



Fund Bites

Neptune UK Special Situations Fund

The Neptune UK Special Situations Fund has been part of the portfolios over the past couple of years. This “fund bites” is a summary of the recent meeting we had with the new manager, Scott MacLennan.

Introduction

The Neptune UK Special Situations Fund is a fund we have liked for a long time, and the track record is excellent. However, the manager Alex Breese has now left. The fund he managed was an unconstrained fund and the new fund is constrained. Effectively unconstrained means it doesn't follow the benchmark. We believe that the move was the opportunity to manage larger assets and with the opportunity to take on an unconstrained mandate at some point in the future.

A manager leaving does not necessarily mean we would remove the fund from the portfolios especially if the new manager had the pedigree to continue what had been started.

In this case the new manager is home grown talent, to some extent he reminds us of Alex when he first started. This review is very much about the new manager and what our view is on the fund going forward.

The Fund



The new manager is Scott MacLennan. Scott joined Neptune in 2011 and has worked alongside Alex from day one so is already well versed in the process behind the fund and what it looks to achieve.

Similar to Alex he started out as a sector analyst and in particular industrials. He has already put together research reports for the fund and one stock Ashtead was

added to the portfolio as a result of his recommendation.

This is a UK equipment rental company but only a small proportion of profits are driven from the UK, the majority is from the US. It is not the number one company in the US but it is less geared and its fleet is newer than competitors. Also the two top companies have recently been involved in a takeover which has seen them take their eye of the market.



With the upturn in the US housing market Ashtead has benefited from this and

seen significant outperformance in its shares.

The fund is a conviction led portfolio with a maximum of 40 to 50 holdings. It is about identifying misunderstood situations and capitalising on this. Cash flow is a key measurement to investment. All these principles will remain.

The part of the fund I like is its low volatility, so effectively it provides more steady growth rather than the big swings we can see with other funds. This is part of their strategy which is to outperform on the way up and protect assets on the way down.

From the discussion it is clear that this strategy will not change significantly but Scott will look to make his mark on the portfolio. We felt that this fund would be a significant part of the Neptune story going forward and therefore they would

not have placed someone at the helm who they did not believe in.

Although Scott makes the end decision clearly the team around him is the crucial part. All analysts feed into the process as does the other UK managers. This collaborative structure means the manager is not a lone ranger but very much part of a team.

Conclusion

Although we can clearly see talent in Scott and we buy into the team process the concern we have is that he is unproven as a manager and we do not believe that we can take this risk within the portfolios at this stage.

However, rather than directly replacing the fund with another fund we have re-allocated the holdings to other UK funds. This enables us to follow Scott and see how he performs. We will then review this again in 2014.

The source of information in this note has been provided by Neptune and is correct as at 25 April. 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.