The Interview – Anthony Eaton, JM Finn & Co: “We have a bias toward earnings now rather than jam tomorrow”

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Anthony Eaton, manager of the six-year-old, GBP54m JM Finn Global Opportunities Fund, says the fund aims to invest in the consequences of globalisation as industrialisation and urbanisation within non-G7 countries create greater global output but also greater capacity, moving pricing power from what is made to what is required to make it.

GFM: What is the background to your company and funds?

AE: JM Finn & Co is one of the UK’s leading privately-owned investment managers, serving individual, institutional and advisor clients through a network of UK offices in London, Bristol, Leeds, Ipswich and Bury St Edmunds. The firm had with more than GBP4.5bn in assets under discretionary management or advice as of January 4 this year. As well as working with private clients and professional advisers, JM Finn provides investment management service for trusts, investment funds, charities and pension funds.

The JM Finn Global Opportunities fund I manage was launched in January 2004 and had GBP54.4m in assets as of February 10. Benchmarked against the FTSE All World index, it is a top-down thematic fund holding mostly large-cap equity investments in incumbent producers and operators of primary inputs and infrastructure.

The fund aims to invest in the consequences of globalisation as industrialisation and urbanisation within non-G7 countries create greater global output but also greater capacity. Pricing power therefore moves from what is made to what is required to make it. This is an inversion of the norm established since the Western countries industrialised and became until recently the principal source of global consumption.

GFM: Who are your key service providers?

AE: The fund’s administrator is Capita, while the custodian for all markets is Bank of New York Mellon.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

AE: At present the fund is distributed to UK retail investors largely through national IFAs and uses major distribution platforms including Hargreaves Lansdowne, Cofunds, Skandia and Transact.

Future plans include distribution to European private banks and similar institutions plus UK and European institutional funds. Distribution will expand beyond that incrementally. The intention is to attract long-term investors where possible (although there is daily dealing).

GFM: What is your investment process? How do you generate ideas for your funds?

AE: Our top-down pragmatic evolutionary strategy is based on six priorities. The identification of trends is vital, as the represent market signals. Buying into uptrends reinforces compound progress, while selling into downtrends limits loss. Identification of value – which essentially means pricing power – is essential when trends don’t exist.

Priority is given to businesses whose output supplies non-discretionary demand, and leaders in each market are preferred to new competitors. Ungeared balance sheets are preferred to leverage, and we have a bias toward earnings now rather than jam tomorrow.

We make two or three company visits per week and three or four ‘in country’ visits per year.
In-house research complements external input, and extensive information and opinion sharing takes place within the JM Finn group.

GFM: What is your approach to managing risk?

AE: The fund holds around 170 holdings. Thematic risk exists – it is the basis of the fund – but stock-specific risk is modest. There is no mechanical process, but stocks in a downtrend are sold regardless of sentiment. Stocks in an uptrend, for the same reason, are more likely to be added to than sold. The fund is monitored daily at compliance level both within JM Finn and the administrator. It reports on a three-monthly basis to a risk and oversight committee.

GFM: How has your recent performance compared with your expectations and track record?

Our track record is good. The fund was first within the Investment Management Association global growth sector in 2006 and 2007, bottom in 2008 and top again in 2009. Events within our thematic universe largely account for these returns both historically and going forward. Since the fund’s launch on January 23, 2004 it has returned 39.14 per cent, compared with 20.65 per cent for the Global Growth Index.

GFM: What opportunities are you looking at right now?

AE: Global economic activity is rising. Little capital expenditure has been seen in recent years, implying pricing power for incumbent producers and in situ assets.

GFM: What events do you expect to see in your sector in the coming year?

AE: We expect rising economic activity coupled with rising capacity as five billion people industrialise. This implies modest inflation, weak pricing power after the factory gate and rising cost of the input in which we invest.

GFM: How do you assess investors’ current expectations?

AE: The linear ‘Asia good, West bad’ view is probably overbought.

GFM: What differentiates you from other managers in your sector?

AE: We do not view opportunities in a geographical context. Rather, we are interested in supplying the totality of global demand for internationally traded and universally required goods and services. The origin of each unit of demand is less relevant in that context.

GFM: How do you view the environment for fundraising over the coming 12 months?

AE: It should be good if the environment is as we expect.

GFM: Do you have any firm plans for further product launches?

AE: Yes

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