LWM Consultants Ltd

Meeting the fund manager

AXA Framlington American Growth Fund

We added the AXA Framlington American Growth Fund to the portfolios in July 2012. This was in part due to the long term performance but also the process and management team. The lead fund manager is Steve Kelly and second fund manager is Dan Harlow.

Steve has managed the fund for 15 years and Dan was brought on board as effectively a second pair of eyes and to challenge Steve in what he was doing. He has been with AXA for 3 years. He was previously Director and Head of UK Fund Management at Montanaro Asset Management. He was also lead manager of the Montanaro UK Smaller Companies Investment Trust.

The fund does have a technology and biotech bias with the fund manager on technology side (Jeremy Gleeson) feeding into the fund as well as the biotech fund manager (Gemma Game).

This discussion was an opportunity to understand more about the process and identify potential opportunities.

Overview

The fund has a bias to mid-cap companies. The process they use aims to find quality companies; this is identified through revenue growth and cash generation. The key for Steve and Dan is to find companies that are starting to execute those product lines, they are successful and have the ability to grow.

Tendency is to hold for a 3 to 5 year period because after that point businesses can become mature and effectively stagnate. They will hold longer if the company has the opportunity to re-invest and therefore re-invent. An example of this would be Apple which is able to extend the opportunity / growth curve by continually re-inventing what it does.

The fund has excellent long term performance but has underperformed in the last 12 months. The second half of 2012 saw the election and Fiscal Cliff all of which impacted on the fund. During the second half of 2012 there was a change in corporate attitudes with a slowdown in production as companies waited to see what would happen with the fiscal cliff as there was a potential 4% headwind. Effectively companies took a more defensive attitude.

However, there are signs this is changing WWP Granger a $15 billion market cap company which delivers maintenance repairs saw a slowdown in December but a big upturn in January and this has continued into February.

There were concerns around how consumers would be hit by the 2% drop in take home pay but retail sales in January were up 0.1%.

These are good signs going into 2013.

The Fiscal Cliff was an important test because it showed that the parties can work together to deliver an outcome and they believe an outcome will be found for the next round of discussions.

One key change is the demand for credit, this is what is available and on what terms. In the US we are starting to see a demand for credit and this is another positive sign. This is coupled with a turnaround in the housing market which many people believe has bottomed. It is credit which will drive growth.

The fund is increasing its exposure to oil and gas reserves in the US. There are opportunities within exploration but also logistics, so how do you move the reserves from North Dakota to other parts of the US. All areas are benefiting from engineering to construction as well as transportation. Unemployment is just 3% in this region.

Other areas of interest is rail, they have a holding in Kansas City Southern which supplies railroad services. In Mexico there are 4 new motor plants being opened up and it is cheaper to deliver via rail than road and therefore this company will benefit from this growth.

Finally as always seems to be the case with the US we looked at Apple. They have cut their weighting in Apple. They continue to like the company and its valuations but they can use the money to invest in other opportunities. They believe the share price has paused rather than plateaued. In 2012 we saw the biggest product refresh and some of the growth margins where down which disappointed investors. The company is also suffering from pricing pressures from suppliers but crucially it is maintaining selling prices. So as with many stocks it is a question of how it delivers going forward.

Conclusion

The US is changing with oil and gas reserves and these without doubt will drive growth over the next ten years. My concern would be a potential bubble within this area and investing in companies which have no true value which is what happened with the tech bubble. However, we have no evidence that the same is happening and the style of management adopted by this fund would mean that these types of companies would not fit into the investment profile of the fund.