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Argonaut European Income manager justifies his reputation as a preeminent force in the Europe ex UK sector

Russ established as European Income force

By Hysni Kaso

In just under the four years since the launch of Argonaut Capital, Olly Russ has established himself as one of the preeminent European Income managers.

Joining forces with former Neptune stablemate Barry Norris in the boutique joint venture with the then Resolution Asset Management, Russ has delivered top-quartile performance in his Argonaut European Income fund since launch, posting absolute dividend growth every year.

Russ' fund is ranked 12 out of 84 in the IMA Europe ex UK sector over three years to 2 March, down just 17% against an average 24.3% decline, according to Morningstar.

However, despite working on European equity and income

funds when he joined investment boutique Orbitex in 1998, Russ was first given responsibility for the firm's UK Equity fund from its inception in March 2000.

You started off in UK equity. Was it a major shift to focus on Europe?

There are not a lot of differences with the UK and Europe today; it is all one big capital market under EU law. There are obviously little quirks between the different countries, however.

The markets these days tend to move much more in a sector, rather than country, fashion than they used to. The discrepancy between the top and bottom sector would be much more than the country discrepancy. If pharmaceuticals are doing well in the UK, they will probably do well in Switzerland.

What about the popularity of European investing in the UK?

It is one of the least popular sectors. Whenever there is a bear market, everyone pulls their money out very quickly at a sector level.

But you actually pay European companies a lot of money anyway, so you may as well get some of that back. If you have an O2 mobile phone, it is Spanish owned. If you have gas or electricity in London, chances are it is French owned. You are using the services of European countries all the time.

Are there many high-yielding opportunities currently in Europe?

At the moment we are fairly defensive. We have got a lot of telecommunications stocks, which I feel are just great value, regardless of a bull or bear market. They are yielding 7% or even more, while earning numbers will be steady this year against the market.

Utilities also have safe yields, but there is probably not a lot of upside in those. But then we have stocks like retailer H&M, which has got cash on the balance sheet and is yielding over 5%.

How have falling dividends affected your portfolio construction?

The market is making everything cheap right now. From my perspective, it is great because

the available universe is widening out. Going back to H&M, it has never been this cheap in its history and it is still growing. It is not a stock I could have bought two years ago because it would have been too expensive and would not have had that much of a yield.

How has your portfolio changed in the three years?

We have held a lot of stocks in the fund since day one, but there are a number that have changed around the edges. In these three years we have seen a bull market, a rather average year and a nasty bear market. But the encouraging thing is the process has been robust in all three market environments. Currency also helped enormously last year, we made 20% on currency alone.

Where are you currently positioned?

We do not tend to look at countries that much – it is all bottom up – apart from when an economy affects an underlying business. We have a big underweight in Spain and in Ireland, we do not own any Irish banks.

Banks are our most important underweight – about half the index. But we are double in insurers, where we think dividends will be paid.

This year will be tricky to achieve dividend growth across the portfolio, but we hope to maintain it.



Olly Russ, CV

- Founded Argonaut with Barry Norris in May 2005, working closely with Norris on the Argonaut European Alpha funds, and is the lead manager of the Argonaut European Equity Income fund.
- Worked at Invicta Investment Management in 2002, a privately owned hedge fund.
- Joined Neptune Investment Management in April 2004 as a fund manager and financial analyst.
- Worked at investment boutique Orbitex in 1998.

FUND FACTS: ARGONAUT EUROPEAN INCOME

LAUNCH DATE
15 December 2005

FUND SIZE
£319.m

SECTOR
Europe ex UK

OBJECTIVE
To provide income in excess of the yield of the MSCI Europe ex UK index by investing in a concentrated portfolio of approx 30-50 securities of companies predominantly incorporated in Europe (ex UK), while preserving capital.

Portfolio breakdown

