Fund Manager Focus

Our guest:

J O HAMBRO INVESTMENT MANAGEMENT LIMITED (JOHIM)

JOHIM, established in 1986, is a specialist investment house with approximately £2.3 billion ($4 billion) under management. JOHIM was established to look after the interests of high net worth individuals and associated portfolios. More recently, the company's scope has widened to include charities and specialist funds. Whilst bespoke private client portfolios still represent the mainstay of JOHIM's business, it also manages over £300 million ($540 million) in pooled funds. The stable of Open Ended Investment Companies (OEICs) includes the JOHIM Global Fund, the JOHIM European Fund and the JOHIM UK Fund.

William Francklin
Investment Manager

William Francklin is head of global equities and one of two fund managers with responsibility for the US at J O Hambro Investment Management. He graduated from London University in 1981 when he joined Morgan Grenfell (now Deutsche Asset Management), with whom he was based in New York from 1986 to 1988.

On his return to London he was made a director of Morgan Grenfell and in 1989 became director of Morgan Grenfell Investment Management, responsible for the international equity team. William joined JOHIM in 1994 and specialises in managing global portfolios, including the JOHIM Global Fund.

In your 24 years in fund management what's changed ?

Two things – the big investment organisations have got many times bigger than anyone could have imagined. As a result there's been a lot of smaller companies starting up which is very healthy for the investment business overall and particularly for the private wealth management industry. It's very similar to what happened in New York after 1974. Up to 1974 the business had been dominated by a few investment houses and that changed dramatically.

What are the differences between a large investment management firm and a smaller one?

I prefer working for a smaller organisation as it's much more fun. You have to be more entrepreneurial. First of all, you have to go out and get your own clients and look after them. Second, you have to produce the performance figures within the confines of a small organisation. You have to very much work out your own investment policy for the product that you are responsible for.

Are you a GARP investor or value investor?

We are neither. JO Hambro are not what we call "tick in the box investors". We are very much pragmatic investors and we look for individual investment opportunities mainly in medium and larger size companies, sometimes smaller companies. We only invest in companies we really like where we see significant upside over a period of one to three years so in other words we're bottom up stock pickers. What we're not is top down asset allocation investors.

Do you look at relative or absolute returns?

We only look at absolute returns. So if we don't like a market we don't invest in it. So for a number of years we had no investments in Japan even though we were running global portfolios and Japan was at that stage at least 20% of the World Index.

How much money are you personally responsible for investing?

I look after about $500 million, part of which is in the global fund.

Average length of a holding? Average number of US companies in your portfolio?

One to three years. The average number of stocks in a global fund is typically between 40 and 50. The average number of US holdings is roughly 20 – 25.

Do you have any market cap restrictions?

We don't but what we do is carefully monitor the liquidity of stocks so what we make sure is we never get in a position where we have too much in any one holding.

How does the dollar's performance affect your stance towards US equities?

It hasn't affected us one way or the other and we don't take views on currencies when we make investment decisions.

View of US market currently?

We think the market overall is going to be in a trading range but we do think you can make money at the stock level. We think over a longer period of time the p/e on the market will gradually decline and the yield on the market will gradually increase – as dividends become fashionable again.

Are there currently any sectors you are overweight in the US?

Typically we don't look at sectors. We look for companies that are consistent earnings stories which we think will continue to show either strong rates or accelerating rates of earnings growth even if the economy slows down. Secondly, we're looking for companies which may have attractive yield characte-

ristics and rising dividend streams. Thirdly, there are still opportunities in America where you'll have a company which due to circumstances is significantly undervalued relative to its assets.
In the first category, we like Digitas which is one of the leading companies in the new format for advertising, particularly advertising over the internet. It (advertising over the internet) is inexpensive and growing strongly. In the yield category of stocks, we have favoured tobacco shares where they have attractive yields and are restructuring. In the third tier of stocks, we have liked Liberty Media which is at a 35% discount to its asset value while the company is in the process of being liquidated.

Any underweight sectors in the US?

We are underweight the technology sector because valuations until recently have still been high. We've been underweight financials because we've been in a period of rising interest rates and declining net interest margins.

Any examples of stocks that have performed well for you?

Schlumberger – the oilfield services stock, which is a current holding. It's a top 10 holding. It was in a sector which until 18 months ago had been out of favour. The company itself had been out of favour as a result of a disastrous acquisition of Sema at the end of 2000. We've had a series of meetings with management in New York which emphasised a) how good the core oilfield services business is and b) that the company overall is much more focused and unlike in past cycles where they've made acquisitions outside their core business, they'll either be bolting on acquisitions within the core business as well or returning cash to shareholders via dividends and stock repurchases. We've held the stock 18 months.

Which investment managers do you most admire?

Someone like Peter Lynch who used to run the Fidelity Magellan Fund. He's a brilliant bottom up stock picker.

Which companies do you most admire from a management point of view?

I think a company like Johnson & Johnson as it has consistently demonstrated well above average earnings and cash flow growth and has produced a very attractive total return to shareholders over many years. Wal-Green too. Wal-Green is brilliantly managed, it's a leader in its business, it dominates its business, it operates in a very attractive area – prescription drugs and drug store retailing. It's had a wonderful long term record and it has been managed by two exceptional CEOs over the last 20 years. Like Johnson & Johnson the outlook is still very positive.

How many US companies do you meet each year?

Between 200 and 300 of which 60% I'd see in our offices and 40% in the US. My colleague and I visit the US at least six times a year. A trip lasts between a week and 10 days. We sometimes spend one day with one company. Sometimes we'll see eight companies at a conference. We'll do whatever we think we need to do. Jenny (Fisher) and I really run the US side.

How much does meeting management influence your investment making decision?

Hugely. One of the things that is most underestimated by many people in the investment industry is the importance of management and the difference they make to the evolution and success of a business.

Can you give me an example?

One of the obvious examples, one of the most notable and inspirational was the way that Sam Walton ran Wal-Mart. If you ever visited the company in Arkansas it was inspirational as one realised what a powerful company it was and how difficult it would be to compete with Wal-Mart. I'm referring to the mid 80's and early 90's rather than 00's. One man made a huge difference. He invented the company. He was inspirational.

Who do you want to meet from a US company?

It's obviously important to meet the Chief Executive Officer. It's very very helpful to meet the CFO and IR team as well. In America, unlike some other parts of the world, investor relations departments tend to be very good but we still want to meet the Chief Executive of a company we are invested in at least once a year.

What do you look for when you meeting management?

A passion for their business is terribly important. Their vision for the future of the business. The way the business is executing at the moment as that's always an indication of how good divisional management are.