

FLEXIBLE FUND | 30 APR, 2024

How did this fund beat its benchmark by tenfold?

Raven Funds uses technical signals to identify stocks.

BY **JUSTIN BROWN**

Over its latest reported year, the R277m [Raven BCI Worldwide Flexible fund](#) beat its benchmark by more than 10 times.

During an interview, the fund's co-portfolio manager, Sam Crocker, told Citywire South Africa the fund invested in fast-growing companies with increasing share price momentum.

For the year ended March 2024, the fund gained 123.9% compared with 10.9% for its benchmark, which is consumer price inflation plus 5%. The fund's Asisa category average was 17.2%.

Since its inception in September 2017, the fund has returned an annualised 22.4% compared with 10.2% for its benchmark and 8.8% from its category average.

'We use technical signals to identify stocks. We don't use them [technical signals] to make buy and sell decisions. We are not short-term momentum investors but long-term growth investors,' he said.

The portfolio's stock selection process follows four steps: market screening, quantitative screening, qualitative screening and investment timing.

The market screening step uses technical indicators to identify growth stocks.

'We'll use a stock scanner to search for stocks where the relative strength versus an index is positive over a period of time. We'll then get a list of stocks in all markets – most of them are in the US,' said Crocker, pictured below.





However, the fund has found opportunities in Europe and the UK.

'We [were] in some [stocks] in China, but there are geopolitical risks.'

Crocker said the fund occasionally looks at opportunities in South Africa.

'We used to be South African investors only, but we switched the portfolio in the year following its inception in September 2017. We changed our focus to global stocks as they offered super risk-adjusted returns. The [local] market was good and outperformed for a long time. [But it] lost its shine. So, we started broadening our horizons.'

The fund has 0.4% of its assets invested in South Africa equity.

'We have a small position in Renergen,' he added.

The key indices the fund uses to compare stock share price performance are the S&P 500 and the Nasdaq 100. However, Crocker said the index the fund used depended on the context.

'In the UK, we would use the FTSE 100 index.'

The market screening step also entails looking at a stock's P/E or the ratio of enterprise value to earnings before interest, taxes, depreciation and amortisation (EV/Ebitda) and the sector in

which a particular stock falls.

'There is a big universe of stocks. It's difficult to find [growth opportunities]. You want to get them early in their upward trajectory, then learn about the stock, understand the business, and look at it properly.'

Analysts' models

Crocker said research services Seeking Alpha and Motley Fool have analysts' models and analyses available for low subscription rates, and various institutional brokers, banks and others provide plenty of information, so Raven Funds does not build its own detailed valuation models.

After the market screening step, the fund's portfolio managers review the list of stocks for investment ideas.

He said Raven Funds then conducts an in-depth analysis of the companies that make its short-list.

'We'll reject stocks that have gone up because of mergers and acquisitions, are special purpose vehicles, or have a narrow commodity focus.'

The quantitative screening step includes a stock's market value as well as revenue and earnings growth. The fund's quantitative filtering aims at removing companies with weak metrics.

The qualitative screening examines a particular company's business model, stage of business, past performance and cyclicalities, product range, future potential, pricing power and competitive landscape. The qualitative research aims to understand the company and its growth prospects.

The fund's portfolio managers look for companies with sound business models and quality financial fundamentals that offer a product or service that fulfils a clear need.

Downturn

'When there is a downturn in the market, the companies that aren't making money, have cash-flow stress or have too much debt are the ones that suffer the most,' Crocker said.

Finally, the investment timing step considers a share's market performance, economic environment, relative strength performance, price trend and volatility.

When it comes to a sell signal, he said sometimes there's information in the market that's not yet public.

'So, if there's a downturn in [a share's] relative strength or the price, it's an indication to be aware of and look to start selling. We will buy and sell based on indicators but informed by our knowledge of the company and the market. It's not a hard rule,' he added.

Raven Funds also finds stocks by examining competing portfolios for ideas and watching the performance of these portfolios. These funds include [Fundsmith Equity](#), [Blue Quadrant Worldwide Flexible Prescient](#), [RCI BCI Worldwide Flexible](#), [Long Beach Worldwide Flexible Prescient](#), and BCI Flexible.

'We watch our competitors. Are we missing a trick? We keep tabs on people with similar investment philosophies,' Crocker said.

The fund does hold large positions. At the end of March, it invested 17.5% of its assets in Super Micro Computer, 12.3% in energy drinks company Celsius Holdings, and 10.3% in Nvidia.

'Our mandate allows us to buy up to 10% [of the fund's AUM] in one stock. We are not forced to sell if a position grows above 10%,' Crocker said.

Watch closely

'When we have a large position, we are cautious and watch it closely,' he added.

The fund holds between 16 and 26 stocks, and between 60% and 80% of its AUM is in its top 10 stocks. At the end of March, the fund had 26 stocks.

'If you have more than 26 stocks, you have diversified away your returns, and you are going to get market returns,' Crocker said.

The Raven BCI Worldwide Flexible fund is a multi-asset flexible strategy, but at the end of February, the portfolio had almost 96% of its AUM invested in equity.

'We have a worldwide mandate. but we are essentially equity investors. It's merely for flexibility

[having a flexible mandate].’

It’s a family affair

Raven Funds is a family-managed investment firm which runs the Crocker family’s money. Its sole unit trust is the Raven BCI Worldwide Flexible fund. Crocker’s sister, Carey McElhone, is the fund’s other portfolio manager, and his sister, Kate Rees, is the company’s financial director. His father, Alan Crocker, serves on the Raven Funds’ investment committee.

‘We’re all from a finance background or are accountants,’ Crocker said.

Raven Funds is a Category 2 financial services provider (FSP).

He added, ‘We hold a licence to manage portfolios. We do not have an FSP Category 1 advisory licence.’

Crocker said he consults for the CFO Centre in addition to his role as the fund’s portfolio manager.

Key individual

‘Carey is [Raven Funds’] key individual, and [managing the fund] is her sole focus,’ he added.

‘If you spend five days a week looking at the markets, you’ll have problems and [can] conform to the herd. There’s only so much research, analysis, and market watching you can do,’ Crocker added.

The company has a low-cost business model, and the fund’s total investment charge is 89 basis points.

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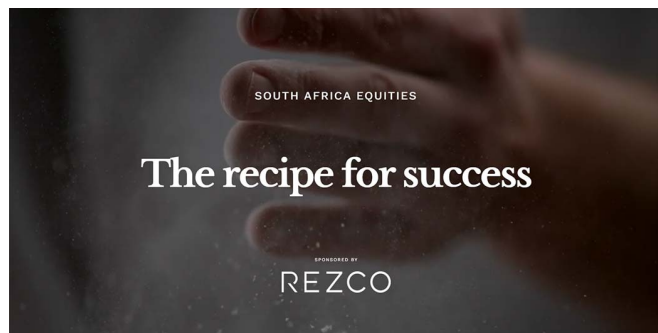
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