



LWM Consultants Ltd

Meeting the fund manager

Premier Global Equity Funds

We have written reviews about Premier in the past, they are possibly not the most well known fund managers but I believe in time they have the structure and people in place to become a well known boutique.

The meeting was with Mike Jennings who is the fund manager of the Global Strategic Growth Fund and Chief Investment Officer. Before we provide an overview of the funds it is worth understanding a little about Mike and his view on Premier and why he feels it works.



Mike worked for Sarasin from 1989 to 2001 where he managed the EquiSar Fund from its launch; he left Sarasin to move to Morley to set up a global equity team. By the time he left in 2007 the team were managing around \$6 billion.

In 2008 he started working for Premier because he wanted to go back to a boutique provider. In 2011 he recruited Jake Robbins who managed the successful Investec Global Dynamic Fund. This style of recruiting is important, Premier look to hire experienced fund managers with proven track records who possible have worked for large providers but want to get their hands dirty and work for a boutique.

My concern was that just because they had been successful in one place it doesn't mean they can replicate that success without the team around them. Mike accepted this was a risk but explained that the long term pay and incentives mean that if they don't deliver then they will earn significantly less than what they were previously earning. You also got the impression that the team is made up of fund managers who want to do something different and that in itself is a greater incentive.

We talked about the global desk. The global desk consists of seven people with specialists feeding in on sectors like power and water as well as geographical regions like China. More recently they have recruited the ex-CIO of Framlington Multi Asset Funds. The team (alongside all the teams) sit together which gives a sense of being small enough to share ideas and it means that they can have informal interaction which is powerful when it comes to choosing stocks.

What I wanted to do was really understand the funds. The funds have underperformed over a long time period but short term the performance is good. This is partly due to the fact that the Global Strategic Growth Fund came over from Aberdeen and was up to that point a Balanced Managed Fund and the Global Alpha Fund has only recently come under Jake's tenure.

Although performance isn't a single consideration it is an important one and Mike appreciates that until good figures come through it is difficult to recommend the fund. He believes that this should start to come through and if the short term figures are an indication of this then we could see this.

The overview provides an interesting discussion and perhaps some of the stocks he mentions may have a contrary view to the market.

Overview

There are two funds – the Global Alpha Fund and Global Strategic Fund. The Alpha Fund is punchier but both funds hold roughly the same number of stocks. They also have around 75% stock overlap. The Alpha Fund will take higher weightings than the Strategic Fund. In an up market the Alpha Fund will do better whereas in a down turn the Strategic Fund will be more defensive.

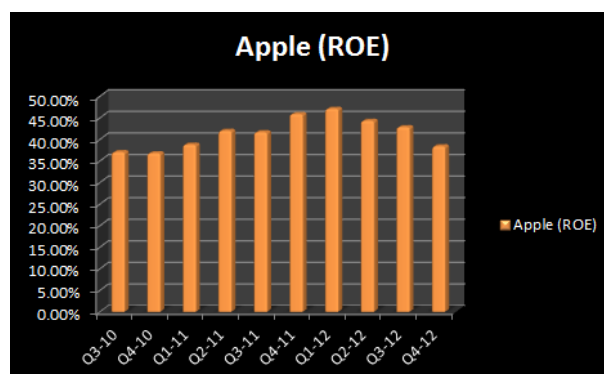
In understanding how Mike manages money it is worth considering the market environment that we are in. The papers talk about a lost decade of equities and how good bonds have been. The problem as we have said many times is that the bond bubble will burst however we don't know when this will be. The other aspect is that consensus for the markets are too bullish in his view.

So when he is looking for companies he is looking for those who are proactively managing their balance sheets, and he is looking for global stocks regardless of where they are domiciled. So for example he would choose a European stock but if it is reliant on Europe to drive its income he may not invest in the company because of the unresolved issues in Europe.

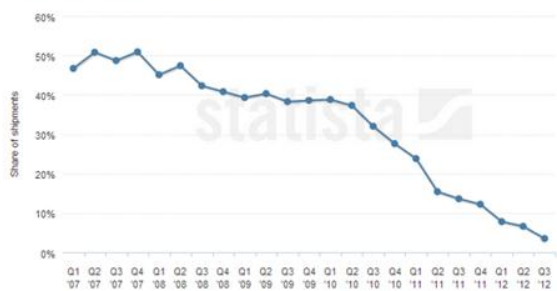
We discussed the potential for upside in the market; looking at a 42 year chart where the average PE ratio is around 17 times, at the end of 2012 this was around 12.5 times. This means there is potential for a 36% upside, but it is important to stress this is more long term than a sudden short term correction.

Another aspect which could drive an upgrade in stock price is supply; more companies like for example UPS are buying back stock and companies like Dell are considering an MBO. This means that as people start to move away from bonds they may find that there is not as much available stock which for good companies could drive up prices.

We discussed a stock they have recently sold, Apple, they have great products, they have a strong balance sheet, they have a great Return on Equities (ROE) but the ROE is declining. If this continues then however great the company is we could see a slide in share price. He admitted he could be wrong but it is important to watch and see. This of course is contrary to many managers who believe in the long term future and share price of Apple.



Global market share of Nokia smartphones from 1st quarter 2007 to 3rd quarter 2012



Although he admits Nokia is a different story the same happened, the ROE started to fall and the share price slumped. If we look at Nokia today, just because the share price is cheap it doesn't mean it is a good investment and the question is whether Nokia will be around in five years.

He is not the first to make this comment around Nokia. Nokia were the market leaders of mobile phones particularly in the business sector however

they did not innovate quickly enough and were quickly overtaken by others. Although they have a surplus of cash, they are burning this at an alarming rate. RIM is another example.

Although Apple has more products the question is whether the innovation has peaked and whether they can continue to deliver ground breaking changes, especially when you consider other brands like Samsung which has a large presence in the Asian market.

On the flip side we discussed a company called China Liansu which manufactures water pipes in china. It is sitting on a PE ratio of six times with earnings growth of 20%. China has indicated that it wants to improve agriculture production and there is growth in the urban areas which all need pipes. Now is the time to be in the market so it is catching it at the right moment.

Another example is in the aerospace sector, as we can see with Boeing bad news can damage stock price. One company which is underrated by the market is Zodiac Aerospace, a French company but one of only two companies which supply aeronautical equipment for civil aircraft. The earnings estimates over the last five years have been upwards. If we consider that there is greater demand for new planes then this company will benefit from this growth.

Going back to the management of the funds, it is clear that Mike and Jake work closely on both funds. They work from a universe of 5,000 stocks which due to a rating system they use quickly reduces down to around 400 stocks. From this point they can start to seek out the stories and look for the opportunities.

Mike's approach is more thematic and top down whereas Jake is more bottom up. This I believe works really well. So effectively Mike is looking at the "big picture", he will look at the economy and then try to forecast on which industry will generate the best returns. Whereas Jake will overlook the broad sector and economic conditions and instead focuses on selecting a stock based on the individual attributes of a company. So blending the styles together should deliver good long term investment opportunities.

Conclusion

Mike was the first to admit that performance will play a part in selection of funds and although we are impressed with the management team at Premier and the process the performance is a concern. We have to put this against established teams and track records and at the present time these funds have to remain on watch.

By this we mean we will continue to monitor the funds closely, and the team, to see if the good short term performance can translate into long term performance. This can then be compared to other options in the market to see if our portfolios would benefit from using these funds.

The source of information in this note has been provided by Premier and is correct as at 17 January 2013. These are notes from meeting the fund manager or representative 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 note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.