



## Our guest: Smith & Williamson Investment Management

Smith & Williamson Investment Management is an independent investment management firm with over \$12.6 billion under management, making it one of the largest private client managers in the UK.

*Lady Tana Focke, a director of Smith & Williamson, won "Fund Manager of the Year: North America" at the Lipper Citywire All Stars Awards 2006. The award was presented in recognition of the outstanding performance of the Nucleus American Trust, one of a number of Smith & Williamsons funds. Tana worked as a US broker for 20 years before switching to fund management. She has run US funds for a Swedish bank and a UK life assurance company. Tana joined Smith & Williamson in 1997 to manage its North American fund. Today the fund is worth approximately \$105 million and its aim is to achieve long term capital growth.*



Tana Focke

### Well done on winning Citywire's US FM of the Year 2006. To what do you attribute your success?

The results, when analyzed, show that the success comes from stock picking and from growth rather than value. I try and buy stocks with reasonable multiples and conservative balance sheets.

### Any sectors you won't invest in?

I have market cap limitations of \$1 billion (apart from in Canada). I don't leave out any sectors but there are certain business models that are not very attractive. For example, although chemicals have done quite well recently, before that I would have said it wasn't an attractive business as it's a commodity business. But as fundamentals change you have to keep revising your attitude.

### Do you screen stocks in terms of them having to meet cash flow, valuation or growth criteria?

No it's more on an individual basis and it's more within that industry/sector. It doesn't have to have a 1.5% yield or yield more than the market or grow at a particular rate. You can't compare a food company with a biotechnology company; you have to do it sector by sector.

### You've been covering US equities many years both buy and sell-side, how have you been able to use that experience?

You don't normally want to hold things for too long. I do hold things for two or three years but fashions and performance change and you must take profit because nothing stays the same. Things come into and go out of fashion. People look at investment in a different way. Relative returns, absolute returns – styles of investment change. When I started, growth stocks would have been Eastman Kodak and Xerox so I look back and think how things have changed! You thought you'd hold them for a lifetime. Things change - that's what experience tells me.

### Do you have sector restrictions?

They are self-made. In order to be more cautious and risk averse, you never want to be hugely overweight. I might be 3 – 4% overweight in a sector. With a big sector like banks which is 10% of the market you could be 3 – 4% underweight but if it was a little sector, which was only 2% of the index, you might not have any at all.

### What about themes?

I do have themes. Defense is a theme. The other is growth in the Hispanic population which I think is important. If you get the right theme you can play it for a long long time.

### Any US companies you admire in terms of management?

I admire the ones that make it easy for you to see and lay it out for you as Jack Welch used to do at General Electric. He explained how he intended to grow, how he intended to make his numbers and where the growth was going to come from in a very clear way. Nobody left a presentation of Jack Welch's wondering what he was doing because it was extremely clear.

### Average length of a holding?

I could hold something three weeks or three years. It depends on the target you set when you buy the company. You would expect a stock like Colgate to have steady growth whereas there are others that might be much more volatile. You would hold a stock like that as a core holding but you might have something where you were expecting a turnaround in a particular product or where you were expecting something to happen fairly quickly and if it happens you take your profit and run, you take 15 – 20% quickly.

### Which sectors do you currently favor?

I think mobile telecoms still has improvements especially in terms of handheld devices. I haven't got a Blackberry or an iPod and I'm sure there are plenty of other people out there who haven't got one either. Aerospace & defense because unfortunately we're not in a peaceful world. Commercial aerospace is on a roll with the Boeing 787. Defense is hugely important as there are wars going on all over the world and the United States seems to have appointed itself peacekeeper of the world so they can't cut back much on defense. Healthcare & services because of the ageing population and the demand by older people to keep young. Also, the utilities sector as with the growing economy we've always needed to fuel that with more energy and there has been a shortage.

### **Which sectors don't you like?**

I don't have any forestry or paper and I've missed out on the railways.

### **Does meeting US companies make a difference?**

Yes! I love to see top management and I love to see IR people too. I don't decry IR people as I think they do a great job. Sometimes it's difficult for them. If you're right at the top of a company you can say things that maybe an IR person would be guarded about. I'm not talking about inside information but to get a flavor of the enthusiasm. If you see somebody who is living and breathing their company it does make a difference. They can tell you a lot about the company. Things that might not seem tremendously important; little nuggets. I'll meet anybody. I love to see companies and get the flavor of what they are doing.

### **What tips could you give a company?**

Don't lie. It's difficult when they know results are not going to be good. When things are going well it's easy to present as you're upbeat. The much more difficult time is when things are rough but you just have to say it.

### **Who is good at consistently communicating?**

Reuben Mark from Colgate always does a good job. You tend to remember the ones who come to London and are bullish and three weeks later, announce appalling results. It happens less often now with Sarbanes-Oxley. Yum! Brands do quite a good job; they come to London on a regular basis. Exxon and the big companies do a pretty good job. In fact most US companies do a very professional job. What is really annoying is if you feel you've been hoodwinked or that they've concealed something. Sometimes they don't know and that is a worry if they really don't know that things are going badly wrong.

### **Who would you like to see visit London that you've not seen?**

Google but they may have been with Goldman or Citigroup and some of the other big brokers. If they come with a broker and you're not on that broker's list then you won't get asked. It's a small fund and I'm not very active and brokers go where they can make the most money and it's not out of me. I'm not a particularly good account to have.

### **How many US companies do you see in London?**

More than 100 companies a year. I also visit the US three to four times a year. My colleague (Sophia Calvert) goes once or twice a year too. I generally go based around a conference. I prefer company visits. At conferences I prefer to listen to the general presentations. You sit through six or seven presentations a day and it is always the ones you thought were going to be the least interesting that are the best.