

## Money

# Spot the superstar small funds flying under the radar

## Activist Investor

**Mark Atherton**



**T**here are many reasons why, when it comes to investing, you might not want to think small.

Funds at the lower end of the scale, in terms of amount they hold, are often small for a reason. They may have failed to ignite investor interest when they were launched and never grew much, or they may have dwindled because of poor performance. Small funds can be difficult to run because their costs cannot be spread across a large investor base – but if you take the time to sift through some of them, you could unearth real gems.

Many of these funds are run by highly experienced managers, but have remained under the radar of most investors. I think they are likely to reward investors handsomely in future years, although the potential rewards come with substantial risks. Each fund spreads risk by investing in a portfolio of several dozen stocks, but you might, if you can afford it, want to add a further layer of protection by creating a funds portfolio, so potential losses on some can be offset by gains on others.

### Sanford DeLand Free Spirit £40 million

One very small fund that I intend to invest in is Sanford DeLand's Free Spirit. It is the best-performing fund of all 247 funds in the UK all-companies sector over one and three years, yet it is still a real minnow at just £40 million. Andrew Vaughan, the manager, has achieved the impressive feat of pushing Free Spirit's stablemate, the Buffettology fund, of which he is deputy manager, into second in the sector.

As Vaughan said, Free Spirit is a very attractive proposition for people who have done well out of the Buffettology fund (which you may have guessed mimics the techniques of the celebrity investor Warren Buffett) and are looking to repeat the process with a fresh fund operating along the same lines, but not so constrained by size as the Buffettology fund now is, at

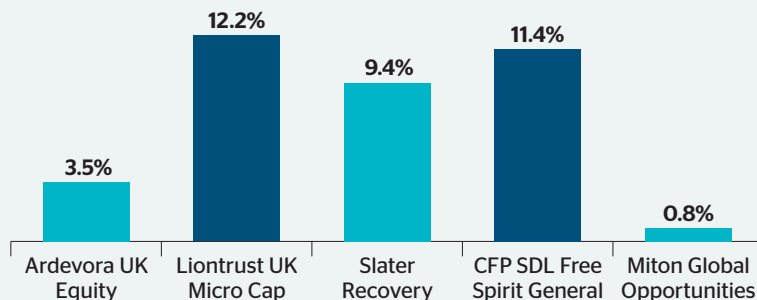
£1.5 billion.

Vaughan is looking to make money, like Buffett, by buying outstanding companies with a strong competitive advantage at an attractive price and then holding them for the long term. He is focusing on mid and small-cap stocks, which he is able to do with a small fund in a way that is increasingly difficult for the much larger Buffettology fund. His biggest holdings include EKF Diagnostics, which is engaged in coronavirus testing, and Codemasters Group, a video-game developer specialising in racing games.

Spurred on by Free Spirit's demonstration that you can be a small fund and also very successful, I invited industry experts to come up with their suggestions for the small fry that could become big. Here are their selections.

### Small funds with big hopes

Returns – Dec 2017 - Dec 2020



Source: Morningstar Direct