



LWM Consultants Ltd

Meeting the Fund Manager

Neptune UK Special Situations Fund

The Neptune UK Special Situations is a firm favourite of ours. The UK sector is crowded and being able to distinguish yourself within this sector can be difficult. This is the first time I have met Alex face to face and clearly he is a bright and talented fund manager.

The fund is small which in itself offers a lot of advantages with regard to stock selection and ability to react to the market. Alex has managed the fund since launch in 2006 and is supported by Nicola Muirhead as assistant fund manager. Around this Alex is supported by a team structure which provides individual sector information and then this is overlaid by macro data. Ultimately the fund is made up of best idea stocks, and being able to talk these ideas through with Alex really provided an insight into the fund.

The fund has an excellent track record achieving top quartile performance over almost all periods since launch.

Investment objective and profile

The fund is described as an unconstrained, high conviction, multi-cap UK equity fund. Alex is looking to achieve capital growth by exploiting special situations and investing principally in UK equities considered to be undervalued.

Managing the fund

The key themes that came across from our discussion centred on the principal that you should never follow the herd because it makes you feel comfortable. This doesn't mean you take undue risks but you are looking for companies which are fundamentally misunderstood in terms of valuation, and you have the opportunity over time to sell them at a fair value.

We are also in a unique environment where the markets are driven by fear (well perhaps not so unique if you look at history!), so someone sneezes and the whole market catches a cold. The key is that when we face this uncertainty then that is the time to invest. The hunt is to find companies which will withstand whatever happens in Europe. This is a message made by a number of UK fund managers, rather than focusing on UK centric companies it is looking for companies with a global focus and particularly the East as well as the US.

We looked at a number of companies and these give a good insight to how Alex thinks.

AMEC was a construction company with different parts to the business including oil services. A new CEO came on board and broke up the company. What he found was that the true value of the company rested in oil services. It has taken the company seven years to turn itself around but the key is being a patient investor and understanding the underlying fundamentals of a company.

We also looked at Unilever which seemed an odd stock to hold. Two things were mentioned by Alex, firstly the stock is still cheap (around 14x earnings), and secondly although people are shunning this sector when you consider ten years ago people shunned miners and now they are the darling sector this he feels in ten years' time could be the next mining sector in terms of sector growth. So why Unilever, the products are visible and will be around in ten years' time whatever happens. Although the developed market is slowing the real growth is from the emerging markets where it derives 55% of its revenue. The restructuring within the company is still happening so there is still plenty of room for growth. This example is an example of not only finding an undervalued company but also getting in at the start of the sector cycle.

Another example De La Rue, in 2010 everything went wrong for the company. The new CEO is turning the company around and therefore it shows when people are fearful clearly there are real opportunities to invest. Rather than bailing out, this market is uncovering opportunities which means that they can add to holdings and look at the long term opportunities.

In summary Alex looks across all sectors, uncovering misunderstood companies which offer long term opportunities, he also looks at the cycles and tries to get in at the beginning of the cycle as can be seen by the likes of Unilever.

Conclusion

One of the comments I made to Paul was why does this fund not have more exposure; to me this is a hidden gem amongst a crowded space. Alex's style means this is a good long term play and certainly it confirms why we have this as part of the portfolio's we offer.

The source of information in this note has been provided by Neptune and is correct to the end of 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.