave Hale is an investment advisor to Marlborough and manages this strategy on behalf of Marlborough.

Lead manager is Siddarth Chang-Lall, who has been with the firm since 2010. The target is to deliver an income level greater than 100% of the FTSE All-Share gross dividend yield over a 3-year rolling period.

This is a multi-cap long-only income equity strategy with a distinct bias to the UK and to small/micro/mid-cap stocks tying in with the house approach to long-term stock-picking. For this strategy, the aim of having a bias to smaller cap names stems from Marlborough's view that the UK dividend paying market is very concentrated, with 15 companies accounting for 80% of total dividends. The lead manager draws on his experience and that of the wider investment team to source growth ideas for the portfolio. The firm typically does not have a dedicated analyst team but relies on the experience of its managers who also double up as analysts, mostly as generalists and a few specialists. It is a traditional approach, incorporating company visits, valuation and fundamental analysis with a light touch on screens which tend to filter the broad universe as an initial step in the investment process. The 'cornerstone' of the investment process is that each stock has to have a minimum 2% yield to qualify for the Fund which ultimately is a blend of 'income-growth' and 'steady', higher yielding names.



INVESTMENT PROCESS

The Fund has a strong bottom-up stock-picking bias to discover under researched names which have the potential to generate strong dividend growth over the long-term. The universe is c.700 UK dividend paying stocks with the final portfolio consisting of c. 100-120 stocks creating a well-diversified mandate.

There is both a mark-to-market and liquidity risk to the strategy given the small/micro cap bias which would underestimate the true level of volatility within the Fund. This can be exacerbated particularly in the event of a severe market crisis event. Liquidity and volatility is assessed at the Fund level too with position sizing appropriately weighted and stress testing carried out..

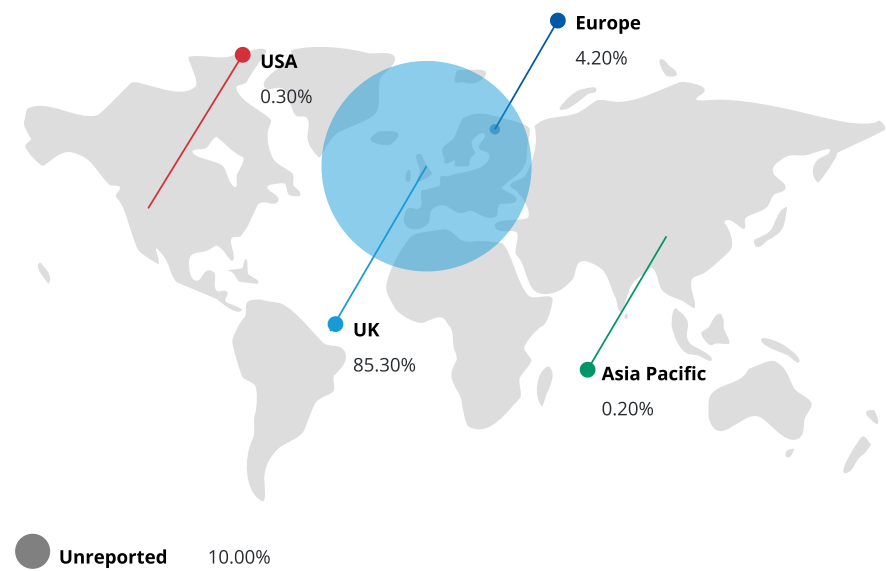
There is an initial screen to filter the total universe of around 3000 names in the UK market by yield (in excess of the benchmark yield). This brings the number of potential ideas to 700 which the manager and the wider team review before the final list of 100-120 that make the portfolio. There is a traditional fundamental approach to due diligence, with financial statements examined and estimation of dividend payment sustainability. Ideas are also sourced from brokers as well as the wider team which are always challenged by the manager for the robustness of their business models. Company visits are the norm after which the manager will debate a potential ideas with other team members, assessing cash flow trends, potential free cash flows for growth opportunities, reviewing management guidance and testing the strength of the company's balance sheet robustness. A member of the team would write a formal research note to cover all of the salient points. The lead manager has the final say as to what goes in or comes out of the Fund.

Given the 2% minimum yield requirement, the manager's sell discipline is based around that. If a stock's yield fall unexpectedly below 2%, it would trigger an immediate sell. If other considerations come into play, such as valuation concerns, momentum, newsflow, than an investigation takes place to re-review the holding rather than a 'kneejerk' sale.

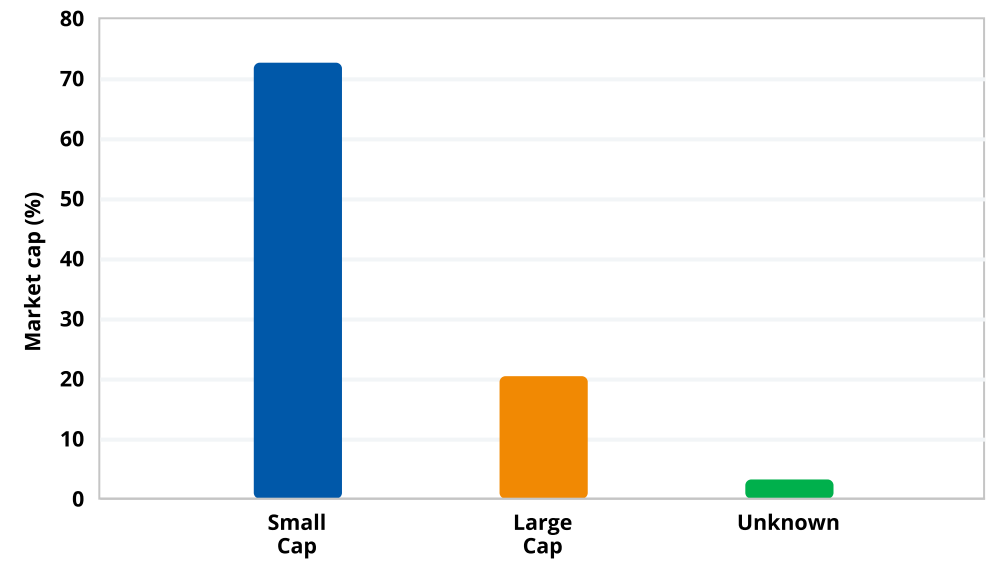
Position sizing is limited to a maximum 2% of the fund's NAV at purchase ensuring that the fund itself is well diversified with over 100 stocks in the final portfolio. The largest individual security is usually no more than 2.5-3% and the fund will invest at least 80% of its assets in UK equities. This concept of having a larger number of holdings relative to peers is common for Marlborough funds to ensure diversification. The Fund cannot hold more than a maximum of 10% in an unlisted stock although the firm has a stricter internal limit of just 3% per stock.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



Not Applicable



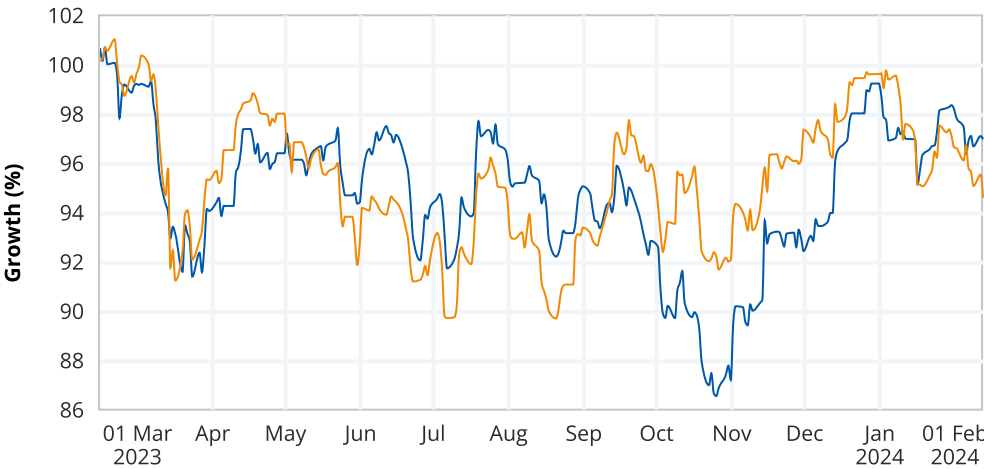
Not Applicable

OVERALL PERFORMANCE

MARLBOROUGH MULTI CAP INC-PA FTSE UK Equity Income Total Return

GROWTH (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



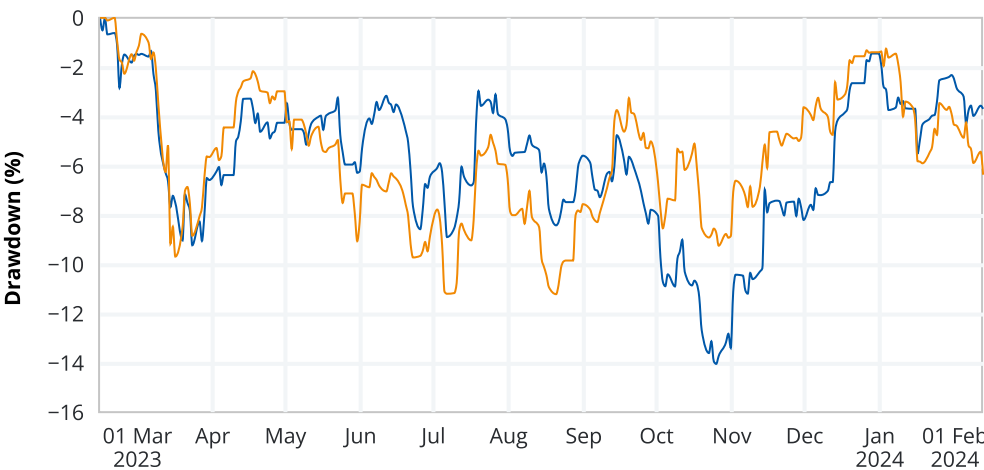
GROWTH (%) - FROM INCEPTION

15 Jun 2011 - 13 Feb 2024



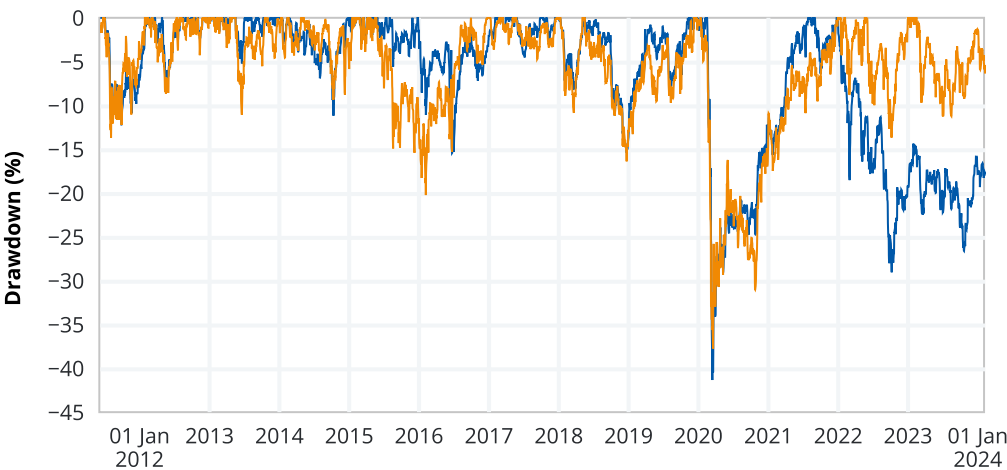
DRAWDOWN (%) - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024



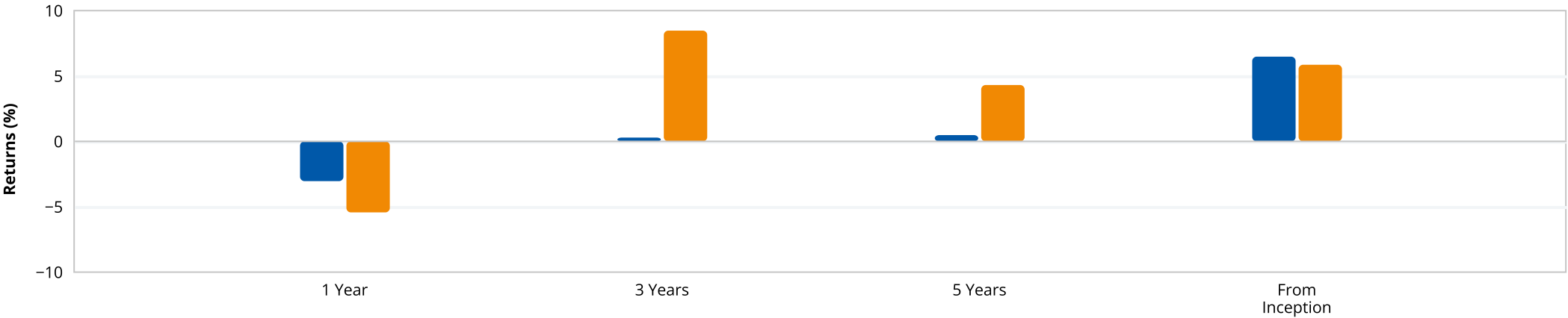
DRAWDOWN (%) - FROM INCEPTION

15 Jun 2011 - 13 Feb 2024



RETURNS

MARLBOROUGH MULTI CAP INC-PA FTSE UK Equity Income Total Return



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	-0.89	-1.40											-2.28
2023	4.56	0.91	-5.12	2.49	-2.12	-0.16	2.49	-1.69	-2.18	-5.46	5.88	6.76	5.61
2022	-5.96	-4.09	3.68	-2.47	-1.96	-6.65	5.86	-5.65	-12.82	4.90	5.06	0.41	-19.58
2021	-1.87	1.32	5.12	5.26	2.23	-0.69	3.10	3.94	-2.91	0.53	-0.82	4.86	21.49
2020	-1.31	-9.57	-22.19	11.12	0.45	0.38	-0.78	2.59	-2.11	-1.53	10.77	3.55	-12.44
2019	8.16	1.38	1.19	5.10	-3.34	1.74	-0.33	-3.73	3.60	0.82	4.31	5.72	26.76

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
	-3.04	0.29	0.48	6.48
	-5.43	8.47	4.31	5.86

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
	-3.03	0.87	2.43	120.89
	-5.41	27.48	23.35	105.16

MARLBOROUGH MULTI CAP INC-PA

FTSE UK Equity Income Total Return

PERFORMANCE - OVER 1 YEAR

14 Feb 2023 - 13 Feb 2024

RETURNS (%)	-3.04	-5.43
VOLATILITY (%)	12.26	13.07
ALPHA	-0.56 *	
BETA	0.91 *	1.00
CORRELATION	0.73 *	1.00
SHARPE RATIO	-0.60	-0.76
SORTINO RATIO	-0.86	-1.03
MAX DRAWDOWN (%)	-14.04	-11.21

*Calculated over a 3 year period where history permits.

PERFORMANCE - FROM INCEPTION

15 Jun 2011 - 13 Feb 2024

RETURNS (%)	6.48	5.86
VOLATILITY (%)	13.33	16.27
ALPHA	0.14	
BETA	0.87	1.00
CORRELATION	0.78	1.00
SHARPE RATIO	0.41	0.28
SORTINO RATIO	0.54	0.38
MAX DRAWDOWN (%)	-41.33	-37.74

SIMPLE STRESS TEST DRAWDOWN (%)

14 Feb 2023 - 13 Feb 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

DISCLAIMER

Marlborough Multi Cap Income Fund - GBP | February 2024

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