Phoenix Primer

A Short Introduction to Phoenix

Phoenix Asset Management Partners Ltd. is authorised and regulated by the Financial Conduct Authority (FCA)

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What We Do

We strive to deliver great long-term investment returns. We are called Phoenix because we do it by buying great businesses when they are cheap usually because they are having short term issues. If our research is correct, then they emerge Phoenix like and deliver high returns. Our key skill is in the identifying, valuing and monitoring of suitable investments.

We have managed the Phoenix UK Fund since 1st May 1998. In addition, we manage segregated accounts on behalf of institutional clients, an endowment and a family office. In December 2015, we were appointed manager of the Aurora Investment Trust.

Who we are

Phoenix Asset Management Partners is a specialist fund management company founded in 1998, based in Barnes, London who manage the Phoenix UK Fund (launched in 1998), the Aurora investment Trust and other segregated accounts following the same strategy. We also manage the Huginn Fund, which follows an international strategy and Castelnau Group Ltd. Gary Channon is the Chief Investment Officer and has been so throughout Phoenix's history. Before founding Phoenix in 1998, he was Co-Head of Equity and Equity Derivatives Trading at Nomura International. Before joining Nomura, he worked at Nikko and Goldman Sachs. Gary is the controlling shareholder of Phoenix. Charlotte Maby and Steve Tatters have worked with Gary for at least 18 years each. In total, there are 20 members of the Phoenix team: nine on the investment side, three in marketing/investor relations and the remainder in operations and compliance.

Phoenix Asset Management Partner's track record of managing the Phoenix UK Fund has been very strong. Since inception in 1998, after all fees, investors have earned an annualised 8.7% per annum compared to an annualised return of 5.3% per annum for the FTSE All Share Index. Further details of the track record are available at the back of this document.

Our Investment Goals

Capital Preservation

We start out by not losing it. We take a great deal of care to invest in businesses that we understand thoroughly. We only back managements that we trust. Most importantly, we pay a price that has a big margin of safety; in fact, we never pay more than half what we think a business is worth. We also don't pay more than what we think the business is worth in a bad scenario; in other words, if things go wrong, we want to make sure we get our money back.

To Generate Excellent Long-Term Investment Returns

We mean excellent in absolute and relative terms. Firstly, it should be much better than putting your money on deposit and secondly it should be much better than buying an index fund. You are paying us to manage your money and we do it because we believe we can outperform a passive approach even after taking into account our fees. That has been our record to date.

How We Invest

We find great companies. The value of a company is the amount of cash it will generate for its owners over its lifetime. It's hard to work out what that figure is in advance, so we are drawn to companies that have a control over their own profitability usually because of the strength of their business franchise. We call this pricing power. It can take many forms, strong brands or market position, a unique niche, lowest cost of production, patents, etc.

We also look for a high return on capital. Most of the money generated by businesses is re-invested. If we want excellent returns, then that money needs to be re-invested at high rates. An enduring high rate of return is another sign of a great business.

Competent and honest managements

We consider a purchase of stock as handing over our money to a management team. We choose people that we believe possess integrity and will act in the interests of shareholders.

Having found great companies and good managements, we wait for the opportunity to invest at attractive prices. This can take years and may never happen. Great companies rarely trade very cheaply and if they do it is usually because there is some recent bad news for the company, its sector or the economy. We specialise in looking at these situations and determining whether the factors causing the price to fall are temporary or more permanent. Occasionally, the market overreacts to short term negative developments, and we get a great opportunity to invest with a long-term horizon.

We stick to what we know

We have developed a deep expertise in some areas and are conscious not to operate beyond that. Most companies and many sectors do not lend themselves to our approach.

We buy to hold. Although we are buying shares, we consider it as buying a whole business. Ideally, we look for a company whose prospects are so good we can hold them forever.

We are very patient: if there is nothing to do, we do nothing. We tend to be very busy when the market is depressed because we view market turmoil as an opportunity. When the market has been strong for a while our cash tends to build. We often go through long periods of inactivity.

We are focused. We hold 12 to 20 stocks in the portfolio, which gives us all the diversification we need, but allows us to concentrate a lot of effort on understanding and monitoring what we own. Companies in which we are invested often tell us that nobody understands them as well as we do, but that is no surprise considering the amount of effort that we put into it.

We construct the portfolio giving the biggest weighting to our best investments with the least downside. We pay attention to the correlation of fundamental business risks across our holdings to avoid duplication and doubling up.

The ride can be bumpy

Buying a focused portfolio of stocks that are out of favour can result in a lot of volatility. Unlike most of the financial services industry we don't consider volatility to be risk. We define risk as the chance of a permanent loss of capital. The fact that Stock A moves up and down by 1% a day and Stock B moves 2% a day means nothing to us. But if we knew and understood the business of Stock B but not Stock A, that would mean everything to us. We reduce risk through knowledge and focus helps us to do that.

So far in our history there were five drawdown periods where we were actively adding value by buying great companies at cheap prices. Those produced our only down years (1999, 2002,2008, 2018 and 2020) and, in every instance, the falls were reversed the following year. If we get our assessment of companies right, then we have nothing to fear from volatility.

No leverage

We never use borrowed money; we just invest the money we manage. That way we are never forced to do something that would destroy capital like selling a cheap stock in a downturn to reduce gearing.

Geography

The majority of our investments to date have been in companies listed in the UK. Many of the businesses are global, but we derive a lot of comfort from our knowledge of the UK laws, listing rules and regulations. We can and have invested in a companies listed elsewhere, but we view this as carrying some additional risk.

How We Research

We read, we think and occasionally we act. Most of our effort is spent monitoring the businesses we own.

We start by understanding the history of the business we are looking at. That means a lot of background reading; books, annual reports, regulatory reports and anything else useful. We also do fieldwork; visiting companies, their competitors, suppliers, we attend trade shows and mystery shop.

We are trying to understand how a business works, in other words how it makes a profit and what capital and expertise that requires. We want to understand why its customers use it and pay the prices that they do. We also have to find out whether there is any rational way for us to forecast the future based upon our observation of the past and present.

With management, we are judging their competence in managing the business. We look at their track record including in prior roles. Most importantly we look at their integrity or for signs of its absence.

Our work is very detailed, and it can take us years to get to a point where we are ready to invest. We have developed our own system for evaluating businesses called DREAM, but essentially it breaks all our assessments down into a Business, Management and Price framework. If a company lines up in all three areas we call it a Triple-A (AAA) but, as price rarely lines up just when we are ready, we are happy to

collect Double-A's (AA) i.e., where the business and management fit, and we are waiting for the price to reach our level.

We have a monitoring programme for every business we own. We look to observe our businesses independently from the reports made by managements. This work takes up the majority of our time because our biggest source of risk and opportunity is in our existing portfolio.

What to Expect From Us

The first thing is honesty. We will tell you what we plan to do, are doing and how we have done. We write a frank quarterly report detailing what we have been up to and why. If we get things wrong or make mistakes, we tell you. Please take a look at our past reports which we have been publishing since 1998 if you would like to judge for yourself. Once a year we host a meeting where we report to you and answer your questions.

We will treat you how we would like to be treated

This is at the heart of how we go about our business at Phoenix whoever we are dealing with. The name of our company includes the word Partners because that is how we think of our investors.

We will treat you fairly and when the issue is grey, we will err on the side of investors over ourselves. For example, we charge a management fee and a performance fee which is set out, but we don't charge any other costs to you as is typical of our industry. We view the management fee as our payment to manage and therefore all the costs which are incurred doing that job we should pay.
We eat our own cooking. We invest our own money in the Fund on the same terms as investors. The amount we invest is significant for us and we don't invest in other funds. In our quarterly reports, we tell you about the size of our investment and how it has changed in the period.

We restrict the capital we will manage

We do this because what we care about is our track record and not asset gathering. We will only take new subscriptions when we know we can manage it without impacting our performance. In making this assessment we have always erred on the side of caution.

Consistency

Gary Channon has managed the Fund since launch and the core team has been the same for over 10 years. Gary has been investing since he was 12, but it took until he was 27 in 1995 for him to discover Warren Buffett and have his investing epiphany.

Why Does The Approach Work And Why Isn't It Replicated More Often?

Richard Oldfield describes this style of investing as *Simple But Not Easy* (the title of his book). The approach is simple, but some of the experience that goes with it makes it too hard for most investment managers.

Patience

The approach works because there is at times a divergence between the values of businesses in the real world and the prices they sell for in the stock market. Studies have shown that in the short term there is no correlation between company fundamentals and

share prices. Over the long term however, there is a convergence between the cash generation of a business and its stock market value. This can take a long time, perhaps over 3 years, and for many that is too long to wait. Suffering multiple years of under-performance can try the patience of investors resulting in redemptions. We try to make sure we work for investors who buy into our approach.

Independence of thought

Buying unpopular stocks with problems can make you look like a fool for a long time. Behavioural psychologists have observed a condition called "social proof" which is the comfort we derive in acting with the crowd even if we end up being wrong. Making investments that the wider investment community sees as mistakes can be uncomfortable and if you are wrong the censure is greater. We form all our views independently based upon our own research, we know the crowd can be wrong and we try to understand why it might be the case. We are not contrarians, but we are often acting opposite to the prevailing consensus at key moments. For our investments to work, at some point the consensus needs to agree with us.

Working from our offices in Barnes, a village in Southwest London, helps us maintain perspective.

Practical Considerations

Fees

In the Phoenix UK Fund, we charge an annual management fee of 1%. We earn a performance fee of 20% once the Fund has risen by inflation for the year (defined as UK CPI). We operate a high-water mark system that means we don't start earning fees again after a fall until we have returned to the previous peak. The high-water mark moves up by inflation every year. To properly understand the structure of the Phoenix UK Fund please read the Offering Memorandum.

For the Aurora Investment Trust, we charge no fees except a performance fee. That fee is one third of returns in excess of the market.

Other Considerations For Investors

Are you long term?

As we discussed there can be a long lag between us making attractive investments and that being reflected in their prices, it can be over three years. Is this your time horizon? Although you have short term access to your funds, if you think your time horizon is less than three years, then this approach is probably not a suitable home for your money. If a sharp market downturn occurred just as you had to draw out your investment, then you may suffer.

Do you have the stomach for a big drawdown?

Warren Buffett says that "unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market." This has only happened to the Fund at Phoenix once since 1998, but you should invest anticipating the potential for big future drawdowns. It is important that you hold your nerve at these points otherwise you are likely to suffer a big loss.

We try to make it easier for you by showing you what we hold and what we estimate it is worth, but if you think you might be tempted to bail out under those circumstances then it is better not to invest in the first place. During the Credit Crunch of 2008 none of our investors in the Phoenix UK Fund redeemed despite the sharp falls and pervasive pessimism

Conclusion

Our investment philosophy is inspired by the teachings of Warren Buffett and Charlie Munger which builds upon the prior work of Benjamin Graham, Philip Fisher and John Maynard Keynes.

Since 1998 we have been applying that philosophy in the Phoenix UK Fund. We have developed an approach that works and rigorous method and processes to apply it. We continue to learn and evolve. We mine our mistakes for lessons and use continual self-assessment to improve.

The proof of the pudding is in the eating and for Phoenix that means track record. We have delivered long term returns significantly in excess of the market. We are passionate about what we do and have a sincere respect for our investors. For the future you can expect more of the same.

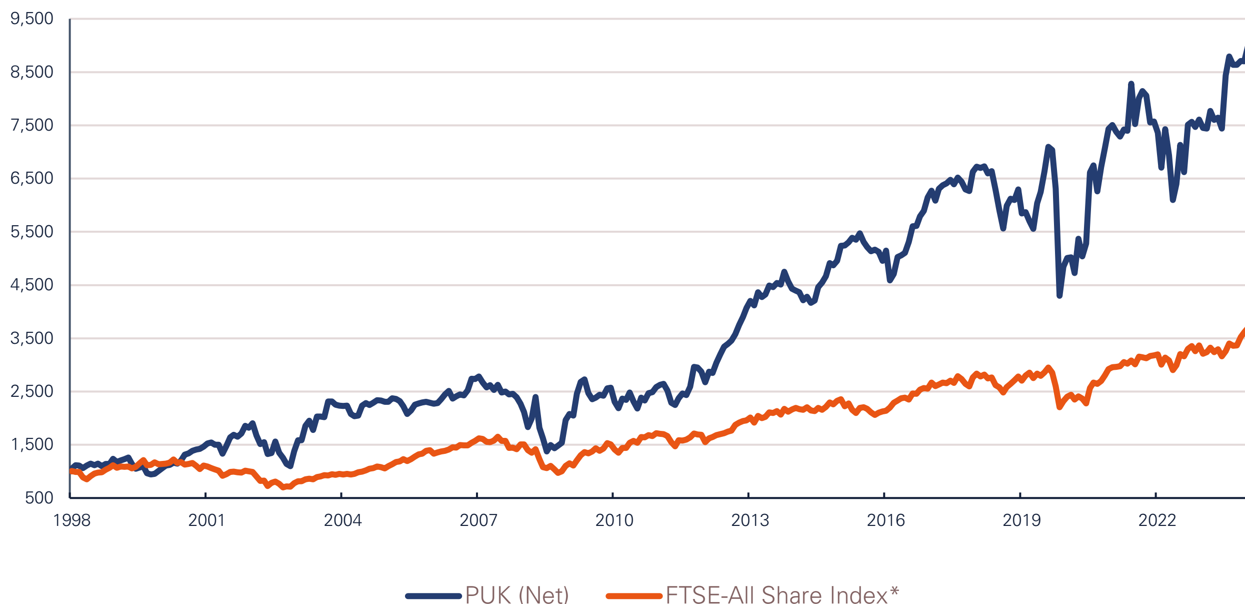
Phoenix UK Fund Performance Table

The FTSE All Share Index used is with dividends reinvested.

	Investment Return (Gross)	Net Return	All Share Index	Share Price (A Class)
1998 (8 months)	17.6%	14.4%	-3.3%	£1,143.71
1999	-1.3%	-4.6%	24.3%	£1,090.75
2000	24.7%	23.0%	-5.8%	£1,341.46
2001	31.7%	26.0%	-13.1%	£1,690.09
2002	-17.8%	-20.1%	-22.6%	£1,349.64
2003	51.5%	49.8%	20.9%	£2,021.24
2004	14.1%	11.2%	12.8%	£2,247.26
2005	1.4%	0.3%	22.0%	£2,254.99
2006	9.5%	8.3%	16.8%	£2,442.90
2007	3.4%	2.3%	5.3%	£2,498.40
2008	-39.5%	-40.2%	-29.9%	£1,494.31
2009	62.8%	59.7%	30.2%	£2,386.48
2010	1.1%	0.0%	14.7%	£2,386.37
2011	3.0%	1.9%	-3.2%	£2,430.75
2012	48.3%	42.2%	12.5%	£3,456.27
2013	40.5%	31.3%	20.9%	£4,539.47
2014	1.9%	0.1%	1.2%	£4,544.25
2015	20.1%	14.7%	0.9%	£5,211.13
2016	9.1%	7.6%	16.8%	£5,605.58
2017	21.5%	16.3%	13.1%	£6,518.69
2018	-13.6%	-14.7%	-9.5%	£5,558.97
2019	30.3%	27.7%	19.1%	£7,098.36
2020	-3.9%	-4.9%	-9.7%	£6,748.66
2021	23.4%	18.7%	18.3%	£8,011.17
2022	-16.7%	-17.4%	0.2%	£6,619.32
2023	34.0%	32.8%	7.7%	£8,791.99
2024 (to 30 June)	0.5%	0.1%	7.4%	£8,801.41
Cumulative	1,513.1%	780.1%	285.5%	
Annualised	11.2%	8.7%	5.3%	

Phoenix UK Fund Performance Graph Since Inception

The FTSE All Share Index used is with dividends reinvested.



Phoenix UK Fund Insider Holdings

As of June 30, 2024, directors, and employees of Phoenix Asset Management Partners Ltd owned 7.3% of the Phoenix UK Fund.

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