



Monthly Monitor

August 2019

Sometimes it's Time to Say Goodbye

Appian invests in well-managed businesses that have strong cash generation, pay dividends and have healthy balance sheets, which are available at attractive valuations. When we own such stocks sometimes the only thing that changes is the valuation and all other characteristics may remain attractive. We aim to be disciplined – while we can continue to admire companies, we don't fall in love with stocks. Sometimes they become overvalued, and then it's time to say goodbye.

When we decide to sell a stock, in the main there are three reasons why we do so.

One reason is there might be a change in the business model or the company's strategy. If this change potentially impairs the long-term cash generating potential of a business or the sustainability of its business model that is an exit trigger for us. If the business can no longer make generate good returns from its own invested capital its stock won't be capable of delivering for shareholders in the long run.

Another reason is when a company takes on too much debt. Such a build-up of debt increases the risk in a stock even if the company continues to make good returns on its investments. While the company becomes more geared to the upside, it is also more leveraged to any negative events. This increases risk, particularly as it weakens the ability of a company to weather storms.

The other main reason we sell stocks is valuation. If a stock becomes too expensive it is time to sell. Expensive stocks carry extra risk, as the risk of a de-rating of the valuation multiple increases. This makes stocks particularly vulnerable to any change in its earnings

outlook – a de-rating can significantly magnify the impact of an earnings disappointment in a stock price. Often de-ratings of overvalued stocks can happen without earnings disappointments. A good company can continue to execute well and deliver on expectations, but if the valuation is over-extended the share price can lag, possibly for long periods of time, while the company's fundamentals catch up. Being a great company does not mean its shares should be bought or retained at any valuation – an investment case can no longer be attractive if the stock is overvalued.

We are aware that in the current market many stocks are overvalued. Consequently risks are more elevated in these stocks. While our equity portfolios have lower average valuations than the market we are vigilant to check that the valuation ratings of the individual stocks we hold remain sensible.

In July, for example, we exited three positions – Nestle, Stryker and Kingspan – on valuation grounds. The valuation multiples of these stocks approached historic highs and had become overvalued in our view. In each case we continue to admire the companies, and expect them to continue to perform well as businesses. We would not be averse to re-entering these stocks should their valuations become more attractive again. We have been involved in each for some time and have had positive experiences with them. Nestle had been a mainstay of our portfolios since the start of Appian in 2003.

The proceeds of these sales become available for redeployment in more attractively valued opportunities. In our multi-asset funds the equity weighting has reduced to close to 40% (below the mid-point of our 30-60% range) giving us firepower to increase our equity content again should bouts of market volatility present attractive entry levels.



The information contained in this material is not financial advice. Nor does it constitute an offer for the purchase or sale of any financial instruments, trading strategy, product or service. No one receiving this material should treat any of its contents as constituting advice. It does not take into account the investment objectives, knowledge, experience or financial situation of any particular person. You should seek advice in the context of your own personal circumstances prior to investing or taking out any product from your own independent adviser.

This material has been prepared and issued by Appian Asset Management Limited on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been given to the preparation of the information, no warranties or representation, express or implied are given or liability accepted by Appian Asset Management Limited or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice.

If you decide to invest in any of the Appian Funds, further information in relation to all risks is provided in the relevant Fund Prospectus and supplements. This material is available from Appian Asset Management Limited, 42 Fitzwilliam Place, Dublin 2. References to past performance are for illustrative purposes only. Projected returns are estimates only. Forecasted returns depend on assumptions that involve subjective judgement and on analysis that may or may not be correct.

WARNING

If you invest in any of the Appian Funds, you may lose some or all of the money you invest.

The value of your investment may go down as well as up.

This investment may be affected by changes in currency exchange rates.

Past performance is not a reliable guide to future performance.

The above disclaimer and limitations of liability are applicable to the fullest extent permitted by law, whether in Contract, Statute, Tort (including without limitation, negligence) or otherwise.

Appian Asset Management Limited is regulated by the Central Bank of Ireland.

Appian Unit Fund Prices

1 August 2019

Appian Value Fund	149.87
Appian Equity Fund	194.65
Appian SCOF	170.64
Appian Liquidity Fund	104.32
Appian Ethical Value Fund	104.37
Appian Burlington Property Fund	124.04

For more detailed information on each of our funds click [here](#)

Investment Team



Niall Dineen
Chief Investment Officer



John Mattimoe
Senior Fund Manager



Pat Kilduff
Senior Fund Manager



Derek Heffernan
Senior Fund Manager

[Click here for more information about our Investment Team](#)

Contact our **Client Relationship Team**



John Flavin
Senior Relationship Manager
Tel: (01) 662 4053 direct
[Click here to email John](#)



Ian Naughton

Client Relationship Manager

Tel: (01) 662 3986

[Click here to email Ian](#)



Follow Appian on Twitter



Connect with Appian on LinkedIn



Appian
Asset Management

Copyright © 2019 Appian Asset Management, All rights reserved.

[unsubscribe from this list](#) [update subscription preferences](#)