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The Wilson King duo talk investment strategy

CRAIG RAY & AMY LAZENBY

Wealth Manager Profile

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Craig Ray readily admits that if he was able to work up a bit more enthusiasm for marketing, his investment boutique, Wilson King, would be a far bigger operation by now. Sitting opposite him and co-founder Amy Lazenby, they are evidently reticent on this score.

This is in inverse proportion to an unforced enthusiasm for their day jobs, however. Almost from the get-go and with minimal preamble, the conversation takes off into the more esoteric end of macro economics and strategic investment planning, and continues rattling on in that vein for the best part of the next two hours.

Try to draw the conversation back to more parochial matters such as how the business makes money and how it hopes to make more of it, and the conversation distinctly begins to flag, however. Not that it stays that way for long.

Citywire can only spare one journalist per profile and outnumbered by a ratio of two to one, Lazenby and Ray form a formidable tag-team, capable of bending the steeliest line of questioning back to their favourite subject. And in fairness they fit more investment gold into five minutes than many of their peers do in an entire interview.

'We have a passion for what we do. But the flipside of that is that we don't spare much time for things like marketing,' says Ray. 'Clients are always asking us why we don't do more – I think we could have been a lot bigger by now if we had been worse investors but better marketing people.'

That passion – and the word is used advisedly – appears to go a long way to explaining how and why their relationship works.

Superficially they might appear an odd couple: Lazenby the younger and more socially engaging of the two, Ray the one who takes up the baton when talk turns to the charting methodology used in-house.

But the differences in age and temperament do appear to complement their respective skill sets and approaches. You believe them when they say that in the six years since the company was launched they have yet to have a falling out, and both give the other space to talk and respond to questions.

This is fortunate, because they work in extremely close proximity. The firm in its entirety consists of the two of them plus an administrative assistant, with all the back-office functions managed by Raymond James, which also formally 'owns' their clients.

The two met back in 2002, when Ray was head of research at Taylor Young. Lazenby, after making a fair sum playing the stock markets with her student loan, had initially gone into financial PR to gain some exposure to the City.

She applied to Allianz RCM and after it cancelled its graduate training programme amid the tech bubble correction, received a job offer from chief investment officer Neil Dwane, but deciding she

BY
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only had one shot at a career and 'couldn't afford to get it wrong', she opted for a training opportunity at Taylor Young.

Ray had by that point worked at the company since 1994, having begun his career at a regional brokerage in Birmingham. His run at the company had been interrupted by a three-year stint at CCLA Investment while gaining institutional experience, before being recruited back into the company as it struggled to handle its tech hangover.

After forging a strong working partnership, the two departed together when the company began to retrench in 2003, choosing to turn a crisis into an opportunity.

Their company now has 19 client relationships, managing a total £30 million, on a 1% management fee charged quarterly in arrears. Income runs somewhere between 60% and 90% recurring, dependent on how busily the company has traded in a given year.

Clients – heavily screened – are largely 'time poor' entrepreneurs, directors and financial professionals, aged between 35 and 60. 'We have said no to quite a few clients,' says Lazenby. 'People who work in derivatives, who come in saying that they want overlays and particular strategies – we could do that but we don't want to.

'We could enter that relationship but we would be wrong-footed from the beginning. Clients who have an axe to grind can be very difficult. We really have to have the same approach from the beginning or else you will rapidly lose their trust.'

That said, their clients, all of whom have a sophisticated view of the markets, are also a major asset, adds Ray. They value a manager who can give them an honest and clear-eyed assessment of almost any market or asset class they might be interested in and in return share their own insight – which is why they have become and remain clients.

'We are extremely pleased with the calibre of the client list,' he says. 'All the people we look after have an understanding of markets and need a manager who can understand their requirements – we have an opinion on pretty much every commodity and market they are interested in, whether that is currencies or whatever.

'One client, a head of corporate finance at a big bank who was a friend before, said he could take disappointment but didn't like to be surprised. "Relative performance" is a phrase that will get you kicked out of [our clients'] offices.'

The company has recently had a series of positive meetings with family offices however, which have obvious potential to exponentially expand the company's asset base, as well as several of the large banks looking to outsource investment management. Pre-crunch discussions with the sector had previously run into the sand due to the duo's lack of enthusiasm for hedged products and other alternatives.

'We have recently had a lot of people come to see us who have lost a lot of money on the way down and haven't made any on the way back up. The one thing that they all say to us is that we are doing something different,' adds Ray. 'If you look at UK exposure, something like 90% of private clients assets remain in the UK. That can't be right from a growth perspective.'

The team switch between growth and value style investing depending on where they believe the market is within the economic cycle. Ray says that he more often than not finds value in whichever style of investing is out of vogue, and says he would loosely accept the label of contrarian investors. He adds that it is a much abused title and not one he would propose himself as he wishes

to be free to invest where he thinks the best absolute returns can be achieved.

There is no closet indexation and the business looks at companies of all market caps and in many countries around the world to find the best returns.

Performance has been as solid as you would expect given their diligence. The company provides four broad portfolio balances (although each actual client portfolio is unique) specialist/tech, growth (overseas), growth (UK and overseas) and growth and income.

The specialist portfolios have returned between 30% and 44% since 2008, growth 27% to 37%, growth UK 14% to 17%, and growth and income 14% to 22%. Each offers a concentrated selection of 30 to 35 individual holdings, with direct exposure within the UK and collectives delivering overseas.

The research process is divided roughly 70:30 between top-down sector calls and bottom-up company-specific calls, although this formula is reversed for small caps. Individual stock decisions are taken at base on the strength of cash flow and the company's own proprietary cash flow analysis but also considers more intangible factors such as stable management, strategy, smart application of technology and pricing power.

Asset exposure is of the meat and two vegetables school of thought, and has avoided the well publicised blow-ups of the past two years. From a macro perspective, Ray takes the lead on beginning to shape strategy through leading indicators before looking for secondary and more fundamental confirmation of trend.

'I remember meeting with an amusement arcade manufacturer who said he could always tell how a week had been from just one machine. It's like using the weight of freight out of Beijing or Singapore, or rail through San Francisco or US money supply.

'We know as much about what we don't own as what we do own. The other fundamental is Fed Ex [shipping and logistics] – if you overlay that against the S&P it is almost foolproof. The US domestic consumer is as flat as a pancake – but the growth we are seeing in global is staggering. Two hundred and fifty years ago something like 45% of global GDP was produced by China and India – we clearly have an enormously long way to go – it will be something like a 30 or 50-year journey.'

Their current outlook is best described as cautiously optimistic, saying that in anything other than a domesday scenario, a lot of lot equity looks remarkably cheap. 'We haven't seen that uplift, but we are ready to catch it,' says Lazenby, who points out that historically the majority of investors miss 60% to 80% of market gains from a recession.

In their most recent market update, the duo wrote: 'We believe that we are in the early stages of a bull market; we do not think we are about to suffer a double-dip recession.

'The first phase of a bull market is never fun. Investors carry psychological war wounds from the preceding bear market and, accordingly, are typically nervous and insecure. There is clear evidence of this today as investors' attention is focused solely on negative economic statistics.

'Media headlines do little to dispel such fears. The initial stock market rebound in March 2009 was not sustainable in strength or duration, in part because it comprised a sharp upward re-rating of stocks that had been priced for bankruptcy and in part because expectations for economic recovery became too optimistic.

'The economies of the UK, continental Europe and the US have fundamental problems which need to be addressed. We must allow these stock markets a period of digestion and respite as it would be unhealthy and unsustainable for them to continue their meteoric rises of the last nine months of 2009.

'Today, a significant proportion of assets are sheltered in what investors perceive to be low risk investments such as cash and gilts yet they are not providing a real rate of return. Meanwhile, equities are yielding around 4% with potential capital upside and no one seems to be interested. We are not overly optimistic about returns for the next six months but on balance, we see inherent value in global equity markets.'

Ray emphasises his scepticism about Western economies however, and points out that the UK has just been through its first consecutive years of wage deflation since 1945. 'It's a startling fact,' he adds. ■

AMY LAZENBY'S TOP FIVE FUND PICKS

It is quite unusual to see such a strong international influence in private client portfolios but our global approach to investing has been handsomely rewarded and we continue to believe that the best returns are likely to come from the overseas markets. We invest directly in the emerging markets and indirectly through global businesses listed on developed world exchanges that earn a significant proportion of their revenue in the emerging markets. Our top five fund investments reflect this belief. Another common and distinguishing feature of our top five is the consistency of performance among the funds.

Our top pick is the **BlackRock Latin American investment trust**, which is up 223% over five years, and the small cap offshore version, managed by the excellent Will Landers. Brazil is the largest Latin American economy and has the most significant weighting in stock market terms. Although commodities are an important part of the Brazilian stock market we are more interested in the consumer facing businesses. The increasing purchasing power of the emerging middle class in Latin America, India and Central Asia is a theme that is playing a key role in shaping our portfolios.

Our second selection is the **Templeton Emerging Markets investment trust** up 179% over five years. Templeton is traditionally a more conservative house but fund manager Mark Mobius has worked his magic to produce consistently strong returns in all markets. Again, there is an offshore smaller companies' spin-off for the more adventurous individual. The biggest geographic weightings are in Brazil, Hong Kong, China and India, our favoured emerging markets, but the fund also gives us exposure to countries with smaller, more focused stock markets such as Thailand and Russia.

The **JP Morgan Indian investment trust** is another favourite, up 126% over five years. We are very excited by the growth prospects of the Indian market. The country has some of the most attractive demographics in the world and the youngest working population with 50% of people aged between 12 and 29 years old. It has a growing consumer market with approximately 300 million young and ambitious people classified as middle class – a restless generation of potential big spenders. The savings rate is around 40% of GDP. Incidentally, around 9% of Indian household savings goes into the equity market whereas 50% is invested more cautiously in land and gold but if the risk appetite were to change this could lead to a flood of domestic money into the Indian stock market. Finally there is, as yet, no infrastructure story in India. We have witnessed the infrastructure boom in China and believe this will replicated in India.

To show that we like open-ended funds as much as investment trusts our final two investment picks are unit trusts. The **Schroder Asian Income fund** has a yield of around 4.7% and has produced excellent capital returns. Although it does not have a five-year track record for comparison purposes, performance over three years is still more attractive than the majority of UK funds. While private client portfolios in the UK typically have no more than 5% to 10% of their investments outside the UK, one might question why this is the case when the best returns over the past few years have come from overseas markets.

Last, but by no means least, is the **M&G Global fund**. As the name suggests, the fund has a global investment mandate. We like it because it invests in global brands and franchises that cater to the rising consumption levels in the emerging markets. It also invests in a variety of commodity and oil businesses supplying the raw materials for industrial growth in these regions.

Our primary investment theme is the increasing purchasing power of the growing consumer base in the emerging markets. This can be played through investment in global businesses that derive a large percentage of their revenue from the emerging markets or by investing directly in the emerging markets themselves. We believe the above funds will participate in this trend and will produce strong returns for our clients.

WILSON KING
INVESTMENT MANAGEMENT

Wilson King Investment Management is an independent provider of discretionary investment management services. We provide a genuinely personal service to both families and individuals, tailoring each portfolio to suit our client's requirements.

Client relationship management is a key element of our philosophy. We like to share our thoughts on macro economic factors and relate them to specific investment decisions.

Our office is located by the Bank of England but our clients are based worldwide.

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