LWM Consultants Ltd

Meeting the Fund Manager

AXA Framlington American Growth Fund

The AXA Framlington Growth Fund is a new addition to our portfolios. It currently has a heavy slant towards technology stocks making up around 30% of the portfolio, and for this reason it has been pinned to the more adventurous portfolios.

The fund is managed by Stephen Kelly who is supported by Dan Harlow. They in turn are supported by a team of global sector specialists the most significant of these being Jeremy Gleeson (technology), Gemma Game (Healthcare) and Susan Sternglass Noble (Financials). These three work in sectors which in total make up 50% of the US market.

The fund itself has an excellent track record so to have some of the stories underpinning the fund provided an excellent backdrop to why the fund was selected.

Overview

When we reviewed the fund we highlighted what appeared to be the high turnover within the fund and therefore causing additional costs for the fund. This was discussed in detail, outside the top ten holdings the smaller holdings tend to have a maximum holding of around 1.5%. If the holding outperforms and goes above 1.5% then they will sell down to keep the portfolio healthy.

So clearly it is not a case of overtrading to buy new stocks but more about rebalancing.

We looked at some holdings to get a feel for why these were made. In many of the discussions we have had the focus seems to turn to Apple. This is one of the largest holdings. The view is that this is still “undervalued” and has at least two years to run. I wanted to explore this further and understand the reason for this.

Apple has always operated on a three year time horizon and there is two years to run on this. The uncertainty is what will happen post Jobs. AXA Framlinton is keen to deconstruct the components which make up Apple products and understand about the suppliers. They can then understand supply lines and identify potential problems.

They also follow patents and purchases. As an example over seven years ago Apple purchased a small software application firm for 15 times its value. At the time no-one could see why this was done. Now this technology is being used in the latest iPhone. During this time they been able to develop and refine it such that it was in a position to be used.

Apple has recently filed a patent for glass based technology so we could expect this to be used in the future. The other area is the business market which up to now has been untapped the launch of the iPad has made a play into this and it is expected that Apple will challenge this market away from RIM (Blackberry) in the future.

The other area of interest is around the consumer market. As consumers buy into the Apple brand they will then move to Macs which have for a long time been more expensive and niche.

The view is shared by many so the story is certainly one to watch.

We discussed Microsoft as this is not one of their holdings. Although Microsoft is a global player and a driver in software the feeling is that they are not developing market changing products. Effectively they have moved from a growing stock to a supporter of existing products.

Looking at Healthcare we looked at Alexion and compared this to Johnson and Johnson. Johnson and Johnson are a good company but they produce products for the mass market where profit margins are tighter and therefore growth is restricted. Alexion by comparison develop products for a niche market. So for example they have recently released a drug which treats a rare blood disorder. Where someone would die before they were thirty they can now expect to live a full family life and into retirement.

So these people can start to contribute to the state by working and paying taxes whereas before they were reliant on the state. The cost of these drugs is around £400,000 a year. Because there are so few people it makes it worth the cost of supplying the drugs. As a result profit margins are large.

The other difference is that they have patent protection on products for 17 years but also they own the intellectual property so if after 17 years someone was to develop the same product they would have to pay them royalties.

We touched on a couple of other companies Chipotle Restaurants. Similar in style to McDonalds but the difference being that if they developed 1,000 restaurants it would make a difference to profits whereas for McDonalds there wouldn't be a marked difference. It is ranked by Forbes in the top 100 companies with the highest growth.

And finally we looked at EOG Resources – this company is well positioned to benefit from the changes in oil production in the US. It is expected that within the next 10 to 12 years the US will be self-sufficient and could have around 75 to 80 years of reserves. This could become a trillion dollar industry. This will help in reducing the deficit; there also an argument that arm forces spending could be reduced as the US will not need to go overseas to protect oil reserves. It will be interesting to see how this plays out.

Just looking at these different examples we certainly got a feel for how the manager and his team works and getting under the skin of a company is clearly the key to long term success.

Conclusion

In developing the portfolios we are looking for funds and fund managers who we feel can deliver in the particular sectors they specialise in. With the current bias towards tech stocks we believe this is an excellent addition to the portfolios.

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