Rathbone wins the global challenge

By seeking out undiscovered and misunderstood plays, the Rathbone Global Opportunities fund, managed by James Thomson, has outperformed its rivals by 20% on average over the past year.

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Just how do you go about choosing stocks for a global opportunities fund? It is a mandate that covers just about every stock in every market in the world. Now pick 50 shares.

James Thomson of Rathbones goes about it by picking "the undiscovered, the unloved and the misunderstood". And this motley crew have fared pretty well: over the past year, Rathbone Global Opportunities is up 55%, compared with 35% for the average global growth fund.

The fund is shortly coming up to its fifth anniversary, with Thomson being in charge for the past three years. It is still small – just under £30m under management – but is starting to get some deserved attention from the multi-managers. "I have had more calls about the fund in the past month than in the past three years," says the youthful and enthusiastic Thomson.

He is only six years out of college – Cornell in New York state – but is in precisely the sort of nurturing environment that launched Carl Stick into the ranks of the super-managers. If he plays his cards right it could be his turn next.

His problem is that while Stick was offering a terrific fund at a time when everyone wanted income, it is not really clear if there is a big appetite for a global focus fund.

Thomson acknowledges the difficulties in presenting what it is for and what it hopes to achieve. "The biggest battle I face is having a global fund," he says. People say 'I want Japan, I want Europe, etc'. I say 'absolutely, do that'. I'm not trying to guess which country is going to outperform this year.

"The global tag is simply a hallmark of the fund's flexibility. I am not trying to pick hot countries or regions. It is a pure stockpicking approach with a focused list of 50-60 stocks."

But neither is it a "special situations" fund. "I tend not to buy really broken stories," Thomson says. "This is not about restructuring or deep value situations. I do not want broken, I want misunderstood."

That means a hyperactive schedule of visiting literally hundreds of companies every year. And what he is looking for are stocks that he believes have the potential to double in price over a six-month period. Of course, that does not happen that frequently, but among those 50 stocks you would expect to find some big outperformers – and just as many that are not.

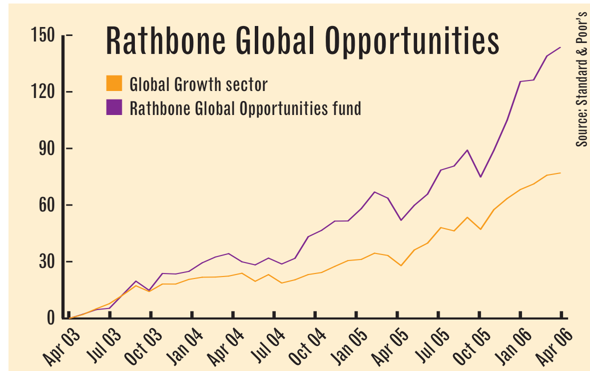
"I want 10 standout winners, and that is the sort of portfolio lots of other managers do not want to be in," Thomson says. "Fear of taking that sort of risk is what dictates stock selection elsewhere."

He tends to find his stocks in the small and mid-cap arena. The fund is 50% small-cap – under $1bn (£550m) – and 35% mid-cap – under $5bn. Thomson avoids what he calls the "cocktail party" stocks such as Google and Apple, and most of the blue-chip names.

But it does not mean this is an emerging markets fund. "When people look at my performance over the past year, they assume I have got loads in Japan and emerging markets. In fact I have got next to nothing in those markets," Thomson says.

So where is the money? If you looked through his top 10 holdings, you would be hard-pressed to recognise any of the names. At the top is Petrolifera Petroleum, at 3.4% of the fund. Thomson bought at the initial public offering in November last year at $1 a share. They have since gone up to $12. No wonder it is his biggest holding.

Petrolifera hit a massive oil reservoir in Argentina and has some interesting acreage in Peru. Thomson picked it because it had limited downside at the flotation – his maximum loss was 50% because it was sitting on a fair amount of cash – and its drilling programme was focused on acreage close to other prolific wells. Indeed, it has performed so well that Thomson has to keep selling his holdings. He keeps a 4% lid on any holding in the fund, and it keeps hitting the limit, forcing him to sell.



Shows percentage returns from Rathbone Global Opportunities fund and the IMA Global Growth unit trust/Oeic sector average, bid-bid, net income reinvested over three years to April 24, 2006.

"It is one of the most important disciplines in the fund," he says. "I trim back anything reaching 4%, and I have probably sold around 80% of my holding in Petrolifera already. But I still think it is a good stock – it is only valued at four times cashflow."

Thomson has played the resources game in a number of different ways. "I am not going to get it right every time," he says. "Last year I picked four or five, and got one wrong,"

He likes the supplies to the explorers as much as the explorers themselves. "The lease rate for an oil rig has shot up from $97,000 a day to $225,000," he says. "But it is not just about oil at $70 a barrel. Even if it falls to $35, it is still profitable for most companies to drill."

Another of his commodity plays is Olam, the second-largest stock in the fund. It is a Singapore-based firm that runs the supply chain between farmers and multinational food brands.

"For example, it processes 25% of all the world's cashew nuts, delivering them to the Planters plants in China," Thomson says. "Companies such as Planters and Nestlé are great at branding and marketing, but not raw material resourcing, which is where Olam comes in."

Much of what Thomson calls resources is really about the supply of goods to people in Asia now enjoying a higher standard of living. If there is a theme to his fund, then that is it. "It is not about commodity cycles but more about rising volumes and rising demand due to rising standards of living," he says.

But it is nothing if not a diverse fund. Thomson's third-largest stock – but not one of his best performers of late – is Lions Gate Entertainment. It is best known as the film producer behind Crash, which won this year's Oscar for best picture. But theatre releases are just the "icing on the cake", says Thomson. He is more interested in the DVD distribution business.

Lions Gate has the rights to a huge back catalogue of DVDs. Knowing how much The Guardian – and every other weekend newspaper – spends on these giveaways in the current DVD war, it must be a lucrative business. And it does not seem to be hurting sales of films that you might imagine are well past their sell-by date. Dirty Dancing, part of Lion Gate's catalogue, still sells 100,000 copies a year.

Thomson is a mine of these sort of facts. Despite the diversity of the businesses in which he invests, he seems to have a clear grasp about what makes them tick. He is one to look out for in the future.

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