

Global and Long Term

A broadly diversified global fund, NFU Mutual Global Growth still stays away from regions that it considers risky or beyond its expertise. Focusing on the developed world markets, the manager Matthew Bennett looks for the sector leaders and often utilizes investment themes. With a very long-term horizon, the fund is able to ignore short-term noise and to carefully select the right time for buying.

Q: How would you describe the investment philosophy of the fund?

A: This is a fund with long-term investment focus, which is suitable for investors and advisors with long-term investment horizons who want broad diversified exposure to global stocks. We're perhaps more long-term than the average fund on the market. We like to keep the turnover low as we base our decisions on rigorous analysis of the companies and then we're not too worried about the volatility in quarterly earnings.

The fund is set up with about 75 holdings at any given time. It is geographically diverse across the globe and we tend to be relatively sector neutral. We look at ideas on a country basis, decide where to be overweight or underweight, and then we look at stock ideas. Because of our long-term approach, we don't jump in and out of stocks based on current trends or news of the day.

As a company, we have about 11 billion pounds under management across assets, including general insurance assets, life assets, pension funds, and unit-

linked funds. We have three open-ended investment companies: a U.K. based one, an international one, which is the Global Growth fund, and a fixed interest one.

Q: What is the process that leads to choosing the actual stocks?

A: We first choose the countries that we want to be in. That initial decision is based on our view of global economic trends. On the international desk, we have two fund managers and together we look at the economic trends and decide which countries we want to be in. We decide where we want to be overweight and underweight based on both share prices and currencies as we don't hedge the currencies.

Once we've decided on that, we move on to the area of stock picking and often that takes a thematic approach. For example, recently I was looking at the software sector. On a global basis, we looked at leading software companies, and we came up with a few different ideas. The global perspective of the

NFU Mutual Global Growth

FUND FACTS

Symbol	GB0032467374
Website	www.nfumutual.co.uk
Address	NFU Mutual Tiddington Road, Stratford upon Avon Warwickshire, CV37 7BJ
Tel. No.	0044 1789 204211
Inception	21/7/2003

PORTFOLIO

Total Net Assets *	GBP 17.63
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INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	GBP 1,000
Min Subsequent Investment	N/A
Min Regular Investment	GBP 25
UK ISA	N/A
CAT standard	N/A
UK PEP	N/A

RETURNS VS. IMA GLOBAL GROWTH

	GB0032467374	IMA Global Gr
1 Year (Cum.)	13.48%	11.36%
3 Year (Ann.)	8.50%	11.42%
5 Year (Ann.)	N/A	3.19%

RETURNS VS. LGC - EQUITY GLOBAL

	GB0032467374	LGC-Eq Global
1 Year (Cum.)	13.48%	9.06%
3 Year (Ann.)	8.50%	9.06%
5 Year (Ann.)	N/A	2.05%

FEES AND EXPENSES

Initial charge	3.00%
Annual charge	1.00%
Exit charge	0.00%

PORTFOLIO MANAGER

Matthew Bennett	21/7/2003
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* millions

Data through: 31/8/2006

Source: Company Documents; Lipper



fund helps out because we can choose any company, regardless of the country where it is domiciled.

Once we've come up with the theme or the idea, we go on to the numbers and the valuation. Because of our long-term approach, when we've got an idea, we'd wait for the valuations to be appropriate. We'll just put it on the radar screen and it might take a year before we actually buy it. We like to go in when the stock is a little bit out of favor, so we're a bit contrarian in that sense.

Q: What is your concept of the globe or world? How many countries do you look at?

A: The fund currently has permission to invest in any market in the world but we only invest in developed markets, such as the U.K., continental Europe, U.S., Canada, Australia, Hong Kong and China, but only through Chinese shares listed in the Hong Kong market. We also invest in Singapore, Korea, and Japan, which is one of our overweight regions at the minute.

Q: Global funds are often anchored on one country or region and have satellite holdings around the world. Do you have such a core region?

A: No we don't have such an anchor. Compared to our peers, we're probably light in the U.K. as we only have around 7% to 10% invested here. Our top market is the U.S., which accounts for about 35% of the portfolio. The second largest market is Japan with 18% to 20% of the portfolio, and the third one would probably be the U.K. Our biggest single region is Europe but the holdings are spread among different countries.

Q: What is your view on South America or Russia? Do you review those markets?

A: We acknowledge that some markets, given our resources, are a bit more

specialist and beyond our range of expertise. So we have global exposure but I would say that we're at the prudent end of the global universe. If people want to invest directly in Thailand or Taiwan, then I think they will have better opportunities to go elsewhere to do that.

Q: How do you narrow down such a large universe to a manageable list of potential holdings?

A: Some of it is done by screening and some of it is done in a qualitative basis. Given the large universe that we look at, we acknowledge that we'll undoubtedly miss certain opportunities but we come across other things. Probably two-thirds of the companies in the fund, or about 50 holdings, would be large-cap companies that are narrowed down by the screens and qualitative assessment.

In terms of picking the smaller-cap ideas, some of them come from our contacts in various countries. Also, as we manage the funds on a global basis, we have country and market specialists in all of the different regions in which we invest. Sometimes the ideas are generated from them and we'll assess them afterwards.

At other times we'll be looking at a particular theme, such as renewable energy, and then look for one of the higher-quality companies in that sector.

Q: What type of quantitative screens do you rely on?

A: If we're looking for some inexpensive stocks to add to the portfolio, then the initial screenings would include dividend yields and how well dividends are covered. In terms of the growth screens, we don't particularly believe in discounted cash flow models because they are so open to what growth you put in. We don't think it's possible to know the growth rate of a company in 10 years time; it's a bit too much voodoo for our liking.

Q: Could you explain your portfolio construction principles? What is buy and sell discipline?

A: Because of the size of the fund, we like to keep the exposure to our circa 75 stocks relatively equal. We wouldn't want anything to be less than 1% of the portfolio to have an impact, and at the same time, we wouldn't want anything to be above 4% or 5% of the portfolio. That provides discipline in terms of the technical buying and selling. If a particular share has fallen below the limit but we still like that company, then we'd probably top it up. If a share had become too big for the portfolio, then we would trim that holding.

Because this is only a 20 million pound fund currently, it is quite easy to define an idea and execute it quickly. We don't have to phase any money into the market gradually. We usually invest when the company has been a little out of favor, although the ideal scenario would be to buy it just as people are starting to go back to the stock.

On the sell side, we don't believe in stop losses. If a company has fallen down 10% or 15% from our original position, then we'll reassess it. If there's been any news or developments that have changed the case, then we'd take the losses but we don't have automatic controls.

Q: Can you give us some examples of large and small-cap companies that you reviewed and became part of your holdings?

A: A large-cap company would be Nestle Switzerland. We selected this company because it was a sector and quality leader with reasonable valuation, so we could sleep at night with it.

The small-cap side is probably more thematic than the large-cap side. One that's sitting in the fund at the minute is a Swedish company called Q-Med. The company plays on demographics to some extent. Its main selling product

is Restylane, which basically is a filler and a complement to Botox, so it plays the theme of the aging population that wants to maintain their youthfulness. We came across that company partly because it was a theme that we wanted to play, and partly because of a contact in Sweden who put it in front of us. When we looked into it, we thought it was excellent and we bought it for the fund.

Q: The accounting systems of countries like South Korea can be very different from U.S. or European standards. How do you reconcile the accounting issues that impact the earnings? The P/E multiples in South Korea could be deceptively low.

A: You are right; we can't simply compare the P/E ratio of a Korean company to the P/E ratio of a U.S. company and make the buying decision based on that information. We'll look if the market is pricing the average Korean company correctly, and then we'll look at the relative value within that particular market.

Q: Could you give us a couple of examples of themes that you leveraged in the portfolio?

A: Some of our themes include renewable energy, demographics, and aging. Another theme that we've played is the gambling theme in Macau, a play on the growing wealth of the Chinese consumer. We looked for differences in operators and decided that Wynn Resorts had a niche position in a growing market.


Another recent example is the oil theme. During a trip to the U.S. fifteen months ago, we came across the oil drillers' supply/demand. Virtually all of the offshore rigs in the world are being used at the minute; building them takes time and we have not seen much construction activity. That puts the owners of the rigs in a unique situation in terms of the day

rates they can charge. We liked that particular theme but we actually waited for the other investors to lose faith before we invested. As I said, we have a rather patient approach and it's only in recent weeks that we fully backed this theme.

Q: What are your views on risk management?

A: We've got an in-house risk assessment team that looks at various different

measures for all the funds, such as tracking errors. Our benchmark for the Global Growth fund is the FTSE All-World Index. Then I look at comprehensive risk and performance measures such as alpha and the Sharpe ratio. Obviously, fund managers should be aware of the risks they are taking but if there is ever an issue with getting close to exceeding a measure our in-house risk and performance measurement team will point this out to us.

But that would be very rare with the Global Growth fund, probably because of the common sense diversification that we use. You will never see the fund to be 30% invested in technology or oil shares. 

Ticker

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MATTHEW BENNETT manages three international equity funds at NFU Mutual. A CFA charter holder he joined the NFU Mutual investment team in 1999, following an initial spell with accountants PKF. He graduated from Lancaster university in 1998, with a first class degree in Accounting, Finance and Economics.