

A question of finding the tipping point

Ellen Kelleher hears how Makis Kaketsis divides the UK stock market into five segments when deciding whether his fund should invest



FUND FOCUS

Makis Kaketsis, manager of F&C's £72.66m (\$144.19m, €110.72m) UK Dynamic fund, divides the UK equities market into five segments. Three of these are areas he likes to invest in and two consist of companies he would not consider ploughing money into.

So what are the more desirable types of company? In Mr Kaketsis's view, the first grouping consists of riskier companies that have not yet reached their so-called tipping point (he defines this as the point at which the returns of a business become positive). In the second category are companies that are slightly beyond the tipping point and are being re-rated by the markets. "This is the stage where you make a lot of returns," he says. And the third marketable collection

consists of the strong and steady companies that are generating healthy returns and show they will be able to maintain this.

Do not think of investing in companies that are in the so-called "fading stage", Mr Kaketsis argues. "These are the sorts of companies with returns that are decreasing over time. Why is this happening? They could be in a market that lacks barriers to entry where you can't increase returns," he says. Scores of UK companies are "effectively too mature", he argues.



Makis Kaketsis: value in banks

Newer companies are inherently riskier, so only about 15 per cent of the fund is invested in groups in the "pre-tipping-point" stage. About 20 per cent has been put towards companies that are being re-rated. And the remainder is in strong but steady earners.

The fund is able to make investments outside the UK and Mr Kaketsis likes to take advantage of this to put money into European banks, which he thinks offer better value than UK counterparts in some cases. "UK banks may trade on eight to 12 times their price-to-earnings ratios but banks in other countries have a lot more growth potential," he says.

As a bottom-up stock-picker, Mr Kaketsis is not afraid to admit he has made some poor choices. Last year, one bad investment was taking a stake in Premier Direct, the marketing group. "It didn't work out. The company expanded quite aggressively through acquisitions and they misunderstood the capacity of the market," he says.

A better choice was buy-



ing Domino's Pizza as the group has a cost-effective business model. Only about 6 per cent of the population in the UK has had a Dom-

ino's Pizza delivered to them. "There's a lot of scope to increase penetration in the UK," he says.

Other top holdings include

Best and worst performing funds

% change
Jan 19 2004 -
Jan 22 2007

Top 10

Rank	Fund Name	% change
1	Old Mutual UK Sel Mid Cap Acc	108.9
2	Saracen Growth A	108.6
3	Std Life UK Opps Retail Acc	105.7
4	Rensburg UK Mid Cap Growth	104.6
5	Schroder UK Mid250 Acc	101.5
6	Dimensional UK Value Inc	95.7
7	Aberdeen UK Mid Cap A Inc	95.4
8	New Star Hidden Value Ptdolio A	92.9
9	SVM UK Opportunities Retail	92.1
10	Allianz RCM UK Mid Cap A	91.5

Bottom five

Rank	Fund Name	% change
246	Rathbone Capital Growth Inc	35.4
247	Marlborough UK Equity Growth	33.0
248	EFA J Brearley Premium Growth	31.3
249	Manek Growth	30.2
250	New Star Select Opps Retail	25.1

Source: Standard & Poor's

CITYWIRE'S FUND MANAGER PROFILE

Strong returns in the eurozone

Andrew Lynch tells Charlie Parker he sees plenty of potential for his Schroders fund

Schroder Investment Management's Andrew Lynch prides himself in investing in companies that can grow their businesses organically.

His Schroder ISF Euro Dynamic Growth fund invests across the eurozone in firms that have proved they cannot just grow but have the balance sheet strength to capitalise on that growth.

The portfolio of some 70 to 75 holdings is unconstrained so Mr Lynch is able to pick his best ideas for the mandate.

A veteran of more than eight years at Schroders, Mr Lynch has reached eighth place in the Citywire rankings out of 150 managers from across Europe who invest in the eurozone.

He has achieved this by returning an average of 1.75 per cent a month over the last three years, compared with the average manager who returned 1.28 per cent.

Mr Lynch's most recent strong performance has been driven by bets in Ireland and Germany. "I am still positive on Ireland, I think there is good economic growth still to come," he says.

As for Germany, once the sleeping giant of Europe Mr

Lynch now believes the nation has reacted to the economic pressures it faces from eastern Europe to keep itself competitive.

"The German economy is still moving, driven mainly by unemployment coming down. People are becoming increasingly confident that if they lose their jobs they will be able to find another one," he says.

Although Mr Lynch is based in the UK he is backing the eurozone to beat the UK in the year ahead. "I think Europe will outperform because they are in the exact opposite position on the consumer."

Mr Lynch is nervous on the prospects for the UK consumer with Bank of England rates rising but believes in Europe there is much further to run.

Despite his backing for Germany, Mr Lynch's favourite stock at the moment is French water and waste firm Suez. "As a standalone the stock has significant upside but there is also the prospect of a merger, which would have significant benefits in terms of customer lists."

He is also backing Dutch bank ING which has become

The Citywire league table: Equity eurozone

Manager name	Three-year average monthly performance (%)	Funds managed
Francisco Garcia Paramés	2.14	Bestinfond, FI
Alvaro Guzmán de Lazaro	2.14	Bestinfond, FI
Lionel Heurtin	1.88	State Street Actions Euroland Cap
Philippe Deneff	1.87	Osiris Equities EMU Behavioral Value
David Allen	1.78	JPM Euroland Equity A (dist) EUR
Christopher Compiln	1.78	JPM Euroland Equity A (dist) EUR
Jean-Louis Lanaute	1.77	Etoile Actions Rendement
Andrew Lynch	1.75	Schroder ISF EURO Dynamic Growth A Acc
Guy Lermineaux	1.74	PAM Equities Euroland Cap
JanLeroy	1.74	PAM Equities Euroland Cap
Filippo Di Naro	1.74	BPU Pramerica Azionario Etico, BPU Pramerica Azioni Euro, The Sailor's Fund - Euro Equity Growth, The Sailor's Fund - Euro Equity Value
Emeric Préaubert	1.73	Sycamore Eurocap A
Martin Bruecker	1.71	First Private Euro Aktien STAUFER
Tobias Klein	1.71	First Private Euro Aktien STAUFER
Jérôme Fauvel	1.68	Nord Europe PEA
[Average Manager]	1.28	

Source: Citywire

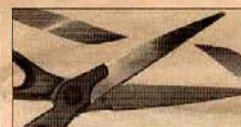
a presence across Europe by offering high interest savings accounts.

However, he is staying well away from the automotive sector where he believes overcapacity is hitting across the industry. The exception is BMW, which as a luxury provider could still perform.

Over the past three years Mr Lynch has delivered strong returns on the fund.

A sum of £1,000 invested three years ago would now be worth £1,897. In comparison £1,000 invested in the Dow Jones Eurostoxx 50 index would be worth £1,605, over the period to 29 December 2006.

Charlie Parker is funds editor at Citywire. For the latest European fund manager news and interviews visit www.citywire-fmi.com



NEW FUND LAUNCHES

East Capital Alternative Investments is launching the East Capital Bering Central Asia Fund on February 28. It will invest in listed companies and make private equity investments in Central Asia and the Caucasus.

Mellon Global Investments is launching the Newton European Higher Income Fund, which takes an unconstrained approach to investing in European ex UK equities for increasing income and long-term growth. Aaron Barnfather will run the fund using a global thematic approach. The target yield is 4-4.4 per cent.

LCF Rothschild Securities has launched the Kubera Cross-border Fund, a \$225m (£174m, £115m) Aim-traded closed-end fund. Run by Kumar Mahadeva and Ramanan Raghavendran, the fund will invest in Indian companies that look to expand in western markets and US companies where offshore delivery in India makes an impact.

Prosperity Capital Management is launching the Prosperity Russia Domestic Fund. The closed-end fund will make investments in listed and unlisted companies that benefit from growth in domestic spending. The portfolio will be split 75/25 between Russia and other CIS countries.

Aubrey Capital Management is launching its first fund, the S&W Aubrey Global Conviction Fund. The fund, run by Andrew Dalrymple, aims for absolute returns over the longer term and will have an overweight position in Asia and emerging markets. It will hold 40-50 stocks.

Arlington Securities is launching the UK Fund of Funds, the second sub-fund in its Fund of Funds umbrella product. The fund will hold a portfolio of balanced and specialist funds with a low to medium risk profile that invest across the UK.

Axa Investment Managers is launching the Axa Talents Fund. The fund closely mirrors the French-registered FCP Axa Talents and invests in companies where an entrepreneur or family has a significant stake and little or no debt. It is managed by Charles Firmin-Didot.

BNP Paribas Asset Management is launching the GTAA Alpha Fund. The fund uses the group's global tactical asset allocation strategy and aims to combine several uncorrelated sources of alpha. It invests in a wide range of asset classes and targets a return of 3-month Euribor plus 8 per cent on a three to five-year horizon.

Investec Asset Management is launching a Balanced Managed strategy for the defined contribution market. The diversified hybrid fund blends single and multi-manager offerings. Philip Saunders and Max King will be joint managers.

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