

TM Redwheel Global Equity Income

Opinion

- The management team of this Recommended fund includes Nick Clay, who is an experienced income investor in the global equity space.
- The heart of the income strategy has stood the test of time. Equally, the team has been pro-active in drawing insights from their experiences and they have taken time to hone and develop their approach.
- The fund is managed according to clear dividend rules. These rules state that every stock must offer a premium income and ensure that the team is driven to search for sustainable dividends. This also encourages the managers to be contrarian and creates competition for capital.

Characteristics and Utility

- The team's yield discipline creates an innate quality and value bias. Furthermore, the 'buckets of controversy' approach and the search for a valuation margin of safety reinforces the fund's value bias.
- Although there is a robust framework for position sizing, there are no formal guidelines regarding portfolio construction relative to an index. This means that outcomes can vary meaningfully from the benchmark.
- In common with other global equity income funds, it is likely to struggle when growth/momentum factors are in charge. Compared to peers, it tends to have stronger value characteristics, given the team's willingness to embrace controversy.
- Income investors seeking a healthy yield premium relative to global equity indices are likely to be well-served by this fund. For investors who are concerned about relative risks/returns, we suggest it is blended with a more growth-orientated offering.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The fund was launched in December 2020 and therefore it does not have a five-year track record. Redwheel has calculated the risk score based on simulated historical performance. While the fund is relatively new, the broad investment philosophy and strategy has been in existence for several years. Historically, this premium-income, value-biased approach has resulted in a volatility that is notably lower than that of mainstream global equity indices. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	11 December 2020
Manager(s) Since:	Nick Clay (Dec 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI World
IA Sector:	Global Equity Income

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A global equity income fund which is managed with a strict yield discipline. The team looks for high quality, durable businesses which are out-of-favour or misunderstood. This approach guides them to premium yielding companies, which is a key feature of the fund. Within its sector, the fund features in our 'Larger-Cap, Dividend Sustainability' category.

Investment Team

The Global Income Equity strategy is headed by Nick Clay. My Clay joined the firm as lead portfolio manager in November 2020, together with three colleagues, Andrew MacKirdy (portfolio manager), Robert Canepa-Anson and Colin Rutter (analysts). Previously, they worked together at Newton Investment Management, a subsidiary of BNY Mellon, where they ran global income funds according to the same approach.

Investment Philosophy

The core aim is to own quality, durable businesses that compound a premium dividend yield to the market and have been purchased with a valuation margin of safety. To do this, the strategy is based on the philosophy that investing is inherently probabilistic in nature. With this in mind, they believe that a focus on sustainable dividends leans the probabilities of investing to the advantage of its clients.

Investment Process

The team seeks opportunities with three requisite features: a premium yield, dividend sustainability and a valuation margin of safety. They argue that these are relatively easy to find individually but, in combination, they are rare and typically occur when an element of controversy is also present. To find these controversies, they look for multiple types of ideas. These are categorised as: 'troubled compounding machines', where temporary problems have been mistaken for permanent issues; 'ex-growth cash generators', where the market believes the business is structurally broken; 'profitability transformation', where there are fears over a company's exposure to the economic cycle, 'capital intensity', where the market has ignored a stock or underestimated its compounding power; and 'special situations', such as a spin off or hidden assets. They contend that concentrating on the same buckets of controversies time after time increases the likelihood of understanding the nature of the controversies. This pattern recognition helps to inform the team's assessment of whether the controversy is temporary, and therefore an investment opportunity, or alternatively, an area to avoid.

From here, the sustainability and valuation of the company's underlying cash flows are modelled against a range of potential future outcomes. The team builds a series of scenarios, the main thrust of which is to highlight where they could be incorrect in their analysis. Having a detailed understanding of the downside risk also allows the team to assess and compare the margin of safety of an investment and informs position sizing. Buy candidates must have a prospective yield of at least 25% more than the global market index and they are sold when they are forecasted to yield less than the index.

Portfolio Construction and Risk Controls

The portfolio usually comprises 40-60 stocks. Troubled compounding machines and ex-growth cash generators, where returns on invested capital are higher and more consistent, are expected to make up at least two-thirds of the portfolio. There is lower representation from the other buckets of controversy because of greater uncertainty underpinning their assumptions. Liquidity analysis is also a key part of the construction process. A compelling idea is typically weighted at 3-5% and others are introduced at 1-3%. Turnover is typically low at around 20% per annum.

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