LWM Consultants Ltd

Meeting the Fund Manager

L&G UK Alpha Trust

The L&G UK Alpha Trust is a fund we have used in a small way in the past and have continued to follow. It is now included across some of the portfolios. The UK space is crowded as we have mentioned before and being able to pull out the best funds is key to selection. Although we have done a great deal of research into the fund it was good to meet the fund manager, Richard Penny. To some extent you have a fund manager who can be seen as a "safe pair of hands" – he has over 18 years of investment experience across three economic cycles.

What is happening now is no different to what he has seen before, in the tech boom and bust because it was a "shock" suddenly companies stopped making decisions, in 2009 the same thing happened but now in 2012 companies are more prepared then perhaps we are being led to believe by the media.

The key for Richard is not to follow the crowd, and not hold the market. That is not to say he won't hold well known stocks but fundamentally he is looking for companies that have the potential to double in value over a three year period.

This approach, matched with his track record makes this a good holding for the portfolios.

Investment objective and profile

The fund is a high conviction, focused and unconstrained fund. It is looking to invest in the best ideas from micro to mega cap stocks (FTSE All Share plus AIM). It looks to outperform the IMA UK All Companies by 5%. This should be seen as a medium to long term investment.

Managing the fund

We talked about how their approach is different and I believe this provides a valuable insight into how the fund is managed. The approach is not to see themselves as traders but as owners of the business, getting to know the team and being able to help the company grow. As owners it means you have a long term commitment to the investment and therefore are not looking at short term holdings which can bring instability to share price trading.

We talked about Lloyds as an interesting stock that might fall into this, Richard explained that he doesn't understand all of the business and feels he can find value in other companies which he does understand. He used the example of BATM – this is an interesting business which has recently purchased a diagnostic business for three million euros. This would perhaps appear to be an odd choice but when you look at the business they have purchased you discover this is one of the top 6 to 7 diagnostic businesses. Although some of the patents had lapsed these are currently being reapplied for. So actually what seems a strange purchase is actually a shrewd business move. The company also has cash reserves, it is unleveraged and it has property assets.

The initial shares were a bargain at 15p, further shares were purchased at around 11p and it is expected over the long term that the shares could rise to between 25 to 30p. For Richard this is about seeing a good business at a good price. It was refreshing as Richard admitted that sometimes he does get it wrong and actually every fund manager will make mistakes but the key is to focus on the fund as a whole and protect against those risks. This is really about sticking to the fundamentals, a good business, low debt (if possible) and a long term view.

We talked about some success stories; Datamonitor was launched in the bubble of 2000 and quickly saw a crash in share prices. Fundamentally it was a good business caught up in the bubble and bust period. It is having the nerve to buy when people are selling and then look to hold over the long term. The total return over the holding period was 500%.

Another example was Supergroup where shares were purchased at £5, the initial shares were sold at £10 and then remaining holdings sold around £16 - £17. Although in Richard’s view this remained a good company by selling it, it enabled him to find other stories he could pursue.

In summary the fund is about stock picking but also about finding good undervalued businesses which have the opportunity to provide long term growth.

Conclusion

Meeting Richard confirms the research we had already done and we certainly believe this fund offers opportunities where other UK funds fail. His approach is contrarian and he is not afraid to admit that he makes mistakes. Crucially he is prepared to place his own money in the fund and has only ever put money in and never taken money out.