

SHINING A LIGHT ON..... AXA FRAMLINGTON UK EQUITIES

Update....

This update was with two well-known fund managers with great track records. The aim was more to understand their thinking and how they work together. Nigel Thomas is the manager of the UK Select Opportunities Fund and has managed the fund since 2002 and has a track record going back 25 years. Chris St John has managed the UK Mid Cap Fund since 2011.

Chris started by explaining that their style of investing is focused on growth stocks. The key is searching for good balance sheets as they believe that earnings are the principle driver of growth. For Chris his hunting ground is the FTSE 250 which he believes is an ever changing and diverse market with new IPOs and M&A meaning the market is constantly changing.

We discussed dividends as part of the returns and Chris explained this is really important. He added that to pay dividends you need to be growing earnings and clearly in the FTSE 100 this is not happening with dividend cover declining and companies cutting dividends whereas in the FTSE 250 the reverse is happening.

Nigel added that fund managers need to be adaptable to the changing world and corporate architecture. The likes of Uber who are the world's biggest taxi firm without any taxis and Airbnb the world's biggest accommodation provider without any hotels and then what's app which sends 42 billion messages a day but employs just 57 engineers. All of these are light on costs and can generate cash very quickly.

They added that the types of firms they like are Right Move and Betfair. Right Move has 85% market share and Betfair is now the world's biggest betting exchange. It highlights that the barriers to entry are low but the barriers to success are very high. New IPOs are a rich picking ground but there needs to be care. For Chris it is about finding niche products and services in a small market with the ability to grow. In summary, those businesses which are asset light and can scale up on low levels of capital.

Right Move is an example of a business they have held from the start. It is a platform which has transformed the efficiency of estate agents. People can look online for the house they want and go to the estate agent with a knowledge of what they want. From an end consumer they know their house is getting out to the maximum number of people. It is a low capital business which makes a difference to the end consumer.

Asked whether the business can grow much more Chris explained that the charge to estate agents is £754 p.m., in 2007 the average marketing spend was £2,000 p.m. He believes there is the ability to increase fees and therefore grow profitability. He also added that businesses need to be innovative and Right Move can be because of the intellectual data they have.

Both Chris and Nigel added that the dominance shows how difficult it is for others, with Zoopla being the second company but only with a tiny market share and unable to break the power of Right Move.

But it's not just about online, Dunelm has demonstrated a new way of retail. It has grown from a market stall in Leicester to a national company. The share price at IPO was 170p and is now over 900p with significant dividends. The family still own 50% of the shares and the share cover is 2x.

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Where they are good is the management side where they look to understand price points where products will sell at sufficient volumes. They are growing the business with more stores but in a carefully controlled way.

They added that you don't need to take risks in this market. For online businesses many companies have real earnings and proper cash flow. There of course are short term risks where they have seen some of valuations come down in part led by the rally in value stocks and this could be negative for the funds in the short term but everything they do is for the long term (3 to 5 years) and if anything the volatility they are seeing provides them with opportunities to buy quality companies at cheaper prices. Their view is that investing is all about the future as they added they work with the strap line "tomorrow, tomorrow, tomorrow".

We discussed BREXIT and they turned to the bookies which is where real people with real money go and the odds are 70/30 to staying in. Ultimately they believe people will vote with their wallets and stay with what we have. However, the uncertainty is having an impact on investments and this will continue until June.

Interestingly although property deals are being signed they are being signed subject to the UK staying in Europe but ultimately the UK is the 6th largest world economy, it has a low manufacturing base and it will adapt if there is a vote to leave. It is important to recognise that the stock exchange is not the UK economy and these are global businesses.

In summary, certainly these managers have a fantastic reputation and have delivered on performance. They have different styles and investors considering these funds would need to do further research on each one before deciding which might work best for them.

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Fund performance

Performance since 4 March 2011 (launch of UK Mid Cap Fund) to 21 March 2016 vs FTSE All Share total return:

	2011	2012	2013	2014	2015	2016
AXA Framlington UK Mid Cap Fund	-6.15%	29.14%	42.00%	3.94%	20.12%	-3.72%
AXA Framlington UK Select Opps Fund	-1.16%	10.59%	28.74%	0.09%	8.42%	-4.37%
FTSE All Share TR	-5.47%	12.30%	20.81%	1.18%	0.98%	-0.46%

Performance over 1 year, 3 years and 5 years and since launch (4 March 2011).

	1 Year	3 Years	5 Years	Since Launch
AXA Framlington UK Mid Cap Fund	6.40%	46.72%	113.40%	106.87%
AXA Framlington UK Select Opps Fund	-4.02%	18.37%	48.40%	46.02%
FTSE All Share TR	-7.07%	11.70%	34.52%	30.42%

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.

The source of information in this note has been provided by AXA Framlington and is correct as at March 2016. 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.