LWM Consultants Ltd

Meeting the Fund Manager

Artemis European Opportunities Fund

In developing portfolios one of the key aspects is finding funds and fund managers who have the potential to deliver excellent long term returns but tempered with strong risk controls. The basket of European Funds we have selected offer an excellent array of fund managers and teams. However, we are constantly on the lookout to see if there is a better opportunity in the market.

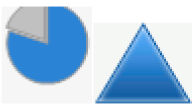
One fund which came onto our radar recently was the Artemis European Opportunities Fund which is managed by Mark Page and Laurent Millet. Mark is the lead manager who makes the final decisions.

Although the fund has only been running for a year we have a fund manager who has been in the industry for over 20 years. During that time he spent ten years at Schroders as a Fund Manager and then LV Asset Management where he was head of European Equities.

Short-term performance provides very few clues to future performance and therefore we can only look at what he has done over the last five years between LV and Artemis.

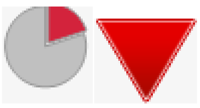
Using data from trustnet.com we have analysed how Mark has performed against his peer group. This provides an indication of how talented a fund manager is. Very few managers perform equally well in rising and falling markets, so knowing which type of market a manager is capable of performing well within is also important.

Overall markets



Outperformed peer group composite
4 years
out of a possible 5

Overall markets

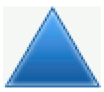


Underperformed peer group composite
1 year
out of a possible 5

Rising markets

Outperformed peer group composite
1 year
out of a possible 2

Falling markets



Outperformed peer group composite
3 years
out of a possible 3

It is important to stress that past performance is no guide to future performance and investments can fall as well as rise. Trustnet's verdict on Mark is as follows:

"Overall, performing better than the peer group composite. Over a fairly lengthy track record, the manager has outperformed more often than not. Stockpicking has made a contribution to results, which have tended to be relatively better in a falling market"

Having a chance to meet Mark gave us an opportunity to understand more about his style, the process and then enable us to consider whether this should form part of the portfolios.

Overview

The fund was launched 12 months ago, the fund is co-managed by Mark Page and Laurent Millet, Mark has the final say on what is held in the fund. Laurent has worked with Mark for the last five years and is the main "number cruncher" of the pair. The reason why they left LV was to be able to run a fund the way they wanted.

They use the same process as they did at LV but there are two main differences – they have a more concentrated portfolio of 60 stocks, they may go below this but they won't go above. This is important for two reasons at LV they had to hold 80 stocks and therefore there was a tendency to hold stocks that they didn't want to hold and secondly it brings in a discipline i.e. if they find an excellent stock then they can review the other stocks to decide whether they should be holding them. The second aspect is company visits, they both attend company visits as two people will pick up different points and this is fundamental when making decisions.

When looking at Europe, we of course touched on the macro aspects. The points I pulled out from this where:

1. 52% of Europe's earnings are driven from outside of the region (i.e. it is export led)
2. The fortunes of Europe will not turn because the situation in Spain or Italy improves but because of emerging markets like China, Mexico etc
3. 30% of Europe's revenue is driven from the emerging markets (this is emerging Europe, Asia, South America etc)
4. Some European companies have no earnings in Europe (2 of the holdings fall into this category), and others are very diverse so for example Roche derives a third of its earnings from emerging markets, the US and Europe

But fundamentally Mark is a stock picker and this is what he believes will drive the returns. So good companies will deliver irrespective of the macro environment.

They have a sound and robust investment process – effectively they are looking to find companies that can deliver 10% p.a. over a 5 year time horizon. So they are not traders, they are patient investors. This is looking at mixture of the ability of a company to grow together with the dividend payments.

To understand a company Mark has a strong belief that the only way to understand a company is to visit them. This in itself can uncover hidden gems. We discussed a Scandinavian Telecommunication company which has recently linked up with the number 2 and 3 providers so has effectively wrapped up the market it operates in. The company itself pays a yield of 9% but it has opportunities to expand into Russia and if this happens this could deliver a special dividend. Only meeting the company do you start to get this level of detail.

Another example is a debt company which buys distressed debt at around 5% of the value of the debt. The aim of the company is to collect around 25% of that debt. They only look to operate in countries with good structures, so for example in Italy and Spain people just “disappear” so it is very difficult to get repayment on debt, Russia is the same however countries like Hungry have good structures in place to repay debt. So again getting under the bonnet identifies the potential opportunity.

We also looked at a Belgium Brewery which has recently taken a large stake in the Mexican market. Although it is a European company only 9% of its sales come from Europe, 48% comes from Latin America. And although these companies tend to pay over the market value for acquisition because they are cash generative they tend to pay down “debt” very quickly.

We touched on countries which seem structurally broken – the likes of Spain and Italy. They do have holdings in these countries. The businesses do have challenges of accessing the capital markets so it’s about identifying companies which have good balance sheets and strong balance sheets. A good example of this would be aMaDEUS which is an airline booking agency for the likes of BA, Singapore Airlines and others.

Another example is Viscofan which manufactures sausage skins; it generates around 200 million euros cash flow a year which is re-invested into the likes of China where there is a growing market.

The fund does invest in financials and Mark tends to take a macro view on this, he favours Turkey because it is a growing economy and offers opportunities.

We were interested to see if he takes big bets and he doesn’t this is to do with liquidity they want the ability to trade out (with a maximum of three days). This means the holdings tend to be between 1% and 2%.

Finally we talked about stocks which they have got wrong in their view, Nokia is an example of this. They see this as a value trap. It has a massive amount of cash but it is burning this very quickly. Although the value is in the assets i.e. the patents it is difficult to see who will buy them. So when they bought the stock they believed this could deliver long term, however it didn’t work out in the way they expected and therefore they sold.

The current position of the fund is that it holds 60 stocks and around 1% in cash.

Conclusion

Although Mark only has a short track record at Artemis clearly he has a good long term track record. He believes strongly in visiting companies and getting underneath the bonnet to uncover the potential. He is a stock picker but not a trader and this is important. I think the other thing that came out is that he is very honest and clearly believes in what he does, he also holds his own money in the fund.

The concentrated portfolio and strong discipline is a plus for this fund. We will add the fund into the mix when we come to review the portfolios and compare it to the funds we currently hold. If we believe this offers better potential than other funds on offer then we may consider adding this to the portfolio.