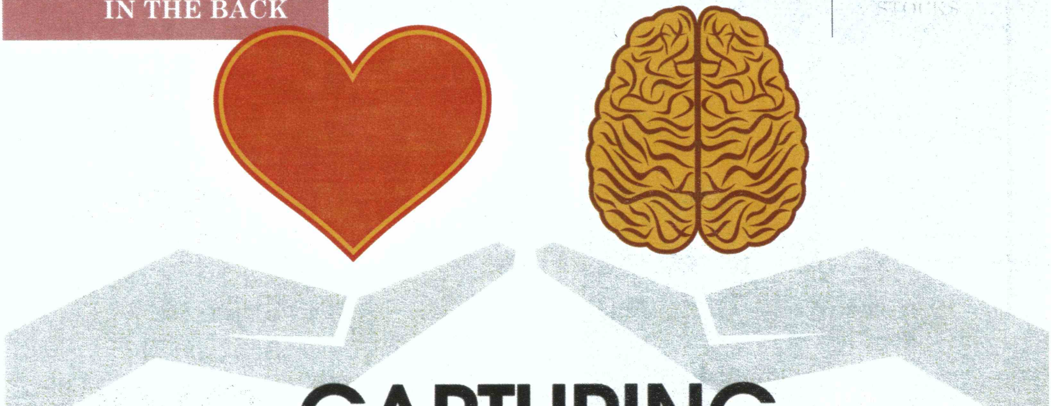

CAPTURING HEARTS AND MINDS

Investing in brands that customers feel they can't do without is the closest thing that **Keith Ashworth-Lord** has found to "legal drug dealing"

I like businesses that capture a piece of their customers' minds. Often this is because of powerful brands, must-have products, employee skill-sets or proprietary technology.

GAMES WORKSHOP

The enthusiasts that buy Games Workshop's Warhammer miniatures and manuals go about their hobby like zealots. They are hooked on wargaming, making Games Workshop the nearest thing to legal drug dealing on the stock market. This gives the company terrific pricing power and an enduring franchise.

It is reflected in sustainable mid-teen operating margins, 20 per cent plus returns on equity and one-to-one conversion of earnings into free cash. The business is currently going through a transition phase, moving its stores to secondary locations and converting to one-man operations. Operating lease rentals per store are coming down sharply. Once complete, there is nothing to stop Games Workshop rolling out many more new format stores to fire up its growth.

HARGREAVES LANSDOWN

In 2014, we only invested in two new businesses. One was **Hargreaves Lansdown,** the UK's biggest direct-to-retail investment platform.

The firm derives income from managed accounts and execution-only stockbroking. Recurring income is typically 80 per cent of revenues and the retention rate of existing clients is in the mid-90s.

I like quasi-annuity income streams and scalability. That the latter is true can be judged from the progression of sales per employee, from £110k to £451k, and profit per employee from £25.7k to £262k over the past decade. Staff costs to sales have also fallen considerably.

But it gets better. The business has little appetite for capital to fuel its growth and so enjoys a spectacular return on equity of approximately 80 per cent. Like Games Workshop, it returns surplus capital to shareholders via generous dividend payments.

I believe that recent regulatory changes and the chancellor's pension reforms will ultimately be beneficial to Hargreaves Lansdown.

Trifast plc

The largest holding in the fund is **Trifast,** which manufactures and distributes industrial fasteners to the global automotive, electronics and domestic appliance industries.

It went through a near-death experience in early 2009, with sales down 20 per cent from their peak, losses incurred and debt rising. The previous management team, which had guided Trifast until 2005, was prevailed upon to come back and sort out the mess. Through a combination of self-help measures and reinvigorating the sales teams, there has been a steady recovery in every half-year period since then.

I love the buzz about the place when you go to kick the tyres. Margins, returns and cash-flow are all moving up and management has augmented organic growth with a handful of sizeable but sensible bolt-on acquisitions.

Using free cash-flow projections discounted back at 10 per cent suggests to me that all three companies are currently selling in the stock market for somewhat less than their true economic worth.●