

IN THE SPOTLIGHT

Resolution fund managers **Terry Ewing** and **Alison Porter** talk to **Nick Rice** about the path to top-quartile performance

Two heads are always better than one



The IMA North America sector may be suffering at the moment, but the £122.1m Resolution American Growth fund is not. While the sector was down 5 per cent for the year to 14 April, the fund was up 5 per cent. Only the Scottish Widows American Select Growth fund delivered higher returns.

Over three years, the fund is also verging on first quartile, but the more impressive results over the past year have stemmed from a team reorganisation at the start of 2007, when manager and co-head of US equities Alison Porter was joined on the fund by co-head of US equities Terry Ewing.

In a sense, this move added nothing radically new to the fund's history, as it was Mr Ewing who entrusted Ms Porter with the running of the fund when he left Resolution for Old Mutual Asset Managers just over five and a half years ago. But after he returned to the fund he and Ms Porter became much more involved in its bottom-up stock-picking process, which they say accounts for 80 per cent of its alpha.

Although they look at different sectors, their responsibilities are not divided as sharply as some co-managers, enabling them to bring two perspectives to the same material.

For instance, Ms Porter's analytical responsibilities include technology and healthcare equipment and services. She can use this sector experience to come up with bottom-up ideas as well as investment themes – top-down elements the team uses to complement its stock picking.

Mr Ewing looks at materials, industrials, domestic pharmaceuticals and certain consumer sectors. Because both he and Ms Porter look at the healthcare sector, for instance, their views undergo mutual scrutiny rather than being entrusted to a single individual.

The approach on the fund is thus predominantly bottom-up, but Mr Ewing is

at pains to emphasise it is not excessively high-conviction in style.

"My strategy has been to have a portfolio that is well diversified, with no big exposure in the top 10," he says.

Nor does the US team rely excessively on Mr Ewing and Ms Porter. The fund has two other senior members who cover the remaining sectors, and between the four of them they share 70 years of US markets experience.

These two features enable the managers to pick stocks more flexibly and actually time their investments, which

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they feel is critical in US equities. A good example is the fund's stake in oil and gas producer EOG Resources. The managers identified gas as an important investment theme in 2007 after a period of outperformance in oil stocks. In November, the relevant analyst went to visit EOG Resources and concluded its gas production potential was extremely promising. The managers invested accordingly and in 2008, EOG became the best-performing stock in the S&P500.

In February, the managers sold part of their stake in oil and gas major Exxon Mobil after taking profits in Occidental Petroleum in August. But by the end of March, the size of their holdings in both of these companies had overtaken EOG Resources, underscoring the fund's agility in capturing market sentiment.

The fund's sell discipline has not been confined to 2008. When turbulence hit equities in the middle of last year, the fund was also able to cut its losses by pulling out of relevant sectors earlier in

the turmoil. The managers took an axe to consumer discretionary exposure in May, followed by financials in July and industrials in August. Nor are they rushing to get back into financials, unlike some other US managers.

"I sadly remember the US banking crisis in 1990-91 and buying banks on the way out," Mr Ewing says. As Ms Porter emphasises, they take poor company outlooks extremely seriously. "A key focus of the fund was really sharpening the sell discipline to make sure we sell on the first downgrade or earnings warning relative to our expectations," she says.

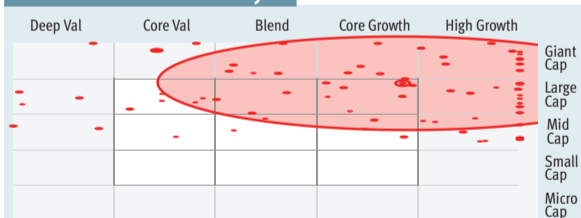
But Ms Porter and Mr Ewing have not avoided financials altogether. In fact, they constitute 15.8 per cent of the fund, although this still represents a market underweight. The fund's top holding is the relatively healthy bank JPMorgan Chase, which constitutes 3 per cent of the portfolio.

From the asset-gathering perspective, it is a difficult time to be a US manager. Although the market has already fallen a long way, there is evidence it may have even further to go, with many economists saying a US recession is not just possible, but probable. Ironically, retail investors may invoke market timing arguments to stay away from North America for the time being, when it is precisely these techniques which have enriched funds like Resolution American Growth.

As Ms Porter and Mr Ewing point out, there are more stocks to pick and more sectors to choose from in the US than in any other national market in the world. Individual areas can experience a renaissance while the rest of the economy enters the doldrums.

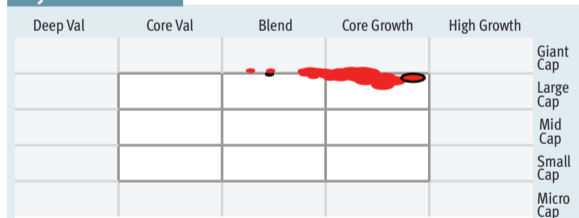
Ms Porter and Mr Ewing say they keep looking at enterprising stocks in the mid-cap sector – the next Starbucks or Apple, perhaps – even though sentiment towards mid and small caps has dipped. The weak dollar may also enable exporters to grow if demand holds up in emerging markets. Although the US may be trapped in troubled times, North American funds do not have to follow all of the region's woes.

Stock bets – size and style



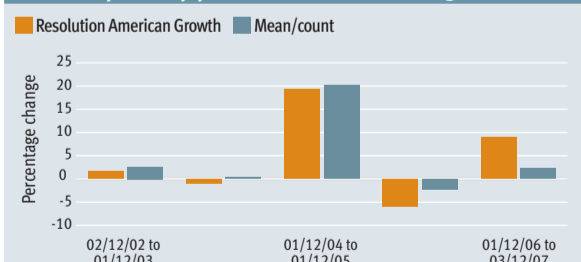
Note: The chart shows in terms of holdings the "ownership zone" of the fund manager. Each dot represents one holding and its style. The larger the dot, the greater the weighting in the portfolio. As of 31 March, the manager has a growth bias. Source: Morningstar (holdings-based style analysis).

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 April 2005 to March 2008, the manager moved further into growth. Source: Morningstar (holdings-based style analysis).

Discrete quarterly performance since manager start date



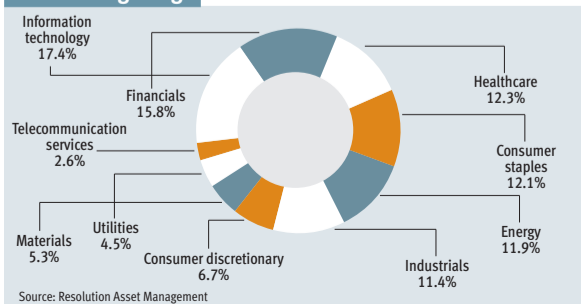
Source: Morningstar

Cumulative performance over one, three and five years



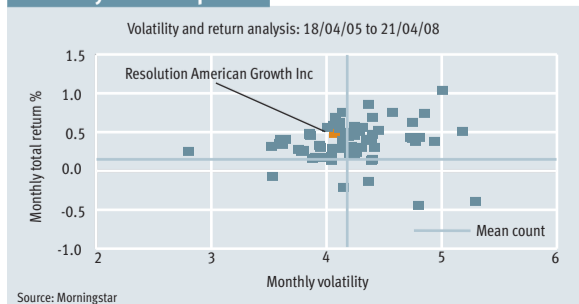
Source: Morningstar

Sector weightings



Source: Resolution Asset Management

Volatility v return profile



Source: Morningstar

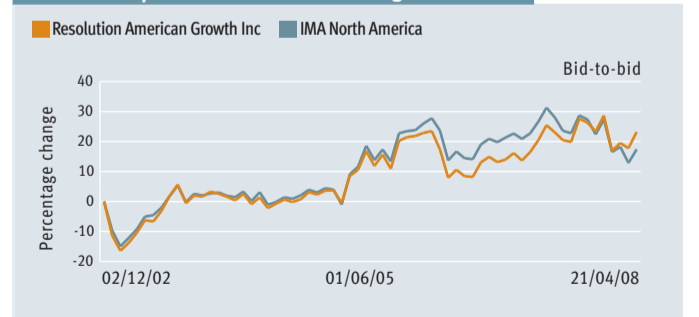
fund footprint

Launch date: 04/87
Manager start date: 12/02
Fund size: £115.7m
Number of holdings: 74
Benchmark: S&P500 index

Information ratio: 0.12
Sharpe ratio: 0.02 (RFR 5 per cent)
Tracking error: 0.91
Volatility: 4.07
Turnover: 413 per cent

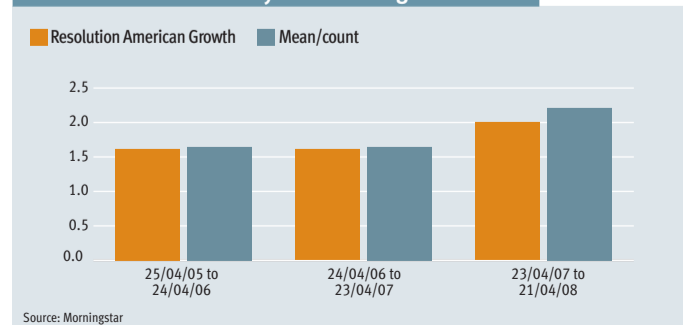
Source: Resolution Asset Management/Morningstar

Cumulative performance since manager start date



Source: Morningstar

Discrete annual volatility since manager start date



Source: Morningstar