



# *Scott Investment Partners LLP*

## **Part 2A of Form ADV: Firm Brochure 29<sup>th</sup> June 2015**

### **SCOTT INVESTMENT PARTNERS LLP**

Authorised and Regulated by the Financial Conduct Authority

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This brochure provides information about the qualifications and business practices of Scott Investment Partners LLP. If you have any questions about the contents of this brochure, please contact us at +44 1491 412172 or [compliance@scott-invest.com](mailto:compliance@scott-invest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Additionally, registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Scott Investment Partners LLP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

Scott Investment Partners LLP received approval as an Investment Advisor on 31<sup>st</sup> August/13.

Since that date, and since the last annual filing at 30<sup>th</sup> June/14, no material changes have occurred.

In the future, this Item 2 will discuss only material changes since the previous update of this brochure and provide a summary of such changes.

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#### **Item 4. Advisory Business**

Scott Investment Partners (the “Firm” or “we” or “us”) is a limited liability partnership established in October 2012, in England. The principal owner of the Firm is Dr. Walter Scott. No other partner owns 25% or more of the Firm. The Firm’s initial target base is in the United Kingdom (“UK”) and Americas. We are authorized to perform asset management services in the UK and via European Union (“EU”) directives in other member states of the EU on application.

The Firm provides discretionary investment advisory services to institutional and professional investors in the form of separate accounts. The Firm provides investment advice as a long-only global equity manager tailored to meet individual client investment goals. The Firm is responsive to client imposed guidelines and investment restrictions in certain securities or types of securities. While investor portfolios typically have a global exposure, the Firm will tailor investments to reflect particular clients’ requirements. The terms upon which the Firm serves as investment adviser to a client account are generally set out in separate investment management agreements.

#### **Item 5. Fees and Compensation**

The Firm provides investment advisory separate account services for a fee. This fee is typically charged as a percentage of assets under management (“AUM”) for separate accounts, which are broken into the following strategies: Global; EAFE (Europe, Australasia, and Far East) or International ex-domicile; Europe; Pacific Rim & Australasia; Emerging Markets; and US-only or domestic market only. A marginal fee rate of 0.5% is normal. The Firm does not generally negotiate fee rates.

Investment management fees are billed to the clients quarterly in arrears. No other fees of any sort are charged by the Firm.

Investment management fees do not include custodian(s) fees, which is normally the subject of a separate appointment and agreement between the client and the custody provider.

Each portfolio will incur brokerage and similar trading costs and expenses.

Neither the Firm nor any supervised person of the Firm accepts compensation for the sale of securities or other investment products.

#### **Item 6. Performance Based Fees and Side-By-Side Management**

The Firm does not offer or accept performance-related investment management fees.

#### **Item 7. Types of Clients**

The Firm offers investment advisory services to family offices, corporate pension and profit sharing plans, voluntary foundations, endowments, municipalities, investment companies and other regulated funds, U.S. and offshore non-U.S. private investment funds, UCITS, other non-U.S. regulated funds, sovereign funds, separate accounts, and other institutions.

Each client is required to execute a written investment management agreement with the Firm, granting the Firm the authority to manage the client's assets and detailing specific investment parameters tailored to the client's investment goals. The minimum account size is \$30 million.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

The Firm is organized to offer long-only global equity portfolio investment services to the types of clients described in Item 7. This is the sole activity of the Firm. The Firm's overall strategy is based on a philosophical and analytical framework, which provides a rigorous analytical focus on stock selection. Portfolio returns are generated by holding investments for the long term.

### *Investment Strategies*

The investment team works closely together in an open and collegial environment, where all members can have input into the investment process. Investment decisions rest upon original research conducted in-house. The Firm does receive broker research but investment decisions are not based upon or influenced by the short term recommendations within such research. The Firm does not pay fees to industry analysts.

The research effort is organized into three regional areas: (1) Europe, Middle East, and Africa ("EMEA"); (2) Americas; and (3) Asia Pacific. Individuals work as generalists and are periodically rotated across areas in order to build and maintain global knowledge and investment expertise.

Client account mandates are principally global or international in nature, but the Firm will consider narrower mandates, such as an investment focus in Europe, U.S., Asia, emerging markets, and income or growth portfolios. The same investment and research process applies across all mandates.

The target for initial positions in individual stocks is typically around 2% of a client's portfolio managed by the Firm. Over time, the portfolio weight of the most successful investments may rise, with frequency of review increasing above 3% of a client's portfolio and a self imposed reduction at 5% of a client's portfolio. Client portfolio "turnover" is generally less than 15%, and portfolios are typically run on a fully or near fully invested basis. High cash positions are generally transitory due to periods of trading activity.

### *Methods of Analysis*

The Firm, in implementing its investment strategy, generally adheres to a fundamental, "bottom-up" approach, which combines detailed financial research of individual companies, including meetings with company management, with business and industry analysts. While consideration is given to "top-down" research, such as economic and political factors, investment decisions generally rest upon fundamental analysis of individual companies.

Central to the Firm's investment process are company annual reports and financials, which are analyzed using a proprietary spreadsheet. This quantitative analysis supports and informs a

qualitative judgment about an individual company as an investment candidate. The seven broad areas of investigation that the Firm typically focuses on are as follows:

- Product / Franchise: Market position margin
- Industry: Competitive position and industry dynamics
- Competitive position: Price leadership, cost control
- Profitability: Cash flow, cash return on investment
- Financial Model: Accounting, Balance sheet, working capital
- Management: Experience, track record - subjective judgment
- Marketability: Free float, trading volume

The impact of currency movements is an important factor: that is, the consequence of different foreign exchange environments on the operating and financial conditions for any individual company must be considered. At the portfolio level, currency exposure is a by-product of stock selection. From time to time the Firm will consider hedging the currency exposure.

### *Material Risks of Investment Strategies*

The section that follows sets out information concerning the material risks involved with the investment strategy. Material risks in this instance are considered those that would have a significant influence on a strategy or client.

General risks. The Firm does not guarantee investment returns. Past results are not necessarily indicative of future performance and investment results may vary over time. The Firm cannot provide assurance that investment results will generate positive returns and losses could arise. Assets managed by the Firm are not insured or guaranteed by the FDIC or any other government agency in the way that Bank deposits are.

Clearance and settlement risk. The degree and nature of risk will vary between geographies. For example many emerging market countries have different clearance and settlement procedures than those in developed countries. There may be no central clearing mechanism for settling trades and no central depository or custodian for the safe keeping of securities. The registration, record-keeping and transfer of instruments may be carried out manually, which can cause delays in the recording of ownership. Increases in settlement risk may increase counterparty and other risks. Certain markets have experienced periods when settlement dates are extended in which period the market value of an investment may change.

Certain markets have experienced periods when settlements did not keep pace with the volume of transactions resulting in settlement difficulties.

In general, in the absence of standardized settlement procedures, settlement risk in emerging markets is more prominent than in more mature markets. Transaction instructions require settlement only against delivery.

Counterparty risk. The risk is that a counterparty fails to honor the terms of agreement. The Firm mitigates this risk by executing transactions in markets where settlement only against delivery prevails. The Firm maintains an authorized broker list, carrying out ongoing and additional checks on the financial health of broker counterparties to monitor and protect against counterparty risk.

Country, industry and market sector risk. The investment strategy may result in an overweight or underweight position relative to the benchmark index designated by the client in individual companies or in certain countries or market sectors which in turn may cause the investment performance to be more or less sensitive to positive or negative developments affecting these companies, countries or sectors. For example the portfolio may have a significant portion (eg: more than 25%) of its total assets in securities of companies located in a particular country regardless of that country's representation in the benchmark index.

Emerging markets risk. Emerging markets tend to have less mature economic structures and less stable political systems than those of developed countries. The securities of issuers located or doing substantial business in emerging markets are often subject to rapid and large changes in price. In particular, emerging markets may have relatively unstable governments which in turn presents the risk of sudden adverse government or regulatory action and even nationalization of businesses, restrictions on foreign ownership or prohibitions against repatriation of assets, and may have less protection of property rights than more developed countries. Increased political and social unrest in some countries can cause economic and market uncertainty to spread throughout the region.

Emerging market economies may be based predominantly on only a few industries and may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme debt burdens or volatile inflation rates.

Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of substantial holdings difficult. Transaction settlement and dividend collection procedures also may be less reliable in emerging markets than in developed markets.

The legal systems in many countries are still developing, making it more difficult to obtain and/or enforce judgments. The auditing and reporting standards in some emerging market countries may not provide the same degree of Shareholder/Investor protection or information to investors as those in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liability and consolidation may be treated differently than under the auditing and reporting standards of developed countries.

Foreign currency risk. Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the base currency of the strategy. Currency exchange rates may fluctuate significantly over short periods of time. A decline in the value of foreign currencies relative to the base currency will reduce the value of securities held by the strategy and denominated in those currencies. Foreign currencies are also

subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government controls.

Hedging Risk. Hedging is only undertaken when a particular currency position is perceived as creating a currency risk and would be addressed using a currency option.

It may arise from time to time that the currency option becomes subject to imperfect ‘match’ against the overall currency exposure in the portfolio, but it would not represent a significant mismatch.

Liquidity risk. Absent active trading for specific types of securities it can become difficult to realize a sale price at or near the perceived value.

All markets are illiquid at times of market stress. The long-term approach of the Firm minimizes the impact of this. The Firm does not voluntarily enter into illiquid positions.

Market risk. The market value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally, and a security’s market value also may decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.

Performance Risk: Risk and Return march hand-in-hand.

## **Item 9. Disciplinary Information**

There are no material legal or disciplinary events required to be disclosed under this Item 9.

## **Item 10. Other Financial Industry Activities and Affiliations**

We do not have any other financial industry activities and affiliations required to be disclosed in this Item 10.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### *Code of Ethics and Personal Trading*

The Firm has adopted a Code of Ethics (the “Code”) in accordance with Rule 204A-1 under the Investment Advisers Act of 1940 (“Advisers Act”). The Code is based on the Firm’s fiduciary duty to its clients. The Code includes provisions, among others, that address ethical standards of behavior, compliance of the Firm’s supervised persons, as defined in the Advisers Act (“Supervised Person”), with applicable federal securities laws, personal securities trading, the reporting of violations of the Code, and ensuring each Supervised Person receives a copy of the

Code and any amendments. The Firm expects its Supervised Persons to put the interests of the clients first and foremost in their business dealings and day-to-day activities.

The Code prohibits Supervised Persons from engaging in conduct commonly known as “insider trading” or misusing material, non-public information, and it restricts Firm personnel from giving or receiving gifts.

The Code also restricts personal securities transactions by various means. Any personal securities trade by a Supervised Person must be pre-cleared with the Firm’s Chief Compliance Officer (“CCO”). In order to comply with the Code, every Supervised Person must promptly report to the CCO the existence of any personal account. Supervised Persons, however, may invest in the following securities without pre-clearance:

- Mutual Funds;
- Exchange-Traded Funds;
- U.S. Government and Agency Securities and the equivalent government and agency securities for employees or persons bound by this policy who are resident in non-U.S. locations;
- Municipal Securities;
- Bank CDs, Banker’s Acceptances, and Commercial Paper;
- Repurchase Agreements; and
- Purchases under automatic dividends reinvestment programs, so long as they are non-discretionary.

Upon request, the Firm will provide a copy of the Code to any client or prospective client.

## **Item 12. Brokerage Practices**

### *Selecting or Recommending Broker-Dealers*

In most cases, we have the authority to direct securities transactions on behalf of our clients to broker-dealers selected by the Firm. In doing so, we seek best execution of such transactions. When seeking best execution, we consider the full range and quality of a broker-dealer’s services including, among other things, commission rates, a broker’s trading expertise, reputation and integrity, facilities, financial services offered, access to secondary markets, reliability both in executing trades and keeping records, fairness in resolving disputes, value provided, execution capability, financial responsibility and responsiveness to the Firm. We may also consider other brokerage and research services provided by the broker-dealer such as access to corporate management.

We may cause client accounts to pay a broker or dealer executing securities transactions a commission higher than the commission another broker or dealer would have charged for executing that securities transaction, where we determine in good faith that the commission is reasonable in relation to the value of the services provided by such broker-dealer.

### *Research and Other Soft Dollar Benefits*

The Firm will not enter into soft dollar arrangements. The use of full service commission is beneficial to all our clients as it enables us to access value added non-execution and execution services. We will not enter into minimum or maximum commission rate agreements or set commission targets with broker-dealers. The Firm does receive broker research, however, investment decisions are not based upon or influenced by the short term recommendations within such research.

### *Brokerage for Client Referrals*

We do not direct securities transactions to any broker-dealer in exchange for referral of investment management clients.

### *Directed Brokerage: Client Directed Brokerage/Commission Recapture*

We may accept direction from a client to place trades for a client's account with a particular broker-dealer or commission recapture agent. A client may instruct us to direct a portion of its commissions to a specified broker-dealer. In the event that such direction occurs, we may have limited capability to negotiate commission levels or obtain volume discounts. In addition, in meeting the client's brokerage directive, the Firm may not be able to aggregate these transactions with transactions the Firm effects for other accounts it manages and may delay placing the orders for directed accounts until the orders for other accounts have been completed. As a result, the net price paid or received by the directed account may be different than the price paid or received by the Firm's other accounts. In the event a client directs the Firm to use a particular broker, the client acknowledges that best execution may not be available.

### *Other Brokerage Practices Conflict of Interest*

The following brokerage practices may lead to actual or potential conflicts of interest when selecting broker-dealers to execute client trades.

#### Aggregation of Client Orders

We may aggregate purchase and sale orders of securities held in a client's account with similar orders being made simultaneously for other managed accounts if, in the Firm's reasonable judgment, this is in the best interest of clients with the aim being to treat all clients fairly. We will seek to equitably apportion such aggregated order prices, commissions and other expenses among accounts. The determination of such economic benefits to a particular client account is subjective and represents a discretionary evaluation that an account is benefited by relatively better purchase or sales prices, lower commission expenses and beneficial timing of transactions or a combination of these and other factors over time.

The firm will generally allocate securities or sale proceeds (inclusive of transactions costs) *pro-rata* over the Clients' portfolios based on average price. Should an aggregated trade be incomplete at close of business on any given day the allocation will generally be made *pari passu* and completed on a day-to-day basis observing the same procedures.

The practice of warehousing transactions (*i.e.*, where a broker is requested to delay booking partial fills of a multi-client deal out to individual client allocations for a period of up to seven days whilst in the process of completing the overall transaction) will not be undertaken by the Firm.

### **Item 13. Review of Accounts**

The Partners monitor the Firm's investment activities including investment research, investment policy, portfolio construction, dealing policy, investment performance and adherence to client policy guidelines continually. The Partnership meets on average weekly and conducts a formal review of all portfolios on a quarterly basis or as otherwise requested. Formal reporting to clients is dependent on the requirements of each client and can be a combination of monthly, quarterly, bi-annual or annual reports. Formal reviews are conducted by the entire partnership.

All clients receive monthly portfolio accounting data unless otherwise instructed. This generally includes a portfolio valuation listing all stocks at market value on the last business day of the month together with historical book-cost, an investment activity report for the month plus a cash statement reconciled to custodian bank statements, an income statement, and schedules detailing proxy voting and capitalization issues. Any other client specific requirements can be included in the monthly report.

An investment review is written in support of the portfolio performance on a quarterly, bi-annual or annual basis at the clients' choosing. This may also include summary portfolio accounting.

### **Item 14. Client Referrals and Other Compensation**

The Firm does not participate in any client referral arrangements or pay any other compensation required to be disclosed in this Item 14.

### **Item 15. Custody**

The Firm does not have custody of funds or securities for any client. All client assets are held by a third-party custodian appointed by the client.

As explained in Item 13, the Firm provides monthly account statements to its clients unless otherwise instructed. The Firm's account statements explain and augment the account statement from the client's qualified custodian. The Firm's account statements are reconciled with the account statement the client received from the client's qualified custodian. Notwithstanding the clients are urged to compare the Firm's portfolio account reconciliation with the statements received directly from their appointed custodian.

### **Item 16. Investment Discretion**

The Firm has discretionary investment authority over client assets governed by an Investment Management Agreement, and normally supplemented by Investment Policy Guidelines specific to each client. Prior to the Firm entering in to an Investment Management Agreement all Clients will have received the Firm's *brochure* and will have interviewed the Firm to understand the investment philosophy and research process applied to the portfolio construction and investment.

At all times during the Manager-Client relationship the Client-specific investment policies, guidelines and/or restrictions take precedence over the Firm's investment discretion. This may result in differences amongst clients' portfolios: thus not all portfolios will be the same. Recognition of client-specific investment or policy parameters eliminates conflicts of interest in managing other portfolios which may, or may not, be fully discretionary.

#### **Item 17. Voting Client Securities**

In accordance with general fiduciary responsibilities associated with the investment management business and specific client preferences, the overriding principle of the Firm's proxy voting policies and procedures is to maximize the financial interests of its Clients. In general this results in the Firm voting proxies with the management. In instances where the Firm takes issue with a material resolution, a sale decision is more likely than a negative vote.

In cases where a Client has provided specific written proxy voting guidelines, those guidelines will take precedence over the Firm's proxy voting policies and procedures.

We receive notice of proxy activity through intermediaries acting on behalf of the custodian which hold client securities.

The firm does not anticipate a situation where there would be a conflict between maximizing long-term investment returns for Clients and the Firm's interests. If such a situation should arise the senior management of the firm will independently review and evaluate the proxy proposal and the circumstances surrounding the conflict to determine the vote, which will be in the best interest of the Client.

Upon the request of a client, the Firm will provide a copy of its proxy voting policies and procedures and provide information regarding how proxies have been voted.

#### **Item 18. Financial Information**

There exists no financial condition of which the Firm is currently aware that would impair the Firm's ability to meet contractual commitments. The Firm has never been the subject of a bankruptcy petition.

#### **Item 19. Requirements for State-Registered Advisers**

This Item 19 is not applicable to the Firm.