

IN THE SPOTLIGHT

Resolution fund manager **Barry Norris** talks to **Jim Robinson** about maintaining consistently strong performance

Benefiting from investing for the long term



The £328.4m Resolution Argonaut European Alpha fund, managed by Barry Norris and Oliver Russ, is a bottom-up stock-picker's fund that aims to achieve top-quartile performance on a rolling 12-month basis. The fund, with a 5.25 per cent initial charge and a 1.75 per cent AMC, is slightly on the expensive side, having a total expense ratio of 1.78, compared with the sector's average of 1.6, according to Morningstar.

However, the fund's performance has been consistently strong since launch. In the three years since then it has been in the top quartile consistently and, over the last 36 months, it is ranked second out of 94 funds. Over that time it has returned more than 100 per cent, compared with the MSCI Europe ex UK index's return of 73.8 per cent and the sector's median return of 65.4 per cent.

According to Mr Norris, who managed the £192.7m Neptune European Opportunities fund from 2002-05, the screening process plays an important role in driving performance. He himself does all the research on every company in which he invests, and to help narrow the field, he draws on the support of a proprietary tool dubbed Jason, which ranks companies using a range of characteristics including earnings momentum, growth to earnings, dividend yields and price/earnings multiples.

Another important part of his process, Mr Norris says, is based on meeting companies and speaking with industry experts. "What company managers tell us about their companies and industries is often far more valuable than what economists or stockbrokers tell us," he explains. "If you talk with most economists or brokers, you'd think the world was going to end. Yet, outside financials, all of these companies are resolutely bullish."

Mr Norris runs a concentrated portfolio, which currently comprises 45 stocks

and typically ranges between 30-55 stocks. The fund, he says, is generally one-in, one-out. "We don't come into the office everyday and say 'well, I must invest in something else now,'" he explains. "We tend to invest only in one or two new ideas a month, and we don't aspire to make short-term investment decisions."

In terms of country, Sweden and Germany account for the bulk of the portfolio at 20.7 per cent and 15.6 per cent, respectively. But because Mr Norris believes country risk is minimal

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in a pan-European capital market, he rarely invests in a stock because it happens to be in a given country. "I can't remember the last time I invested in a stock because I was passionate about a particular economy."

Most companies in his portfolio, he adds, operate in global industries, so the performance of the bourse on which those companies happen to be quoted is largely irrelevant to their prospects. "If all the stock markets in Europe were merged into one tomorrow, it wouldn't make much difference to us."

The fund has a risk management team that provides a detailed monthly report monitoring tracking error, liquidity and stock-specific risk, among other things. With individual stocks, Mr Norris aims to keep his holdings range between 1 per cent and 3.5 per cent of the portfolio, but he is largely unconstrained by sector. "Indeed, we actively try to take risk on a sector basis," he says. "Certainly, if you get it right, it's

where a lot of performance can be generated."

The fund is currently overweight materials, energy and telecoms and underweight financials. Though Mr Norris does own some investment company holdings that technically classify as financials stocks, he currently owns no banks or insurance companies. This has been the case for some time, he says, and it will continue to be for the foreseeable future.

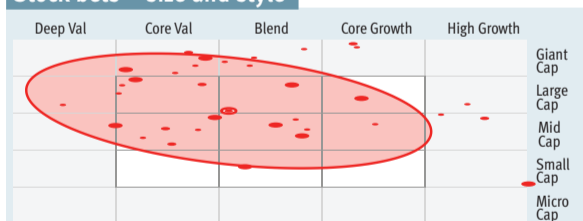
The third-largest holding, Norwegian oil major Statoil Hydro, accounts for 3.3 per cent of the portfolio. The stock allows Mr Norris to capitalise on high oil prices, and because the company has no refining operations – "the bits of the industry that aren't doing so well" – it has been quite a strong performer.

The second-largest holding, at 3.4 per cent, is Norway-based fertiliser company Yara. Not only is it tied into the soft-commodity boom, it also has a remarkable amount of pricing power, as fertiliser demand has been growing while supply shrinks. This stock has been an excellent performer, up by more than 80 per cent year to date.

The portfolio's largest bet, a 3.5 per cent holding in Nestlé, has been something of a surprise. Until recently, it was known for a series of rather expensive acquisitions and a general lack of interest in equity holders. "We never really thought of investing in it until last year because it has been a serial value destroyer," Mr Norris says. "But it is now taking an active interest in shareholders – Nestlé is a turnaround story."

When it comes to the market, Mr Norris is clearly bullish. Valuations in Europe, he says, compare favourably "to anything else you can invest in", and the Continent appears to be past the worst of the credit crisis. Third, outside financials, European companies have yet to see a downturn. "Everyone has predicted profit warnings, but they just aren't coming," he says. "If the market is priced for bad news, and that bad news isn't coming through, stock prices will go up. It's as simple as that."

Stock bets – size and style



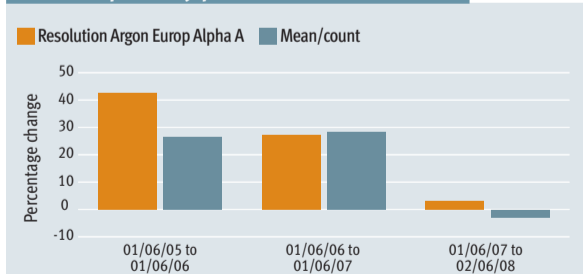
Note: The chart shows in terms of holdings the "ownership zone" of the fund manager. Each dot represents one holding and its style. The larger the dot, the greater the weighting in the portfolio. As of 31 December 2007, the manager has a value bias. Source: Morningstar (holdings-based style analysis).

Style snail trail



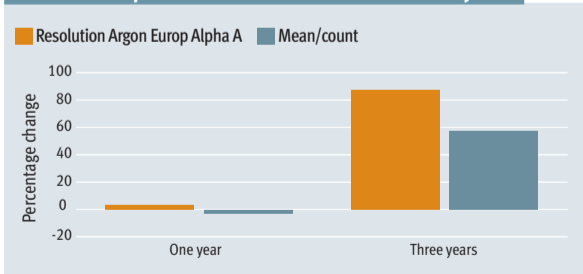
Note: This chart shows the historical trajectory of the manager's holdings-based style. The largest dot represents the latest date. From June 2005 to December 2007, the manager has moved into value. Source: Morningstar (holdings-based style analysis).

Discrete quarterly performance since launch



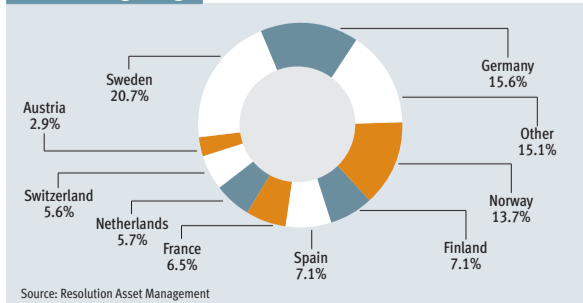
Source: Morningstar

Cumulative performance over one and three years



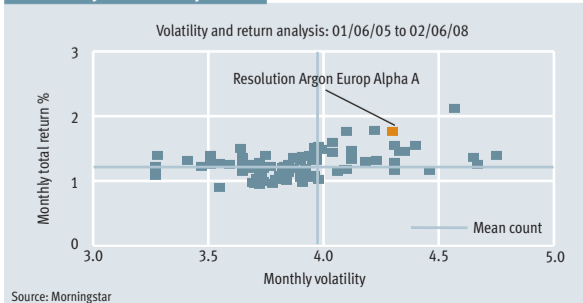
Source: Morningstar

Sector weightings



Source: Resolution Asset Management

Volatility v return profile



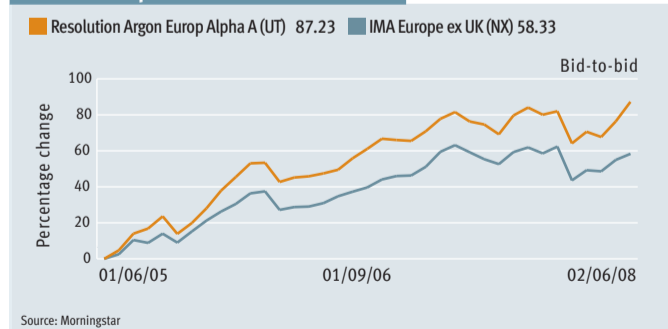
Source: Morningstar

fund footprint

Launch date: 05/05	Information ratio: 0.29 (three years)
Manager start date: since launch	Sharpe ratio: 0.31 (RFR 5 per cent)
Fund size: £328.4m	Tracking error: 1.65
Number of holdings: 45	Volatility: 4.3
Benchmark: MSCI Europe ex UK	Turnover: 20 per cent

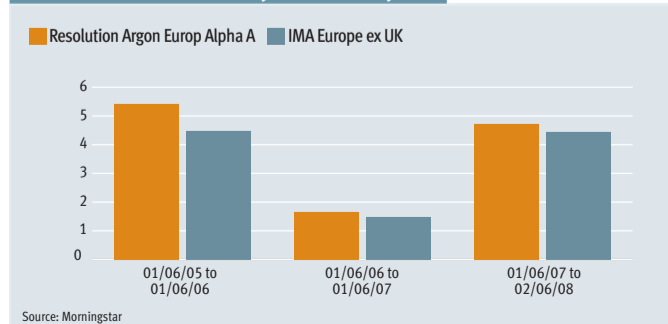
Source: Resolution Asset Management/Morningstar

Cumulative performance since launch



Source: Morningstar

Discrete annual volatility over three years



Source: Morningstar