

## **SHINING A LIGHT ON..... OLD MUTUAL UK ALPHA FUND**

### **At a glance**

To a greater extent one of the areas where we are nervous is around branding, and in particular a fund manager's brand. The manager of the Old Mutual UK Alpha Fund is one of those brands. Richard Buxton built his reputation at Schroders before leaving in 2013 to join Old Mutual.

His name carries much weight, the Old Mutual Fund has grown from £160 million to nearly £2 billion since he joined and part of that has come across from the fund he managed at Schroders.

The performance of the Schroder's Funds he managed cannot be disputed delivering consistent above benchmark performance. His strategy is simple, he focuses on a small number of stocks (currently 37) which he looks to hold for a three to five year time horizon.

The top ten make up 37% of the fund with the main holdings in the likes of HSBC, International Consolidated Airlines Group, Friends Life Group and Barclays PLC.

In a recent interview he believes his experience means that he has the patience to stick with stocks, even in the tough times, on the basis that they will correct and deliver positive returns for the fund over the long term.

His reason for leaving Schroders seems simple, at Schroders he was a small fish in a big pond. At Old Mutual he can be a big fish in a small pond (although that pond could get bigger).

In this update with Richard we will look at some of the areas he is currently investing in and this will provide an insight as to how he invests money.

### **Who are the team behind the fund?**

The fund is managed by Richard Buxton.

He took over the management of the fund in 2013 and is Head of UK Equities. Prior to that Richard managed the Schroder UK Alpha Fund and UK Growth Investment Trust for over 10 years and was Head of UK Equities at Schroders. He joined Schroders in 2001 from Barings where he was Head of UK Equities.

Over a long track record he has consistently outperformed his peer group period by period.

The risks are two-fold – the team is much smaller than Schroders and therefore without the support can he repeat the success and tied with the first, moving from one successful organisation to another doesn't guarantee future success. Although people have been quick to follow, investors may want to wait and see how he delivers before they invest in the fund.

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## Fund highlights?

The one thing we looked at was the track record and performance of Richard. Clearly under Schroders he delivered consistent out-performance of the FTSE All Share Index. Where some funds have significantly outperformed these tend to be considerably more volatile whereas Richard's style seems to be steadier. This style is in part what will attract investors to his fund.

Since joining Old Mutual he has shown his ability to outperform the index although over shorter periods he has tracked the index.

When we discussed holdings my concern was that with some of the holdings there didn't appear to be much upside, so for example Rolls Royce is up 62% over five years but down 9% over 2 years. Therefore the upside appears limited. However, this gives an idea to the way Richard manages the fund. There is the potential for upside on the share price and the stock pays a dividend. The current dividend yield is 2.70%, if the stock increases by 5% then the growth over one year could be 7.70%. If the fund has a number of these compounders then this delivers the consistent outperformance.

Richard then went on to talk about Centrica and Drax which have had a torrid time. Centrica is down 30% over two years with a dividend of 4.80%. Drax is down over 35% with a dividend of 2.60%. So Richard is mixing stocks to create the overall return. Some will have the potential for greater growth opportunities, some may have smaller growth opportunities but greater dividend opportunities. Put together this provides the compounding growth for the fund.

Barclays, Lloyds and Tate and Lyle are other stocks the fund holds and he has started a holding in Tesco. With Tesco's he sees this as a long haul. It has the right team in place to turnaround the business but this will not happen overnight.

HSBC is down but long term he believes will correct but short term there is volatility within the stock. Year to date it is down 5% which reflects the lack of confidence from the market. Taylor Wimpey is a stock he likes and its volatility provides opportunities.

Effectively this is a fund of well-known names which have suffered a reduction in share price to a lesser or greater degree. The fund will benefit from the re-rating in those share prices but in the meantime it will also benefit from those companies paying dividends. This creates a more steady investment which is likely to appeal to investors. It is unlikely to be the top fund but those funds tend to have a greater degree of risk and this is not what Richard is looking to do. The majority of the holdings are in the mid to large cap sectors with a bias to large cap.

In conclusion, at Schroder's Richard built an excellent reputation delivering consistent and steady outperformance. Since taking over the fund in 2013 he has continued that path. However, there are no guarantees he can repeat his success and investors need to consider this carefully before investing.

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## Fund performance

Performance since Richard took over the fund on the 1 July 2013:

	<b>2013 (from 1 July 2013)</b>	<b>2014</b>	<b>2015*</b>	<b>Since taking management of the fund (1 July 2013)</b>
<b>Old Mutual UK Alpha</b>	15.67%	1.54%	5.89%	24.36%
<b>FTSE All Share</b>	11.35%	1.18%	6.44%	19.92%

**\*1 January to 28 February 2015**

*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. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

## Conclusion

Although the fund has a short track record, Richard's reputation goes before him. If he can repeat what he has achieved in the past then this is very much geared to investors looking for a well-managed UK fund delivering above benchmark performance but without extreme volatility. The potential returns might be less than more volatile funds but this is likely to be its appeal i.e. steady returns with controlled volatility.

*The source of information in this note has been provided by Old Mutual and is correct as at February 2015. 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 rise.*