

FUND MANAGER FOCUS - TOM WALKER AND DAVID FORSYTH, MARTIN CURRIE

Martin Currie's Dynamic Stock Matrix system filters for quality and value stocks, but ultimately construction of the portfolio rests with Walker and Forsyth

'Best ideas' mandate reaps rewards

The Martin Currie North America fund is a concentrated portfolio, focusing on 40 large-cap names.

Run by Tom Walker since April 2002, the fund offers exposure to the team's highest conviction ideas and operates within a tracking error range of 5% to 6% against the S&P Composite index.

In the past 12 months, Walker has recruited David Forsyth to help him on North American portfolios. Walker's successful track record is underpinned by an effective process and efficient research team; he also manages the US portion of Skandia's Best Ideas fund.

The team is responsible for filtering all the stocks in the universe through the group's in-house stock ranking system, the Dynamic Stock Matrix (DSM), which focuses on quality, value, growth and change.

Analysts propose their best ideas, but stock selection and portfolio construction lie with the manager. He is a disciplined investor, setting and holding to target prices in order to remain focused on the highest conviction stocks.

Walker and Forsyth have been gently bullish on the US economy and stock market in a period in which most market commentators have been quite negative. Recent events suggest the market is coming into line with Tom and David's longstanding view,

Over one year, the £136m portfolio returned 20.6%, against an sector average of 14.8%, ranking it fifth of 77 funds, according to figures from Morningstar.

How would you describe your investment style?

We invest in what we call positive change. In particular we like to hold companies with earnings forecasts that are moving higher or where there is real scope for positive re-rating. I am neither a growth nor a value investor. Instead the fund is designed to be a core holding and to deliver outperformance irrespective of any prevailing style bias.

What support do you receive in running the fund?

David Forsyth was appointed co-manager in May. David and I work very closely with Martin Currie's sector research team. We are country experts, while they take a global perspective on sectors such as financials, energy, consumer goods and industrials. Our global perspective helps us to evaluate North American stocks in an international context.

How is the portfolio constructed?

We are quite firm on holding 40 stocks. I believe it is a good discipline to cap the number of holdings and so prevent a long tail of smaller holdings from developing.

The fund has remained diversified through 40 holdings, with the top ten having active exposure of at least 2.4%. The largest negative positions are in the largest-cap stocks not held.

Tom Walker

Spent six years with Edinburgh Fund Managers, initially covering the UK and other European markets, then going on to specialise in Asia (ex Japan). Became head of that team in 1991.

Moved to Hong Kong in 1993 with Baring Asset Management (Asia), focusing on Greater China. He managed the Greater China Fund Inc and Baring's Hong Kong Fund.

Joined Martin Currie as head of the Pacific Basin team in 1996, and moved to head the North America team in 1998. He also manages the Martin Currie Portfolio Investment Trust.

**David Forsyth**

Began his career with Ernst & Young, qualifying as a chartered accountant. He then moved to Scottish Life in 1999, where he worked as an analyst covering Asian markets.

In April 2001 he joined Abbey National Asset Managers' US desk as an investment manager.

Joined Martin Currie in 2005 to enhance the group's expertise in North American equities.



At 1 September, the fund retained an overweight position in industrials and also in materials, although this is slightly distorted by the 3.3% holding in bio-tech company Monsanto, which is not typical of the sector.

Energy too, continued to be overweighted through exposure to the oil services industry. I believe insufficient drilling capacity will continue to support this area, without direct reference to the oil price.

My main concern for the next 12 months is of rising inflation and consumer discretionary is therefore heavily underweight. There is more than usual style bias, with a clear bias to growth factors, with a very high proportion of sources of risk coming from stock selection. I see value in large-caps and am overweight in that area, apart from the mega-cap companies.

How do you consider the macro environment?

This is a purely stock-picking fund, but I firmly believe you cannot choose stocks in a vacuum. I form my top-down view of the North America market through discussion with investment colleagues, both geographical and sector-based. Since 2002, the fund's performance relative to both the index and peers has been very strong.

However, compared to every other region, North America has performed poorly for sterling investors. Today some market commentators are still questioning the relevance of North American equities for UK investors. I believe that to write off America at this time would be a significant mistake. Thanks to its sheer size, ability to grow and flair for innovation, North America dominates the world's stock markets, representing 52% of global markets by value and 26 of the world's leading 50 companies are listed there. It is a market no serious investor can afford to ignore.

Do you invest in the fund?

Yes, I invest in the fund. I am also a shareholder in Martin Currie and my pay is linked to the performance of the fund in a very direct and transparent way. My interests are very much aligned with investors.

What factors can you attribute to strong fund performance?

We aim to outperform the MSCI North America index and to be consistently in

the first quartile of our peer group. Over the past five years we have done both. Importantly, we have achieved this not only through beneficial macro calls, but by consistently good stock selection across a broad range of sectors.

The Martin Currie North American fund built on its strong start to the year and outperformed the index again in Q2, this time by around 3%. Once again, good stock selection was the main reason for outperformance.

What is your sell discipline?

Sales occur when stocks reach their target price, when signaled by the Dynamic Stock Matrix screen or for qualitative reasons, when a better opportunity exists.

Do you hedge currencies?

Not generally, although I have done in the past. The problem with hedging is that I end up spending a disproportionate amount of my time worrying about currency moves, an area where I add much less value than through analysing companies. For this reason I would think long and hard before taking out a currency hedge.

What is your market outlook?

We retain a positive view of North America. The two main areas of investor concern recently have been slowing growth and a fear that the dollar might depreciate further.

Economic growth in the US did slow in the first quarter, to an annualised 0.7%. But we believe that firstly, this was the trough and, secondly that growth will pick up from here. This feels more like a mid-cycle slowdown than the recession that some have forecast. Leading indicators have started to turn up, which suggests that the second half of the year will see growth strengthening. The consensus forecasts are that US GDP will grow by 2.1% this year. Admittedly, this is a slower rate of growth than we see in other major global economies. But we

believe that growth will actually come in ahead of this forecast.

The consensus also suggests that the US economy will be the strongest of the major global economies next year. Just as decelerating economic growth has put pressure on the stockmarket recently, it could be that a re-acceleration of growth will assist share prices going forward.

The dollar traded in a relatively tight band for much of the quarter. Whilst it is difficult to call, we firmly believe that further significant depreciation of the dollar against sterling is unlikely. Purchasing power parity alone presents a strong argument for the dollar.

We again state that we are comfortable with rates being on hold for now. When the next move in rates comes - which could still be some way off - it is more likely to be down than up.

Looking forward, inflation remains a concern, but less so than it was a few months ago. The housing market remains troubled and we still see risks in this sector going forward. Accordingly, we have no exposure to housebuilders. The wider risk, of course, is that the US consumer loses confidence. But we are confident that the strong job market should help to offset any impact here.

We expect solid earnings announcements to continue and earnings growth in the high single-digits seems likely. Valuations still appear supportive.

In summary, we remain relatively bullish looking forward and expect that North American equities - and our fund in particular - will perform well.