

Staying defensive – for now

FUND FOCUS

The manager of the Argonaut fund tells **Julian Vickers** that it might be time to start buying

For Oliver Russ, manager of the £414.8m (€549m, \$806m) Resolution Argonaut European Income fund, success in achieving a high yield from equities is what sets his vehicle apart from the rest of the Europe ex UK sector.

He says: "Our yield is significantly in advance of any UK-based income fund. The difficulty, however, is that people do not think Europe is a yielding market and of course it is." He cites the fund's 4.4 per cent net yield to back this up.

The manager runs the fund in a broadly similar way to UK equity income products and highlights dividend yield and potential growth within that, as well as large-cap mature value, as key areas of his investment philosophy. He is also "very

focused on bottom-up stock picking".

"We are always looking forward to what might be high-yield stocks in a couple of years," Mr Russ says, adding that he uses various quant tools for this.

The manager is defensively positioned, with the fund overweight telecommunications, holding stocks in Telefónica, Cosmote and France Telecom. However, he does own some financials, although again taking a cautious approach, preferring to look to peripheral Europe where there have been no subprime problems.

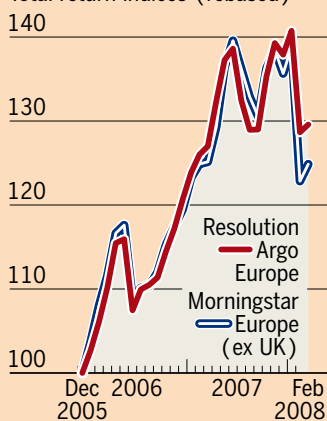
The manager says the fund is aimed at the lower-risk investor and he looks to hold stocks for roughly one to three years, never going over a maximum of 55 holdings.

On current market volatility and fears of an economic slowdown, Mr Russ comments: "There is a big problem in the world, there is no question of that – bigger than the equity market maybe realises."

But the manager says although he has been defensively positioned in difficult

Resolution Argo Europe Income fund

Total return indices (rebased)



Source: Morningstar

times, he cannot say how long this situation will last and it could open up opportunities.

He says: "The fund has been running at 10 per cent cash for the last six months, but we have run that right down and are now virtually fully invested. For the first time in a year, we are beginning to look at cyclical companies because share prices have fallen a lot – as much as 50 per cent for cyclicals – and are rather masked by the broad index returns that

do not look too bad. With everyone talking about an economic slowdown, we wonder if now is the time to take a contrarian view and start buying."

Argonaut is a 50/50 venture between Resolution Asset Management and Mr Russ and his partner Barry Norris. Mr Russ says this is ideal: "Resolution does all the things we do not want to and lets us focus on being fund managers, but at the same time we have all the resources of a FTSE 100 asset manager, which is no bad thing."

While the fund has reported a loss over the year to February 11, according to Morningstar, it has fared significantly better than many of its peers. It fell by 2.2 per cent compared with a sector average loss of 5.3 per cent and is ranked 14th out of a universe of 96 funds. Over three months, the picture is brighter as although the fund lost 6.3 per cent, against a sector average loss of 9.4 per cent, its ranking rose to sixth in the sector.

Julian Vickers is an editor at Investment Adviser