

Prominent Figure Endorses Rathbones

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A strong team that can deliver the goods

Carl Stick's dedicated team is key to the success of the UK Income fund

One of the most successful UK income funds over the last few years has been the Rathbone Income fund headed up by Carl Stick. I have to confess that it is not a fund that we have bought into. I think this was a result of being a little unsure on Mr Stick when we first met him coupled with the fact that we wondered whether Rathbone would not end up merely being a launching pad for fund managers' careers. I should have thought more carefully about this, given that the MD of Rathbone on the investment management side is Peter Pearson Lund. Mr Pearson Lund is one of the most experienced people in the industry and retains his great enthusiasm for the job too. He has in fact quietly been building a successful UK team and is actively looking out ways to reward and keep the likes of Mr Stick and the other staff.

There have been substantial cash flows into the fund over the last two years, with the fund now over £71m. Mr Stick has managed to maintain a consistent performance and in addition to this the team has expanded through new personnel joining. It remains quite hard to pin down exactly why the fund has been successful but to my mind it is down to a pragmatic investment process not tied to any black box and a willingness to learn from mistakes and be adaptable.

The building blocks are a three stage approach which first takes a macroeconomic overview which has been developed by the team from input by external information providers and there is an investment committee that generates an overall macroeconomic view. Second, asset allocation is driven by the team's top down strategic view at both country and sector level. Finally stocks are selected from a bottom up perspective seeking fundamental value from the manager's universe of stocks. At the stock selection level the team seeks to add value to the portfolio by assessing the quality of management, the company's competitive position, strength of cash flow, changing dynamics within a company and sector and prospects for earnings upgrades. All these factors are looked at in combination rather than in isolation from one another.

In terms of valuation, he talked about building a valuation off the company's cash generation, return on capital or earnings growth potential. The conclusion was that the team is not actually working out what the current price reflects against the intrinsic value of the stock. Instead, they are trying to understand what the company is worth on an historic basis and then compare this to what it is worth today. They then make a judgement as to whether this differential is likely to narrow over time.

Just as importantly as what to buy the team does have a sell discipline too. Here a stock is reassessed if there is:

- A fundamental change at the corporate or sector level;
- Management changes or shortfalls;
- An achievement of target valuation;
- A 15 per cent relative out or under performance.

The final point is not an automatic buy or sell, it is purely telling Mr Stick which stocks are doing well or badly, but does not have a huge effect on how the portfolio is managed.

The team has done some work on attribution analysis. In 2002, it worked out that 9 per cent of outperformance was broken down by 7 per cent by stock and 2 per cent by sector. The fund is heavily weighted towards the mid and small caps with 50 per cent in the FTSE, 30 per cent in the 250 and 20 per cent in small caps.

As dividends in the general market place have been cut Mr Stick is optimistic on his fund looking to increase dividends by around 3 per cent in 2003. I believe that as the business grows so will the individuals, so the team should be relatively stable. All in all this looks like a dedicated solid team who are determined to stay on top of events.



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