



Unlisted holdings and fund liquidity

Unlisted holdings and fund liquidity have received considerable attention in the press recently. In light of this we have prepared this document summarising the unlisted exposure in our funds, outlining our approach to liquidity management and explaining how we fulfil our responsibilities as Authorised Corporate Director/ Authorised Fund Manager.

Marlborough's UK equity funds hold a very limited number of unlisted companies - those that are still in private hands and not listed on a stock exchange.

As with every company held in our portfolios, our fund managers will only invest after rigorous analysis to ensure they satisfy our demanding criteria.

Their view is that there are a small number of highly attractive private companies, where the opportunity justifies the less liquid nature of the investment.

Typically, these holdings will be later-stage private, unlisted companies that are beginning to consider an Initial Public Offering (IPO) to list on a stock exchange.

In other cases unlisted holdings may be by-products of listed investments, where, for example, unquoted securities such as warrants are received along with quoted shares in an IPO.

Our limits on unlisted investments

The Financial Conduct Authority's regulations allow fund managers to hold up to 10% of a portfolio in unlisted stocks. Marlborough's own internal limit is significantly lower, with an investing limit of 3%. Once a fund's unlisted holdings reach this level the managers cannot buy any more.

The only circumstance in which a fund's exposure may exceed 3% is when the valuations of existing unlisted holdings have increased in value relative to the rest of the portfolio.

Unlisted exposure in our portfolios is carefully monitored by our Risk Committee.

Unlisted exposure per fund

Fund	Total holdings in fund	Largest single holding* (%)	Total unlisted exposure by value (%)**
Marlborough Special Situations	180	1.7	1.66
Marlborough UK Micro-Cap Growth	253	2.3	1.91
Marlborough Nano-Cap Growth	157	3.4	4.49
Marlborough Multi Cap Income	122	3.0	0.06

Data as at 31st May 2019.

*This is the size of the largest single holding in each of the funds, expressed as a percentage of the value of the overall portfolio.

**This is the exposure to unlisted companies in each fund, expressed as a percentage of the value of the overall portfolio.

Fund liquidity

A key responsibility for fund managers is to analyse and manage fund liquidity. This is how quickly stocks held can be sold at a price reflecting their value or, to put it another way, how fast the portfolio can be converted into cash.

Managing liquidity in this way is important to ensure our funds comply with regulatory requirements and that we fulfil our responsibilities as the Authorised Corporate Director/Authorised Fund Manager for our funds. These are independent roles that mean we are responsible for protecting the interests of our investors and overseeing the work of the investment managers.

At Marlborough, when we analyse liquidity we look at market data, based on average trading volumes, showing how long it might take to sell each stock. We also consider the average size and maximum size of individual holdings to see how diversification in the portfolio might affect liquidity.

Our UK small-cap funds hold highly diversified portfolios, with relatively small holdings in any individual stock. Limiting our funds' exposure to any single company should, we believe, contribute positively to liquidity.

We also study how much of a fund is held by each individual investor and the likely effect on liquidity if major holders took their money out.

We look too at the distribution channels for our funds. Many people have invested in our funds after receiving independent financial advice or studying fund ratings, while others have their money managed by investment professionals. We assess what percentage of investors' money in our funds is controlled or influenced by these companies and the implications for liquidity.

In addition, we analyse historic data about the flow of money into and out of our funds and factor this into our calculations.

Finally, we consider the impact on fund liquidity were there to be a deterioration in market conditions or an increase in redemptions from the fund caused by other factors.

Protecting our investors

While any investment carries risk, we take our responsibility to protect our investors' interests very seriously. We understand the fundamental importance of liquidity in our funds and we commit considerable resources to monitoring and managing it.

Our approach is highly proactive and, as our limit on investments in unlisted companies demonstrates, goes above and beyond the regulatory requirements.

Risk warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. Tax treatment depends on individual circumstances and may change in the future. The funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The funds may invest in the shares of smaller companies which are more volatile over shorter time periods. The funds invest mainly in the UK, therefore, investments will be vulnerable to sentiment in that market, which may strongly affect the value of the funds. In certain market conditions some assets in the funds may be less liquid and therefore more difficult to sell at their true value or in a timely manner.

Regulatory information

This material is for general information purposes only. The Key Investor Information Documents and the Prospectuses for all funds are available, in English, free of charge and can be obtained directly using the contact details in this document. They can also be downloaded from www.marlboroughfunds.com. An investor must always read these before investing. Calls may be recorded for training and monitoring purposes. Issued by Marlborough Fund Managers Ltd, authorised and regulated by the Financial Conduct Authority (reference number 141660). Registered office: Marlborough House, 59 Chorley New Road, Bolton, BL1 4QP. Registered in England No. 02061177.