

Fund Investment Report



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Fund information

Investment objective

The Investment objective of the Fund is to achieve long-term capital appreciation.

Investment policy

The investment objective of the Fund is to provide long-term capital appreciation by investing primarily in equity or equity related securities of small and mid-capitalisation companies domiciled in the US, or which derive a large proportion of their income from US activities. These are primarily listed or traded in the US or Canada.

Approach to ESG integration and stewardship

ESG integration and stewardship are integral to delivering sustainable returns. Through quantitative data and fundamental bottom-up research, we assess the absolute and change in ESG performance of companies. Engagement allows us to understand the effectiveness of their approach, the management of strategic issues and to exert positive influence.

Fund information

Fund inception date	26 September 2012
Fund value	USD703.65m
Benchmark	Russell 2500 Total Return Net
Lead Fund Manager	Mark Sherlock
Co-Fund Managers	Michael Russell
	Henry Biddle
	Alex Knox
Base Currency	US Dollar

Market and Performance Review

Equity markets continued to rise amid a generally better-than-expected quarterly earnings period, despite macroeconomic data remaining weak. Equity prices remain buoyed by central bank stimulus and the markets focus on longer-term normalised activity

The Fund underperformed the benchmark index in August. Underperformance was primarily driven by stock selection in the Producer Durables and Technology sectors and outweighed positive selection in Utilities. Sector allocation, a fall-out of the bottom up process, marginally detracted from relative returns, primarily driven by the funds underweight to Consumer Discretionary.

The top single contributor was Timken (manufacturer of bearings and related components) as the company reported better-than-expected results as they were able to manage declining margins better-than-anticipated. Cubic Corporation (transport payment systems) recovered from a weak July as quarterly earnings and full year guidance were slightly ahead of expectations. The transportation systems segment delivered solid results while the defence business remains under pressure and, despite delays due to COVID-19, the pipeline activity is encouraging. Woodward (aircraft control components) rose as the company reported better-than-expected quarterly results, primarily due to effective cost management and resilient demand in aerospace defence.

Brunswick (recreational marine products), the single largest detractor, sold off after a period of strong performance. Power Integrations (mixed-signal semiconductor components) also sold off after a period of strong performance as quarterly results came in in-line with expectations. Brooks Automation (precision instruments for technology manufacturing) share price surged at the end of July on the back of strong quarterly results and softened through August as investors took profits.

Activity

Since late March, equity market performance has largely been driven by enhanced risk appetite supported by central bank liquidity and a continuation of behaviour where momentum and growth outperform. As a reminder, the Fund has a long-term holding period and turnover is typically low. We look for entry points into high-quality companies bought below our assessment of their intrinsic value.

In August, we initiated a new position in Skechers, a high-quality stable branded footwear company at an attractive valuation, and added to National Instruments and PerkinElmer. We funded these positions by exiting CAE, a pilot training company, as we believe that the air-travel recovery is going to be more protracted than previously expected. We also reduced our holdings in Alliant Energy and Cubic Corporation.

Outlook

We believe the US economy should continue to recover as people return to work and consumers continue spending, supported by record monetary and fiscal stimulus. The risk remains that COVID-19 infections continue to rise. However, health outcomes are improving. Importantly, funding for new credit issues remains strong, providing companies with liquidity, and rates are expected to remain low. As we approach the US presidential election, we are likely to see more headlines about the potential outcomes, but we believe this is less significant than in previous elections. We believe the Fund is well positioned in high quality stocks with attractive profitability and strong balance sheets, and valuation levels should help mitigate downside risk whilst providing attractive upside potential.

Fund breakdown

Top 10 relative Fund positions

	Sector	Fund weight (%)	Benchmark weight (%)	Relative weight (%)
Fortune Brands Home & Security	Consumer Discretionary	2.83	0.26	2.58
PTC	Technology	2.64	0.21	2.43
Abiomed	Health Care	2.41	-	2.41
Brooks Automation	Technology	2.39	0.08	2.30
Wintrust Financial	Financial Services	2.35	0.06	2.30
Silicon Laboratories	Technology	2.37	0.10	2.27
A O Smith	Producer Durables	2.13	-	2.13
ServiceMaster	Consumer Discretionary	2.20	0.12	2.08
Teradyne	Technology	2.37	0.31	2.06
Brunswick	Producer Durables	2.13	0.11	2.02

Top 10 absolute Fund positions

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Wintrust Financial	Financial Services	2.35	0.06	2.30
ServiceMaster	Consumer Discretionary	2.20	0.12	2.08
A O Smith	Producer Durables	2.13	-	2.13
Brunswick	Producer Durables	2.13	0.11	2.02

Performance attribution - 1 month

Top 10 contributors to relative return

Holding	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Timken	1.61	0.08	19.12	0.19
Cubic	1.59	0.03	12.42	0.15
Woodward	1.83	0.11	14.40	0.15
LKQ	1.82	-	12.59	0.13
Fortune Brands Home & Security	2.83	0.26	10.15	0.13
MDU Resources	1.70	-	12.59	0.12
Columbia Sportswear	1.50	0.05	12.82	0.11
Quidel	-	0.15	-	0.10
ICU Medical	1.82	0.09	8.96	0.07
Alteryx	-	0.14	-	0.07

Top 10 detractors to relative return

Holding	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Brunswick	2.13	0.11	-7.33	-0.26
Power Integrations	1.93	0.07	-8.16	-0.25
Brooks Automation	2.39	0.08	-5.19	-0.24
Teradyne	2.37	0.31	-4.50	-0.20
Ingredion	1.56	0.12	-7.01	-0.18
ServiceMaster	2.20	0.12	-2.41	-0.15
Bio-Rad Laboratories	1.79	-	-3.10	-0.14
AMN Healthcare Services	2.04	0.06	-1.99	-0.13
Jack Henry & Associates	0.94	-	-7.18	-0.12
Kirby	0.91	0.06	-8.25	-0.12

Top 10 absolute returns

Holding	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Timken	1.61	0.08	19.12	0.19
Woodward	1.83	0.11	14.40	0.15
Columbia Sportswear	1.50	0.05	12.82	0.11
LKQ	1.82	-	12.59	0.13
MDU Resources	1.70	-	12.59	0.12
Cubic	1.59	0.03	12.42	0.15
The Cooper Companies	0.83	-	11.11	0.05
Fortune Brands Home & Security	2.83	0.26	10.15	0.13
Lazard	1.61	0.07	9.66	0.07
ICU Medical	1.82	0.09	8.96	0.07

Bottom 10 absolute returns

Holding	Fund weight (%)	Benchmark weight (%)	Fund perf (%)	Total effect (%)
Kirby	0.91	0.06	-8.25	-0.12
Power Integrations	1.93	0.07	-8.16	-0.25
Brunswick	2.13	0.11	-7.33	-0.26
Jack Henry & Associates	0.94	-	-7.18	-0.12
Ingredion	1.56	0.12	-7.01	-0.18
Alimentation Couche-Tard	1.00	-	-5.99	-0.11
Brooks Automation	2.39	0.08	-5.19	-0.24
Teradyne	2.37	0.31	-4.50	-0.20
Skechers USA	0.95	0.09	-3.15	-0.03
Bio-Rad Laboratories	1.79	-	-3.10	-0.14

Performance attribution - 1 month

Sector level

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative Return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
Utilities	2.71	3.57	-0.86	7.98	-	0.03	0.24	0.27
Financial Services	22.59	23.18	-0.59	-0.47	0.04	0.01	-0.14	-0.09
Energy	-	3.14	-3.14	-	-	-0.11	-	-0.11
Materials & Processing	11.35	7.99	3.35	-1.99	-	0.08	-0.23	-0.15
Health Care	15.12	15.58	-0.46	-1.23	-	0.03	-0.20	-0.17
Consumer Discretionary	11.09	14.91	-3.82	-0.50	-	-0.14	-0.04	-0.18
Consumer Staples	2.56	3.21	-0.64	-11.35	0.03	0.00	-0.36	-0.33
Technology	16.55	15.12	1.43	-2.46	-	-0.03	-0.41	-0.44
Producer Durables	14.24	13.30	0.94	-3.26	0.02	0.08	-0.55	-0.45
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	3.79	-	3.79	-	0.02	-0.10	-	-0.08

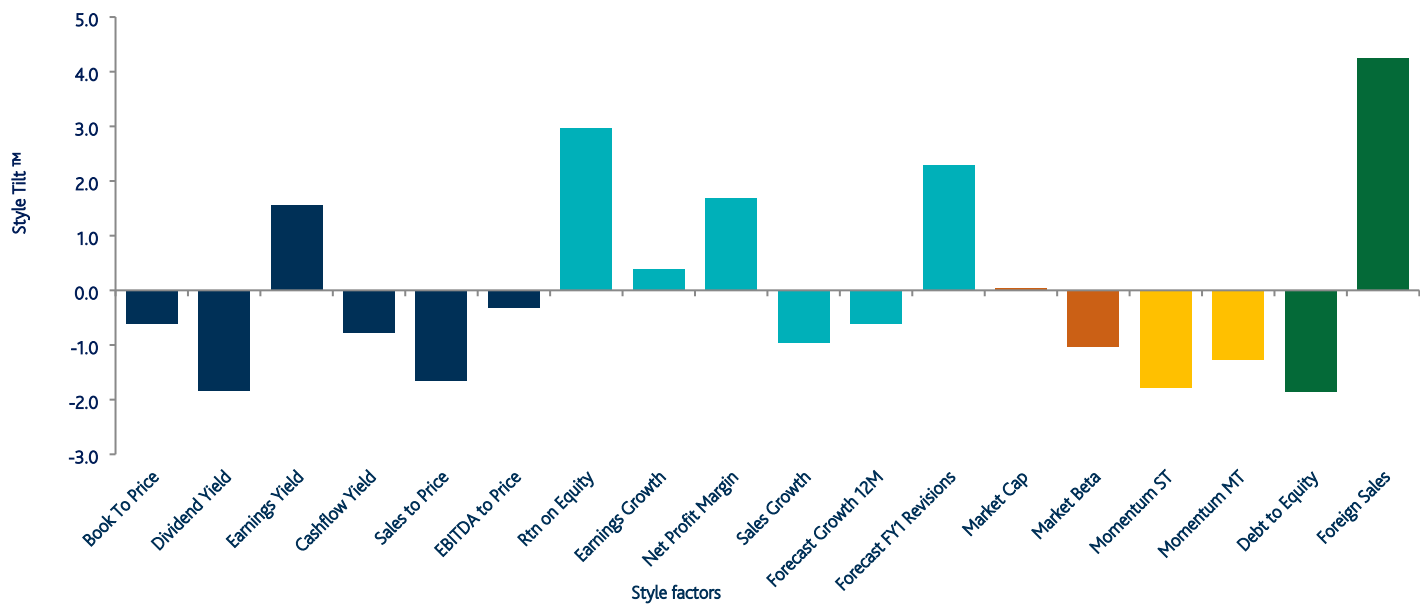
Market capitalisation

	Fund weight (%)	B'mark weight (%)	Relative weight (%)	Relative return (%)	Currency effect (%)	Allocation effect (%)	Selection effect (%)	Total effect (%)
0 - 1B	-	8.65	-8.65	-	-	0.08	-	0.08
1 - 2B	1.59	11.89	-10.29	7.35	-	-0.02	0.15	0.13
2 - 5B	37.89	33.52	4.37	-2.25	0.02	-0.01	-0.88	-0.87
5 - 10B	22.20	33.88	-11.68	-1.56	0.04	-0.03	-0.29	-0.28
10B+	34.52	12.00	22.52	-2.25	0.03	0.11	-0.84	-0.71
Unclassified	-	0.06	-0.06	-	-	0.00	-	0.00
Foreign Exchange	0.00	-	0.00	-	-	-	-	-
Cash	3.79	-	3.79	-	0.02	-0.10	-	-0.08

Fund characteristics

Top 10 concentration (%)*	Active share (%)**	Dividend yield (%)***	Market cap (millions)***	Earnings yield (%)***
23.82	95.51	1.11	7,987.48	6.25

Fund Style Skyline™



Source: *Northern Trust. ** Barra. ***Style Research, Market Cap is the Portfolio Weighted Average.

Risk analysis

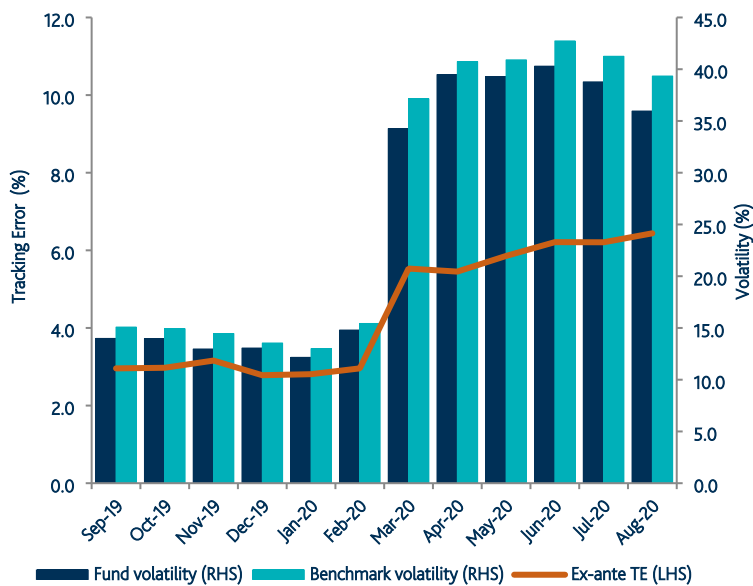
Top 10 contributors to risk (ex-ante)

	Country of incorporation	Tracking error (%)
ABIOMED	United States	5.45
AMN Healthcare Services	United States	4.41
Brooks Automation	United States	3.84
West Pharmaceutical Services	United States	3.68
Bio-Rad Laboratories	United States	3.57
ICU Medical	United States	3.49
Power Integrations	United States	3.41
Steris	United States	3.41
A O Smith	United States	3.37
Brown & Brown	United States	3.34

Risk attribution

	Tracking error (%)	Fund beta	Fund volatility (%)	Benchmark volatility (%)	Information ratio	Sharpe ratio
Ex-ante	6.44	0.90	35.96	39.34	-	-
Ex-post	4.22	0.92	20.83	22.26	-0.12	0.20

Tracking error (TE) and volatility history (ex-ante)



Fund statistics

Number of stocks (Fund)	57
Number of stocks (Benchmark)	2486
Upside market capture ratio	94.78
Downside market capture ratio	95.79

Contact us

If you have any general questions concerning your investment, or specifically related to the content of this Fund investment report, please let us know using the contact details below.

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