



# **LWM Consultants Ltd**

## **Meeting the Fund Manager**

### **Neptune UK Special Situations Fund – Alex Breese**

The Neptune UK Special Situations Fund is a fund we have included in our portfolios and following the review will remain. We are meeting fund managers from Neptune in May including Alex Breese.

We were fortunate to be involved with a video conference with Alex and below is a summary of that conference.

#### **What does the fund look to achieve?**

The investment objective of the fund is to seek to achieve capital growth by exploiting special situations and investing principally in UK Equities considered to be undervalued. The fund currently holds around 49% in FTSE 100 companies, 44% in FTSE 250 companies and the balance in small cap and overseas companies.

The fund has solid top quartile performance since launch outperforming in both an upside and downside market. Although it cannot produce absolute returns it does look to limit the downside in turns of performance.

#### **Introducing the fund manager**

Alex joined Neptune in May 2005 as an Investment Analyst and is now Fund Manager of the Neptune UK Special Situations Fund and Assistant Fund Manager on the Neptune Income Fund and the Neptune Quarterly Income Fund. In addition, he now spearheads Neptune's six-strong UK team alongside Ted Alexander.

In the conference call he discussed how he works closely with the UK team and how the team shares ideas. This is important particularly for succession planning should Alex leave Neptune.

## How the fund is managed?

With all fund reviews to understand how the fund operates is best seen when meeting the fund manager.

Alex started the conference call by giving a brief overview of the market, highlighting that the FTSE has performed well in the first quarter of 2012 helped by the ECB liquidity support and good US economic data (improvement in unemployment figures and positive retail sales). This in turn has benefited small and mid-cap stocks helping to drive performance in the first quarter.

The fund tends to look for longer term holdings seeking to uncover companies which can generate profits in a tough economic environment – Alex mentioned three key constituents:

1. Structural growth
2. Ability to grow profits
3. Strong cash flow and dividends

To provide examples of how this process works Alex talked through the media space – twitter et al are changing the way media is viewed, over 8 billion words go on twitter every day. Alex has therefore sought companies in the media space because they have low capital intensity and strong cash flow.

One of his holdings is ITV which has seen share prices increase by 31% this year – it has a strong cash flow of 10% and the outlook to grow is positive. It is likely to benefit both from the Olympics and European Championships during this summer. Other examples of media include right move and Aegis and currently the fund is overweight in media which supports his conviction to this area.

Alex also talked about how 70% of UK equities drive revenue from overseas – to illustrate a recent holding he talked about CRH which is a construction company with 50% exposure to the US market. It is a cash generative business and has been taken as a long term position. The reason for this is that the US construction industry used to sit at around 9% of GDP, this is now at around 5% but the key is that there are signs that there is recovery in both the private and commercial market which will benefit CRH. Therefore Alex has added exposure to CRH and this may increase in the future.

It is evident from the discussion that Alex has a strong conviction on stocks and sectors and believes that there are still attractive valuations in the UK market. This stock picking conviction has served the fund well and as always with funds that have a strong fund manager there is a risk but clearly the sharing of ideas lessens the risks of a fund manager leaving. Fund managers also have an equity stake in the business and are supported by assistant fund managers.

## **Conclusion**

We support a number of Neptune funds and will continue to support this fund. It will be good to meet Alex face to face in May and have the opportunity to expand on some of the points raised in this conference call.

The source of information in this note has been provided by Neptune Investment Management and is correct at 25 April 2012. These are notes from meeting the fund manager and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.