

FINANCIAL TIMES

MONDAY FEBRUARY 9 2009

FTfm

Gaining from sterling's fall

Fund Focus

A European income fund is capitalising on the dividends trend, writes **Hugo Greenhalgh**

While many companies in the UK, particularly importers, have been hit hard by sterling's recent falls, any further decrease is likely to benefit Olly Russ, who manages the £330m (€372m, \$479m) Ignis Argonaut European Income fund.

His argument to potential investors is simple: diversify your assets away from the UK.

"If everything you have – your house, your job – is based in the UK then it is only sensible to put a little bit abroad," he says. "And with this fund you can just hop over the channel to the same legal system in the EU. You don't have to risk everything by investing in Russia.

"Last year, the currency decline was beneficial for us. Diversifying is part of the story, so we don't hedge the

currency, we take underlying currency exposure, predominantly to the euro."

Yet rewind by just a decade and this type of fund, which is run by Argonaut as part of an overall joint venture structure with Ignis Asset Management, would not have been possible.

"Over the last few years there has been the emergence of a secular trend, which is seeing more focus on dividends than there ever has been," says Mr Russ. "This trend, which will continue, is now pan-European.

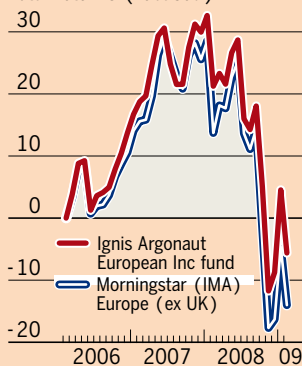
"The reason there aren't many European income funds – indeed there were none three years ago – is that management didn't pay much in the way of dividends 10-15 years ago. Things have now changed materially." So much so that Mr Russ is now a keen advocate of a separate IMA European income sector.

Europe's markets have matured, he adds, "and there are only a certain amount of investments you can do before you have to return capital to shareholders".

Mr Russ's job is to capitalise on this structural shift. According to Morningstar,

Ignis Argonaut European Income fund

Total returns (rebased)



Source: Morningstar

over three years the fund has declined by just 4.5 per cent compared with a fall in the Europe excluding-UK sector average of 11 per cent. On a sector basis, this means the fund is ranked 19th out of 84 funds.

"Essentially, we're looking for companies that have thriving income streams from which dividends can be paid," he says. "Within this we are focused on valuations and defensible franchises."

In practice, this drills down to an investment in European retailer H&M. "It

is opening 200-odd stores this year," Mr Russ points out, "and pays a dividend of 5-6 per cent."

Across Europe in general, yields are the same if not higher than in the UK, but crucially, he adds, "the beauty of these markets is that there is yield everywhere at the moment".

Not only that, he continues, "but the key point is there are three times as many companies".

Opportunities in Italy and Scandinavia are one current focus, although Mr Russ is keen to stress the fund follows a bottom-up investment philosophy. But within that, telecoms is a key play for the fund.

"We're double weighted in telecoms," he says. "The free cashflow yield of the sector is about 14 per cent and dividend yield is 7-8 per cent."

Ultimately, it's all about diversification, he says. "In the UK you have BT and Vodafone, but there are another 19 large-cap telecoms companies in Europe – and almost all of them are doing better than BT."

Hugo Greenhalgh is editor of Investment Adviser