LWM

Consultants Ltd.

Investors in Values

FUND REVIEW – THREADNEEDLE EMERGING MARKET DEBT FUND

Summary

As part of the annual review we have added the Threadneedle Emerging Market Debt Fund. It has now been announced that the Head of Emerging Markets, Richard House has now left Threadneedle and is joining Standard Life. Richard is being joined by Mark Baker and Nicolas Jaquier who both worked with him. It is important to note that neither Mark nor Nicolas was managing money at Threadneedle although they will in their new roles. The other member of the team who is leaving is a strategist, Agnes Belaisch, who is going to work on the European Stability Fund.

As a result of this change we called a meeting with Threadneedle to review whether we should progress with this investment.

Review

As part of our due diligence we reviewed the process for covering a fund management change. At the time we were told that Dr Henry Stipp was the deputy and would step in should Richard leave. Henry is now the interim fund manager. He is an emerging markets macroeconomics specialist and has been managing money at Threadneedle for 11 years. Effectively what we were told has happened.

The events which led to this change came from the appointment of Jim Cielinski who was appointed Head of Fixed Interest and was looking to re-organise the fixed interest teams. All that has effectively happened is that the re-organisation has happened quicker than expected. Jim came from Goldman Sachs and was brought in to grow the fixed interest proposition; he will act as the deputy fund manager on the fund.

The restructure was needed because the boundaries between emerging and developed market debt was blurring and there needed to be a more global perspective. We questioned whether the emerging debt fund would take on developed debt but this is not the case, they will still be separated but it is ensuring better integration between the teams. It is also worth noting the emerging market debt mandate is over £2 billion.

From our review Threadneedle are very much process driven and we discussed other successful managers who have left and not been able to carry that success to other operations. This gave confidence that the processes are robust. They use the phrase "we are stronger collectively than as individuals", i.e. team work is crucial to success and this is reflected in the bonus structure, which is part driven from ideas being delivered to the wider team.

The fixed interest team consists of 90 people so 4 people leaving is only a small portion. It should be recognised that two new external hires have been made to augment the team, with two additional searches on-going; the investment specialist team will be rebuilt internally.

At the moment the fund has not seen massive outflows, but outflows do have the potential to drag down performance in the short term. However, we are looking to make the changes in July when the new structure should be more settled.

We covered the structure to tie senior people into the company; there are structures in place including retainer bonuses and share options. Threadneedle also have a relatively low turnover of staff.

Conclusion

As a result of the discussion we had we feel comfortable that although a senior member of the team has left the structure is robust and although short term there may be a dip in performance long term this will continue to deliver.