

Rathbones set to resume top-decile performance

Global Opps manager James Thomson is confident in long-term proposition despite considerable three-month performance blip

BY MARK PRESKETT

Judging the fund on pure performance, Rathbone Global Opportunities is among the biggest hitters

in the IMA's Global Growth sector.

The fund boasts top-decile performance over three years and 12 months, and its top quartile over five years.

However, with assets under management of just £30m, the portfolio is dwarfed by equally successful global offerings from M&G and JPMorgan.

James Thomson, who has been running the product since 2003, is the

manager responsible for the fund's recent success, having taken over from founder Hugh Priestley.

His management has helped the offering rank 15 out of 115 funds over five years to 23 October, achieving 69.5% bid to bid returns against peer group growth of 39.3%, according to Standard & Poor's.

Over three years, it is seventh out of 139 funds in the sector, rising by 78.3% against a the mean

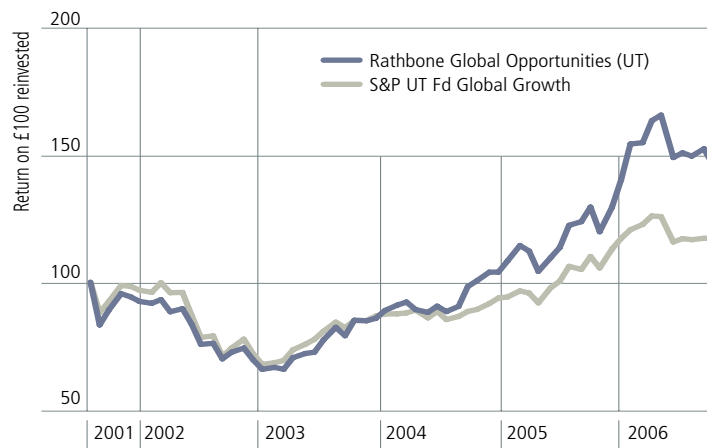
of 43.2%, while it lies eighth out of 154 funds over one year to the same end date.

Despite its recent successes, the risk profile of the offering, which has a concentrated, small- and mid-cap bias, was exposed by with a dramatic drop in performance over the past three months.

From its solid top-quartile returns, the portfolio ranked last but one of the entire 160-strong Global Growth sector over that time frame.

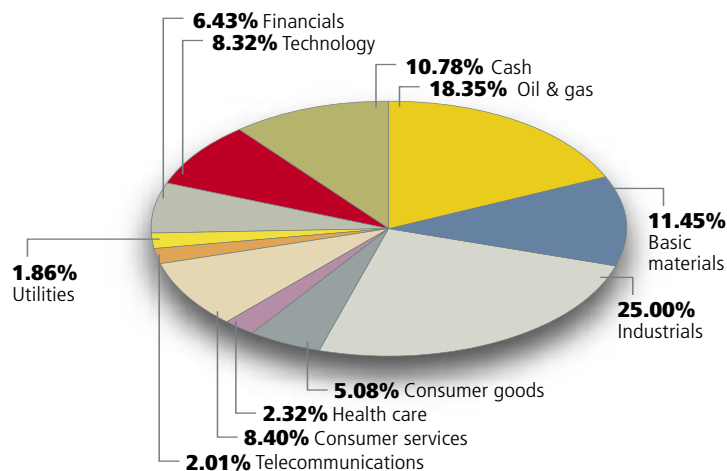
That said, Thomson, however, is confident that the successes of the previous five years can continue.

RATHBONE GLOBAL OPPS (UT) VS SECTOR AVERAGE



31 August 2001 - 22 September 2006. Bid to bid. Source: Standard & Poor's

SECTOR BREAKDOWN



Source: Rathbones

What is the investment philosophy of the fund?

When I took over the day to day management of the fund I wanted to create a specialist portfolio and distinguish it by its flexibility. Its greatest strength is that I am able to invest in any company, any sector and any country in the world.

How would you describe your investment style?

Global Opportunities is very much a stockpicking fund, although I use sector allocation as an aid. I do not set out a reverse agenda. If I like the Japanese economy, for example, but cannot find the right companies to fit my objectives, I will happily have 0% exposure there.

Could you explain your stockpicking process?

Among the things I look for in a stock is a good business model, meaning a business that can scale quickly with a sustainable

demand and supply profile. At the same time, I want to be able to understand the business, which keeps me out of a lot of areas.

My buying process can be broken down into three areas. The first is qualitative: is the business model, product or service innovative and sustainable? Are there barriers to entry? A lot of companies meet that first stage.

Then I turn to valuation. Does it reflect the prospects and what is the downside?

Then finally I look at timing. The main issue here is whether there is a catalyst for change within six months.

Firms like Apple, eBay or Google all have great business models and good management teams, but I think their valuations reflect their prospects.

Could you give an example of where your process has steered you away from a stock?

A good example of this is Wolfson Microelectronics, which makes chips that are used in iPods. It is a very innovative company with a good management team and great business model but what kept me away was its valuation. Last month, the firm issued a massive profits warning and the share price fell 37%. There is no hard and fast rule with how I view valuations. I'm looking at all the normal valuation techniques, such as P/E, price to book and price to cashflow.

Where has your three-stage process really paid off?

One successful company is French mid-cap firm Neopost, which makes franking machines. It is part of a duopoly in the market and is taking market share from the market leader.

We bought the stock in May 2001 when it was in the mid €20s and it is worth €96 today. The company has consistently delivered earnings

upgrades and now trades at 17 times earnings but is still one of my top 10 holdings.

Another good pick was Petrolifera Petroleum, a Canadian oil and gas company which is my largest position. I class this as a once in a lifetime investment. It had potential oil reserves in Argentina and Peru when I made the initial investment at its IPO in October 2005. Although the company was not positive on its prospects, I could quantify the downside and see a significant upside and, in addition, 50% of the share price was in cash, which is very high.

The market was not giving much credit to the potential of the company but when it discovered a huge oilfield in Argentina, the share price rose from \$1 at float to \$25 today.

Over the next year, it

would be sold to a large integrated oil company but I made the mistake of believing that the company would be valued on all its potential resources, rather than just proven and probable resources.

When the bid came it was based on these proven and probable resources and the company was unwilling to sell at that price, causing the share price to fall by 40% to 50%. It was a tough lesson and one that I won't make again.

More recently I suffered losses through Neteller, the financial services business affiliated to the gaming industry. It was a great little business that had really found a niche, but when the recent US gaming law was passed the niche closed. I bought at float at around £2 before the stock went as high as £7 or £8. I sold

Like any fund manager I try to run a diversified portfolio. I also tend to focus on profitable companies. Of the 51 stocks I hold, 43 or 44 were profitable this year and I use this as a protection mechanism. We also run a rule where holdings can be a maximum of 4%, which prevents major impact on the fund performance from leftfield events.

What happened to the fund over the last three months when performance plummeted?

The last six months from May have been pretty difficult. Performance has not been good and I'm happy to admit that. With a fund of this nature, performance will always be lumpy in the short term because of its small- and mid-cap nature. Just 7% of the portfolio is exposed to firms with a market cap of more than \$5bn. The small- and mid-cap sectors are vulnerable when the tide goes against such firms. An example of this can be seen with Aim, which is down 20% since its peak in May.

Another reason for the poor showing recently is the dramatic fall in oil and natural gas prices since May. When the price of resources decline, it has a negative effect on the fund as 18% of assets are in oil and gas companies.

Investors have to give the fund a reasonable amount of time. Although performance in the short term can be lumpy, I would rather have lumpy 20% or 30% returns, than steady 10% returns.

What about the future?

What happens over the next few months is always hard to predict, but I've no doubt the long-term supply and demand constraints will continue to put pressure on oil and gas prices. Most of my personal wealth and free cash goes into the fund, and I'm very confident that it can continue to outperform both the benchmark and its peer group.



INVESTMENT MANAGER

James Thomson

Thomson joined Rathbones in October 2000 after graduating from Cornell University in New York.

He was appointed co-manager of the Rathbone Global Opportunities fund in November 2003, together with Julian Chillingworth, and in July 2005 became sole manager.

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will start drilling a new well every two weeks, amounting to 50 in the year, all funded by cashflow.

I feel it is still cheap with a forward price to cashflow multiple of 3.3 times, and there is significant upside from its other properties in Peru, where drilling will start in the fourth quarter of next year.

What about the losers?

There is always an element of luck in the oil and gas business and one company I took a hit with last year was First Calgary Petroleum. It had a significant find of gas in Algeria and the market got very excited that it

some at this level but the price has since fallen again to below float level.

What is the turnover on the portfolio?

I currently have 51 holdings. It is a fairly high conviction mandate so there is a core of 20 to 25 companies that have been in the fund for many years. The turnover is around 55% in a year and has been pretty consistent over the last few years. I do not set strict price targets, but after six months I reassess my holdings to see if there are other catalysts on the share price in the future.

How do you manage risk?