

Thematic Investor

Thematic investing requires understanding of the themes that impact the markets and industries. Identifying these themes and leveraging this to a profitable investment is the hallmark of the Taylor & Young Equity and Income Fund. The search for themes takes the Fund manager from investing in luxury goods and utilities to benefiting from the boom in China. Making sure the management does what they say is how Nick Rundle avoids surprises.

Q: What is the history of the company?

A: The company was set up in 1986 by Christopher Taylor Young. He was the chief executive of a bank and when he left that bank he set it up as a small family office for his family and friends. The company grew quite rapidly in the late '90's and lost funds in the early 2000's when the market turned down.

The team of which I was one, joined the company two to two and a half years ago, from a company called Gerard, which is one of the bigger UK fund managers. Gerrard was bought by Barclays Bank at that time.

Our background is looking after clients' money and investing clients' money. We wanted the flexibility to do that as an independent fund manager, where you wouldn't have a big brother and a parent looking over your shoulder, trying to push their products down into your clients' portfolios. So, we built the business up.

Q: What's your investment philosophy?

A: We invest our clients' money in a thematic basis. We believe that there are certain investment themes that are very strong in the market and that will drive performance over the medium to long term.

We do not hug industry or benchmarks at all. We believe that over the long period we can outperform by identifying and capturing the various market themes, which if we are correct and stick to our beliefs, we'll be able to outperform our competition over the medium to long-term.

Q: Can you give some examples of these themes?

A: For example, we had beliefs that China was going to merge in the global theme of power and it would suddenly need more resources. That led us to look at resource stocks such as oil companies, particularly mineral companies, where

FUND FACTS

Symbol	GB0031724783
Fund type	OEIC
Website	www.tayloryoung.com
Address	Taylor Young Investment Management 224-226 Tower Bridge Road, London SE1 2UL
Tel. No.	0044 20 7378 4500
Inception	17/06/2002

PORTFOLIO

Total Net Assets *	GBP 16.24
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INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	GBP 7,000
Min Subsequent Investment	N/A
Min Regular Investment	GBP 25
UK ISA	Yes
CAT standard	No
UK PEP	Yes

RETURNS VS. IMA UK EQUITY INCOME INDEX

	GB0031724783	Index
1 Year (Cum.)	24.03%	16.50%
3 Year (Ann.)	16.83%	16.87%
5 Year (Ann.)	N/A	7.42%

RETURNS VS. LGC-MIXED ASSET GBP AGG UK INDEX

	GB0031724783	Index
1 Year (Cum.)	24.03%	11.73%
3 Year (Ann.)	16.83%	11.96%
5 Year (Ann.)	N/A	4.71%

FEES AND EXPENSES

Initial charge	5.00%
Annual charge	1.50%
Exit charge	N/A

PORTFOLIO MANAGER

Nick Rundle	01/01/2005
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* millions

Data through: 31/8/2006
Source: Company Documents; Lipper



we started to build ratings back in 2003 and had a very successful raft over the next three years.

We also believe that markets are often imperfect at looking at the break-up values of particular stocks. There is often hidden value within companies which can manifest itself when companies de-merge themselves into various component parts.

We are strictly thematic investors. We invest in these themes and we are concerned about just matching up our holdings with various weightings in any kind of index. We are not closet index trackers or anything like that.

Q: Does that mean that when the investors are buying into your fund, they don't really compare your returns to any specific benchmark at all?

A: On the income fund there is a benchmark, which is 80% the FTSE All Share index, 15% the gilt index, the fixed interest index and 5% cash. This is the kind of benchmark we use to see how we are doing. But you have to expect some volatility around that kind of benchmark.

As a top-down analysis approach, I favor investing in equities rather than bonds. There is an overweight position in equities and a considerably underweight position in bonds. In a macro level, that's added value against the benchmark and within the equity portfolio there is added value due to our thematic investment approach.

Q: How do you generally search for a theme and then how do you turn a theme into an investment holding?

A: We have an ongoing thematic forum, where all the fund managers get together to evaluate what our current themes are and whether they are still relevant and bring to the forum any ideas they seen through research.

One particular good source of themes comes from the fact that our private cli-

ents often tend to be senior directors in public companies themselves, and talking to them, we get a very good idea about how their industries work. We bring to the forum a wealth of potential ideas from a wide variety of sources.

One theme that we have been looking at for the last year has been the area of luxury goods on a global basis. Our feeling is that these companies will continue to produce quality earnings and growth going forward, almost regardless of what goes on in the economic cycle so we focus on building portfolios in companies like, LVMH, Cartier, Richemont and Tiffany that exhibit a strong luxury franchise.

The ideas are reexamined every quarter to find out whether the existing ones are robust and whether we bring new ones to the table through the gathering of the investment managers.

Q: How many themes are you invested in at any given time?

A: We might have four or five strong themes, probably running on a particular central theme. Elsewhere, there could be things like whether value stocks are going to outperform growth stocks but we actually try to define our themes rather more strongly, as in the growth in China or luxury goods or hidden break up value. We try to make it more specific, rather than general.

Q: How many equity stocks do you have in a portfolio at any given time?

A: The equity income fund is about £17 million and it's a fairly concentrated portfolio with about 32 or 33 equity holdings. They would be roughly 3% each and every stock needs to have a meaningful impact on the portfolio as a conviction bet.

Q: How would you describe your research process? Do you visit the companies or rely on the brokers only?

A: With some of the smaller com-

panies, we tend to focus on companies with market cap of between £300 and £400 million. We meet management of companies and conduct our independent research.

For us to do our own research on large cap companies like BT, Glaxo, Dia-geo or Prudential is really trying to reinvent the wheel. So we rely on a range of brokers who provide us with competent research on real time basis to get up-to-date news on those larger companies.

We also go to seminars and result meetings, but we get the best value out of using the brokers' research and focusing on people we know well.

Q: In the equity income fund, would you worry about the market capitalization of the company or you would go wherever you think to invest money?

A: I tend not to go to the small-cap end of the scale. If things were to go wrong, you can sell the holding in a market that is liquid. You cannot get stock and there can be little liquidity in some of the small-cap names in the UK market. So, anything from £300 million up to the very biggest would be our investable universe.

Q: How many companies fall into that group?

A: That would be about 400 to 500 companies. We look at UK companies only but it depends on what you mean by a UK company. BP or Glaxo are global companies, but with a UK quote. It would be fair to say that we are looking at UK quoted companies, given the fact that a large majority of our investors are UK investors and have UK liabilities.

Q: How would you define your sell discipline?

A: We tend to sell a stock if it trades above our view on fundamental value of the company. In fact, earlier this year, I halved holdings in the mining compa-

nies that we held, that because I believe the valuations are getting overextended.

We'd also look to sell a stock if we saw a warning on profit that wasn't expected. A review meeting to discuss a stock is generally triggered by a fall of 20% from the buying price. If a stock were to trade at that level for more than one quarter, then it's clearly not acting in the way that we thought. We review the stock and current market conditions and the investment team makes a decision to hold or sell the stock.

What we don't want to be doing is to be reinforcing weak positions, because that has been a recipe for underperformance in a lot of cases.

Q: What is your overall turnover?

A: It is very low. When new money comes in, it is invested. In terms of the general turnover, it's probably 25% over a year. Our focus is to identify companies and hold them between two and three years, rather than five years. We are not traders, we are patient fundamental investors, looking to invest and wait for our themes to play out in stock prices.

Q: How do you differ from your peers?

A: We run more concentrated portfolios. If a stock doesn't fit our thematic ideas we avoid it. We don't invest in every large company in the index that trades in the UK.

One good example, over the past few years, has been the telecommunications stocks, which we thought lacked pricing power and would struggle to grow revenue. Although it's quite a reasonable size in the UK market, we have very few telecom stocks. It's a big bet against the index for us, which has proved right for the past two or three years.

We look at things that we really believe in. There's so much random noise in the market and if you try to follow all the stocks, all the time, you just don't have time. We are obviously going to

keep an eye on the share prices and see what happens, but we're not going to follow all sectors fundamentally. That saves you a lot of time in research and finds better stocks in the areas you are interested in.

Q: What kinds of risks do you perceive, how do you monitor them and what do you do to mitigate them?

“I think management risk is something quite important to us. They have to communicate and having communicated, they have to do what they say.”



NICK RUNDLE, born 1958, graduated with a BA (Honours) degree in PPE from Oxford University and joined Wood Mackenzie in 1983. He has worked for a number of brokers including BZW from 1988-1995. He was Head of Client Account Management at Morley Fund Management, the asset management division of Aviva, before joining Gerrard as an investment manager in 2002. From 1998-1999 he was a Sloan Fellow at the London Business School and holds an MSc in management from London University. Nick joined TYIM in 2004 and is a Senior Investment Manager. Nick manages the Taylor Young Equity Income Fund and the Taylor Young Growth Fund. He is a Member of the Securities and Investment Institute.

A: The management risk is obviously a key thing. If the management of a company we have researched start to venture into areas that are away from the core of the business and what we were led to believe in the past or make an acquisition into areas that are not core to the business then we tend to sell the stock. If we can't get a good explanation, we also tend to sell the stock. I think management risk is something quite important to us. They have to communicate and having communicated, they have to do what they say.

Q: How do you manage portfolio risk?

A: In terms of having more concentrated portfolios, you tend to have less diversification; therefore you can run risks against the benchmark, because you don't diversify your risk away by having a large number of diverse stocks. That diversifies away from your alpha too.

From a top-down perspective, in terms of investing in areas of the market, I would be particularly uncomfortable in having more than 30% of the portfolio in any broad category, like financial stocks or resources and I would look to diversify the portfolio at a sector level.

Although we might like an area in the market very much, we would not tend to go beyond, at the very most, 35% of the portfolio in any one broad category. **T**

Ticker