



FUND MANAGER
David Stevenson

Focusing on future success

With a year of significant outperformance behind them, Andrew Kelly and David Stevenson are concentrating on a repeat performance for the ResolutionAsset Cartesian UK Opportunities over the next 12 months

It has been a tremendous first year for the Resolution Cartesian UK Opportunities fund, but its successful management team are more focused on planning for the future than celebrating its past performance.

David Stevenson and Andrew Kelly, who launched the

UK high alpha boutique at the back end of 2005, are naturally very delighted that assets under management have soared as a result of the top drawer returns achieved.

But they insist that their priority is in delivering a repeat performance over the next 12 months in order to reward

the faith shown in them by both retail and institutional clients since the successful pair were lured away from SVM by Resolution.

"The foundations are now in place across all the areas of our business and 2007 is all about building for the future," says lead manager Stevenson. "We have years of experience behind us and are very confident in our ability to perform."

The fund, which is one of the specialist boutiques established in partnership with Resolution Asset Management, is benchmarked against the FTSE All Share index and can invest in companies across the UK market, regardless of either size or sector.

"It is a true all-cap fund which isn't dependent on particular indices or individual special situations," adds Stevenson. "We see it as a plain vanilla fund with a broad base that is suitable for a wide variety of investors."

Performance

The fund, A-rated by Forsyth-OBSR, has produced a bid-to-bid return of 25.8% over the past year, according to figures compiled by Standard & Poor's up to 8 January 2007. This is well above the 16.3% average achieved by the UK All Companies sector and puts the portfolio in 23rd place out of almost 300 rivals.

Assets under management have now soared to just over £70m and Stevenson says the extra cash has not caused problems because the portfolio is very scalable.

"We set various milestones that we wanted to achieve during the first year and are delighted to say we have achieved most of them," he adds. "The fund has experienced very strong inflows and

we are very excited about the prospects for 2007."

Benefits of boutiques

Stevenson says the decision to set up an alpha boutique in partnership with Resolution has been totally vindicated by the results achieved. Having the support of such a major player in the investment world, he says, makes an enormous difference.

"Our relationship with Resolution means we have a fantastic resource behind us," he adds. "This enables us to focus on the day-to-day job of investment management and produce products that have universal appeal to investors."

Both the long-only fund, and the hedge fund that was launched last April, are at the top end of their respective peer groups and have attracted a loyal following. "The market has done a lot of due diligence on us over the years and is clearly comfortable with the long-term sustainability of our process and performance," says Stevenson.

Investment process

The key to the fund's success, says Stevenson, is its unconstrained approach which allows its managers to have the courage of their convictions and construct a portfolio representing their very best ideas.

"It's very much an all-cap product so we'll look at any sector in order to exploit stock market blind spots," he explains. "We are looking for companies we think offer earnings growth and earnings quality."

Analysing actual businesses, therefore, is far more important than studying share price movements.

"The important thing for us is to work out how the business model works, what is going to drive a company's growth and how that will be maintained," adds Stevenson.



As a result, the portfolio will contain a combination of good long-term growth stories and decent recovery situations. This includes stocks that have not historically done well, but which have begun to improve the quality of their earnings stream.

Portfolio construction

The fund usually has between 30 and 60 stocks – currently it is hovering around the 50 mark – as this is seen as the ideal number in terms of the depth of research and coverage required.

Stevenson says the fund's exposure to mid-cap stocks was a major driver of performance during the final quarter of 2006, but the weighting towards the larger end of the market cap scale has started to increase in recent weeks.

"We have still been active in the mid-cap space in the form of topping up existing positions and taking on new ideas," he says. "However, we are getting new money in on a regular basis and are buying more stocks among the large-cap names."

Stevenson is keen to stress that this isn't a revolutionary move, but simply taking advantage of opportunities as they arise. Just under 90% of the portfolio is in large and mid-cap stocks, with the latter still having the edge with a 46% share.

"We feel more comfortable with the portfolio being in a more balanced state going into this year," he adds. "There's a price for everything and some of the extreme underperformance of the mega caps has meant valuations are now compelling."

Industrials is the biggest sector weighting with a 24.5% share, followed by the 23.6% in consumer services and the 23% in financials. The other sectors, which each make up less than 10% of the portfolio, include oil & gas, healthcare and basic materials.

The largest holding in the portfolio is National Grid, which accounts for 3.7% of the portfolio, according to the company's quarter one fund focus. Other prominent names in the top 10 include HBOS, BSKyB, Persimmon and Aberdeen Asset Management.

Themes

Stevenson and Kelly divide the world up into three broad categories of spending: consumer, corporate and government.

"In consumer we are steering well

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clear of the high street and more focused on defensive plays such as food, retail and leisure," explains Stevenson. "On government spending we like construction activity, while we are selective with corporate and favour areas such as aerospace."

Stocks

The names that have really driven performance in recent months have been mainly in the mid-cap arena such as Hunting, the diversified oil services group. "It was off the radar screen when we bought it, but its shares have almost doubled in the past year," says Stevenson. "There has been a succession of earnings upgrades as well as a bit of bid speculation surrounding the stock."

As far as large-cap names are con-

cerned, the fund enjoyed a fruitful relationship with supermarket chain Tesco. "We bought in mid March, when the market appeared to have become bored with the whole story, and ran it until the tail end of the year," says Stevenson. "It made us a lot of money before we sold out and invested in Morrisons."

Sell discipline

All stocks are subject to constant review. "We are always asking ourselves whether a particular stock is worthy of its place," says Stevenson. "It is important for us to have lots of ideas that are competing to get into the portfolio."

Outlook

"We were cautious about growth prospects at the beginning of 2006, but the UK economy has gone on longer and stronger than we anticipated," recalls Stevenson. "However, I do think there will be a sorting out of the wheat from the chaff this year because a lot of the market has pulled up and not all of these valuations are justified."

While keen to stress that he doesn't believe we are heading for a recession, Stevenson is expecting the cream to rise to the top. "The good quality companies will be re-rated and hopefully that's where our performance will come from," he adds.

Final message

"It's a UK all-cap stockpicking fund which people should find a place for in their portfolios because its investment process isn't dependent on either the economic cycle or the market backdrop," says Stevenson. "We have to find the best 50 plus stocks, the quality of which will drive our performance, and we are very confident in our abilities because we've done it before and can continue to do it."