LWM Consultants

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Fund Manager Meeting Notes
– Neptune US Opportunities

The Neptune US Opportunities was in the early portfolios but hasn't been a holding for a couple of years. We have tried to focus on a core number of US Funds and at the moment we have found good funds from the likes of F&C, GAM, Threadneedle, Baillie Gifford, Schroder and AXA. However as we have indicated before we are constantly challenging those choices to ensure we get the best mix for the long term.

In my recent review of the Neptune Japan Fund I indicated that Neptune has a very bullish attitude and this came out in this update.

We will share some of these thoughts. Our concern is that we have seen strong equity returns this year and the expectation is this will continue. We have seen this before and it is just worth adding caution to this.

Our feeling is that we may see more normalized returns; Barclays have indicated a figure around 6 – 6.5% p.a. We think to squeeze more return will need to come from good active managers and this may be a challenge going forward.

So although Neptune is bullish perhaps where they are hinting towards on returns we should peg back for the long term. So we may get one or two strong years but these might offset one or two bad years. What is clear with both this update and the update from Japan is that there is still a lot happening and this hopefully will stabilize returns going forward.

Overview

The fund is managed by Felix Wintle who has managed the fund since 2005. The fund has delivered strong performance and has benefited from investments in financials, consumer discretionary and technology.

The fund doesn't take outsize bets to achieve returns, so for example the AXA Fund is more tilted towards technology and last year struggled as technology companies underperformed. As they bounced back this year AXA benefited from this. The Neptune Fund has a greater diversification of investments.

Some companies which have benefited the fund includes two mortgage brokers Nationstar and Ocwen Financial Corp. Another is Netflix which is a content player and then more recently they have added in Facebook and FireEye.

FireEye is a new generation online security company and was purchased at IPO. The fund does does like IPOs for the right companies.

Facebook I think is like marmite, for Felix he feels this is a sign of new leadership within technology and is at the start of its growth projector. With a billion users it has massive barriers to entry.

Other plays in the automobile industry are Borg Warner who make turbo chargers and Magna who are an auto parts manufacturer. Both are benefiting from the growth in the likes of Peugeot and BMW.

As we have hinted we are concerned people are being too bullish and we talked to Felix about his views. Firstly July was the first period since 2008 where we saw bond investment fall and equity investment increase. So we are are just at the beginning of the rotation from cash and bonds to equities. This will take time, possible years, but as this happens it will keep up the demand for equities.

Although the S&P is high he feels there is much more to come. His argument is that the highs of 2000 were driven by one sector (IT) and in 2007 the same (energy and materials). Fast forward to today and he feels there is a more wider sector spread. This means that no one sector is driving the growth in the market.

He still thinks many companies are good value and possible cheap especially as many of these companies have lower leverage than in previous bull runs.

His feeling is that there is more to come from the recovery so there are positive pockets. For example the automobile sector is showing strong signs but the high street sales are weak. The standoff in the US has dented consumer confidence and the impact of that is still unknown at this stage.

The markets do not seem overly concerned by this. This could be a good thing or we could see some volatility in the coming months. When I looked at the US sector index it has been one of the strongest performing sectors this year but has dropped back in recent weeks.

In summary our argument has been that in this environment good active managers should be able to deliver returns above the Barclays benchmark. There are a handful of good managers and we are constantly challenging this. This fund remains on our watch list.

Conclusion

Felix obviously believes there is more to come and possible in certain sectors there is, however the strongest returns may already have been found and what we will see going forward is more normalized returns.

The source of information in this note has been provided by Neptune and is correct as at 15 October 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. 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.