



# **LWM Consultants Ltd**

## **Meeting the Fund Manager**

### **Standard Life Global Smaller Companies Fund – Alan Rowsell**

We have recently been reviewing the portfolios; one of the funds we will be adding is the Standard Life Global Smaller Companies Fund. This is a new fund launched in January 2012 but follows the same process and pattern of the hugely successful UK Smaller Companies Fund which we support.

Standard Life Investments has an impressive track record in the smaller companies market with over 19 awards over the last four years, including more recently the Best Equity Europe Small and Mid-Cap Fund over three years' at the Lipper Awards 2011. The UK fund was launched in 1997, and the European Fund in 2007 providing a strong and repeatable investment process which is reflected in strong long-term performance. It also enables scale of resources by tapping into a team of investment professionals to uncover opportunities.

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

The fund looks to take the same process used in the UK Smaller Companies and European Funds and take it globally. This enables the fund to look at a larger opportunity set through not only companies but also regions to provide superior potential returns. The philosophy remains as for all funds – the focus is on companies which offer quality, consistency, visibility, growth and momentum.

We discussed the regional aspect of the fund and how the fund may go underweight in some areas and overweight in others. So for example the fund is currently underweight in Japan because they do not believe there is much upward earnings growth and therefore there are not many ideas coming up whereas they are overweight in the UK where they believe there are more compelling stories to focus on. This provide a good example of how the fund operates.

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

We met both Alan and Harry who displayed their passion and drive for the fund. Harry Nimmo is the steward of the fund and we are a greater supporter of Harry as a fund manager. He is supported as co-manager by Alan Rowsell who worked in the US for five years for Standard Life where he was a fund manager and analyst. As co-manager he is a

vital part of the team and provides expertise especially in the US markets where the fund holds approximately 45%.

### **How the fund is managed?**

Standard Life are long term investors, an average holding of five years is not unusual. The fund provides them with exposure to over 6,500 holdings; the fund itself will look to hold around 40 to 80 stocks and currently is holding around 50 stocks. Although the fund is benchmarked to the MSCI World Index (50% US, 25% UK / Europe and 25% Emerging / Far East) the fund will move away from the benchmark whilst pursuing tomorrow's larger companies.

The fund benefits from global resource and has a credible investment process:

1. Top level guidelines:
  - a. Buying tomorrow's larger companies today
  - b. Growth
  - c. Proven business models
  - d. Recurring revenues
  - e. Prefer companies that make money
  - f. Lower risk/turnover
2. Stock selection matrix
  - a. Proprietary stock selection
  - b. Back tested
  - c. Factors include earnings revision momentum, director dealing etc
  - d. Focus on change
3. Test for false positives
  - a. Test the resilience of the business model
  - b. Market share / barriers to entry / pricing power
  - c. Cross check matrix factors

We discussed the example of Paddy Power which has built its presence on the internet and now has market domination in this area. There are of course other potential entrants to the market but many of these are established firms with high street branches rather than internet presence and therefore to make the transition is much harder, as such Paddy Power took a steal on the completion and now it is for them to catch up. So as such it's about understanding the metrics of the business and seeing how this has the potential to grow in the future.

### **Conclusion**

Standard Life Investments have a good stable of investment funds especially in the UK sector, this fund we believe offers long term potential with a proven process in place. Although initially holdings will be small in our portfolios we will monitor this and increase in the future if the fund starts to deliver on its potential.

The source of information in this note has been provided by Standard Life Investments and is correct to the end of March 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.