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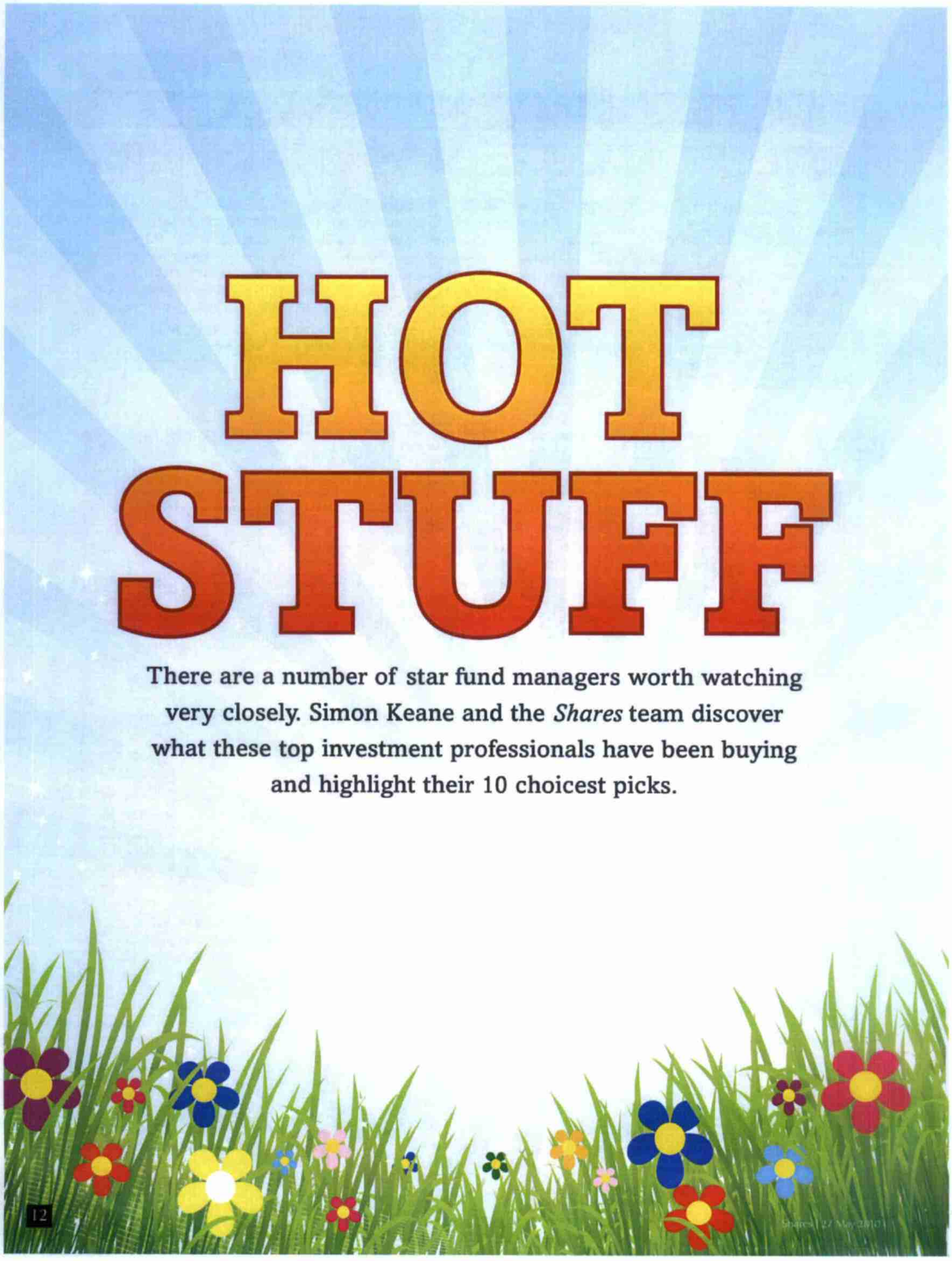

HOT STUFF

There are a number of star fund managers worth watching very closely. Simon Keane and the *Shares* team discover what these top investment professionals have been buying and highlight their 10 choicest picks.

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Fund managers do not, in general, have a great reputation. But there are some really shrewd players out there so assessing who they are and what they have been buying is well worth the effort.

We have done just that and isolated some of the most successful operators (see table below). Better still, we have identified additions made to their portfolios in the past three months. After studying their picks for trades we also favour, the *Shares* team has zoomed in on what we think are the ten hottest stocks in the UK market today.

Recent star fund manager purchases to follow include technology plays **EMIS (EMIS:AIM)**, a supplier of software to GP surgeries, data centre group **CSF (CSFG)** and precision instruments manufacturer **Spectris (SXS)**. Investors should also follow picks of resource counters **Vedanta (VED)** and **Tullow Oil (TLW)**.

Other buys to consider are pharmaceutical top-performing stocks **Hutchison China (HCM)** and **Hikma (HIK)**, **CPP (CPP)**, a provider of payment protection plans, retailer of youth fashion **SuperGroup (SGP)** and housebuilder **Bovis Homes (BVS)**.

New positions

Our star fund managers have taken new positions in all of these stocks during the past three months.. To make sure we are only following the genuine top performers we have insisted on an outperformance by their funds of the FTSE All-Share's 41.3% five-year total return. With total returns of between 53.4% to 95.7%, our stars have all beaten the market by a good margin.

Fund manager performance statistics can often be misleading given the fund managers themselves have a habit of frequently moving employer, and for this reason we have only chosen managers who have been running their portfolios for four or more years. Two of them, Harry Nimmo and Mark Slater, have been running their respective funds - **UK Smaller Companies** and **MFM Slater Growth** - since launch, and in Nimmo's case that means he has been in charge for 13 years.

Star fund managers performance

The stars	Five-year gain (%)
Paul Spencer, Rensburg Fund Management	95.7
Harry Nimmo, Standard Life Investments	78.4
Mark Slater, Slater Investments	55.9
Julie Dean, Cazenove Capital Management	53.7
Ralph Brook-Fox, Ignis Asset Management	53.4
FTSE All-Share	41.3

Source: Citywire, Thomson Reuters Datastream

Total returns for five years to 31 Mar 2010 of respective funds as listed under Star Fund Managers (right).

STAR FUND MANAGERS

Julie Dean

Fund: Cazenove UK Opportunities
In charge: Seven years
Five-year total return: 53.7%
Follow: March's new position in EMIS (EMIS:AIM)

A top-down approach means Dean always asks where we are in the business cycle – recovery, recession, slowdown or expansion? At the turning points (recovery and recession) stock selection is driven by sector views. Preferred picks will be found in high beta sectors, such as cyclicals, in a recovery, and amid low beta areas and defensives during a recession. During expansion and slowdown phases she pays more attention to alpha at the individual stock level.

Harry Nimmo

Fund: UK Smaller Companies (Standard Life Investments)
In charge: 13 years (since launch)
Five-year total return: 78.4%
Follow: April's new position in **Hikma Pharmaceuticals (HIK)**. March's new positions in **SuperGroup (SGP) and CPP (CPP)**

Nimmo never catches 'falling knives' so did not partake in last year's dash for trash. Instead he takes a 'three-to-five-year view,' an approach vindicated by the fact several of his small cap picks have gone onto become FTSE 100 companies including **Serco (SRP)** and **Capita (CPI)**. He runs a daily quant (quantitative analysis) screen, where the parameters include earnings growth, price/earnings ratio (PE), yield and whether a stock is over or underowned. He avoids blue sky stocks.

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STAR FUND MANAGERS

Mark Slater

Fund: MFM Slater Growth
In charge: Five years (since launch)
Five-year total return: 55.9%
Follow: March's new positions in SuperGroup (SGP) and CSF (CSFG:AIM). February's new position in Hutchison China Meditech (HCM:AIM).

A bottom-up growth investor who does not totally discount value, Slater looks for growth at a reasonable price (GARP) and uses a lot of number crunching to help him find stocks on a low price/earnings growth (PEG) ratio. This is calculated by taking the prospective price/earnings ratio (PE) and dividing it by forecast earnings per share (EPS) growth, and is a method developed by the fund manager's well-known investor father, Jim Slater, who set out the family mandate in his 1990 book *The Zulu Principle*.

Ralph Brook-Fox

Fund: Ignis UK Focus
In charge: Four years
Five-year total return: 53.4%
Follow: April's new positions in Bovis Homes (BVS) and Tullow Oil (TLW). March's new position in Vedanta (VED).

Brook-Fox is focused principally on growth but his fund has an emphasis on 'quality' companies. To identify portfolio picks, he uses a checklist of six 'winning characteristics,' which includes earnings growth but also more qualitative considerations such as analysis of the management team, the business model and the industry structure. Valuation is taken into account but only in the sense of quantifying the upside potential.

Paul Spencer

Fund: Rensburg UK Mid Cap Growth Trust
In charge: Four years
Five-year total return: 95.7%
Follow: March's new position in Spectris (SXS).

The fund manager has whittled the FTSE 250 down to an investable universe of around 100 companies. His top-down approach currently favours companies with overseas earnings as he is 'particularly negative' on the UK economy. Spencer immediately eliminates companies in sectors where 'fundamentals are so poor it is not a place to invest'. At the individual stock level, he crosses off firms with weak balance sheets or ineffective management before he applies a final valuation filter.

All returns for five years to 31 Mar 2010. Source: Citywire.

Punchy positions

One feature that links all our names is they take big positions in individual stocks. Ralph Brook-Fox, for example, holds just 30 companies in his **Ignis UK Focus** and, as the name of his fund would suggest, is a genuine stock picker. He is no 'closet tracker', which unfortunately is a charge that can be aimed at many institutions and individuals in the fund management industry.

Four of the other stars we have isolated hold less than 50 stocks, so on average their holdings will represent at least 2% of their fund. Given three of them (Julie Dean, Brook-Fox and Slater) invest right across the market cap range this means their holdings will be substantial relative to the FTSE All-Share.

At the end of April, Brook-Fox and Dean had 40.2% and 43.9% respective weightings in FTSE 250 and FTSE SmallCap stocks combined, despite these two indices accounting for only 15% of the broader FTSE All-Share, with the balance being accounted for by the FTSE 100.

The conviction to stand out

Taking strong views relative to the benchmark index is important. It is only through making such conviction calls fund managers will ever have the hope of outperforming the wider market. This point was neatly summed up by legendary investor John Templeton, who said 'It is impossible to produce superior performance unless you do something different from the majority'.

But following the majority is exactly what many asset managers do and this is the unfortunate by-product of a fund management industry which still puts far too much emphasis on relative outperformance versus a peer group. By second-guessing their rivals, sticking close to benchmark weightings and loading portfolios up with the biggest FTSE 100 names, the average money manager knows he or she at the end of the year will come out looking no worse than their contemporaries and probably keep their job.

It is worth noting that over five years both Nimmo and Spencer are the top of their respective peer groups, the Investment Management Association's UK All Companies (239 funds) and UK Smaller Companies (47) sectors.

There is a breed of fund manager out there willing to take bets outside of the FTSE 100 and break from the crowd - and these are ones worth following. Below we give you an insight into what these stars have been buying in the past three months and identify what we think are their ten choicest picks.

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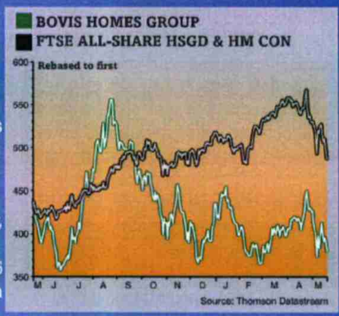
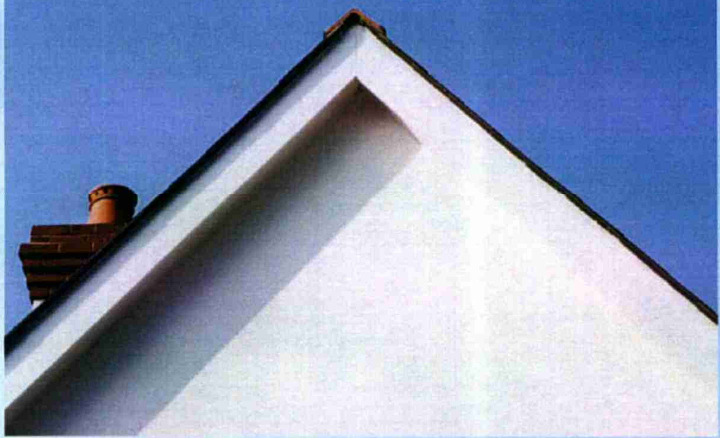
Bovis Homes (BVS) 393p

Market value: £526 million
Star buying: Ralph Brook-Fox, Ignis Asset Management



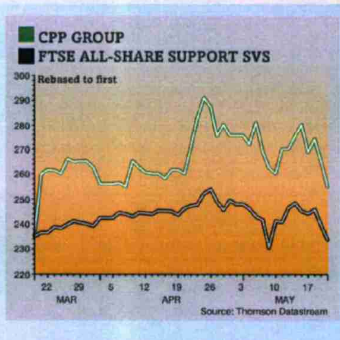
The housebuilder is much better positioned than many of its peers with £130 million of net cash on its balance sheet as at 30 April, so it should be able to buy land at the prevailing depressed prices. This will leave Bovis well positioned to ride the nascent housing market recovery, evidenced by the £526 million cap's first-quarter interim management statement (6 May). This noted reservations were up on 2009, adding sales prices were 'modestly ahead of internal expectations'. The purchase of land at the depressed prices available now should help drive up profit margins and create significant shareholder value over the next three to four years. (SK)



CPP (CPP) 262.3p

Market value: £465 million
Star buying: Harry Nimmo, Standard Life Investments

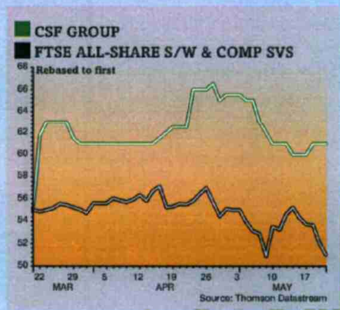
The York-headquartered firm offers substantial growth potential through the expansion of its card protection plans in to overseas markets including India, Mexico and also China, where a new contract has been won with the Guangdong Development Bank, according to last week's (19 May) first-quarter interim management. Strong relationships with the big banks gives access to these new markets, as exemplified by 2009's move in to Mexico via HSBC (HSBA). Selling higher-value products in its core Northern European market, such as identity theft protection policies, should drive up profit margins. The shares came off following the in-line update but this looks to be a buying opportunity given the £465 million cap's rising profitability in its core markets, while geographical expansion is yet to be fully reflected in consensus earnings per share (EPS) growth forecasts of 14% for 2010 and 15% for 2011. (SK)



CSF (CSFG:AIM) 61p

Market value: £105 million
Star buying: Mark Slater, Slater Investments

Growing Malaysian data centre operator CSF raised £28 million at March's float, and intends to use the money to build one of the largest data centres in Asia as well as fund expansion into neighbouring countries. CSF already has a third of the Malaysian market, with a number of blue-chip customers including the Asian hub of a major internet search provider. The group looks well placed to benefit from the soaring demand for storage space as the internet grows. CSF expects to reach 80% occupancy in its existing data centres by the end of the year, and dividends are expected in 2011. (JF) ➔



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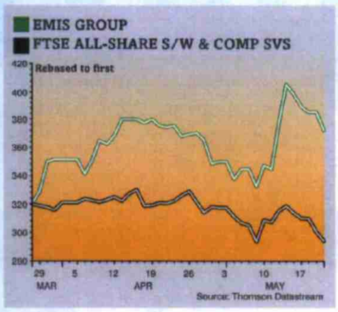
EMIS (EMIS:AIM) 385p

Market value: £204 million
Star buying: Julie Dean, Cazenove Capital Management

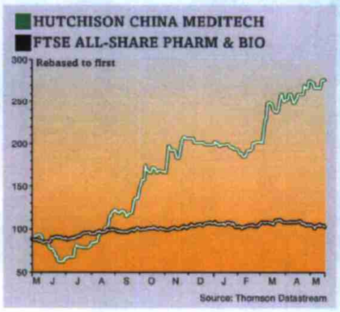
Newly-floated (29 Mar) EMIS should continue to grow as its popular healthcare software saves time and money for GPs. A strong endorsement was last month's (12 May) announcement EMIS will supply software for 243 practices in Greater Glasgow and Clyde, a deal worth upwards of £1 million in core annualised revenues. This also signals EMIS' potential to become a major software player in the Scottish market, after securing a 60% share of the English primary care market. A 2010 price/earnings ratio (PE) of 18.5 is in line with peers in this niche, which should enjoy strong growth in the years to come. (JF)



Hutchison China MediTech (HCM:AIM) 274p

Market value: £141 million
Star buying: Mark Slater, Slater Investments

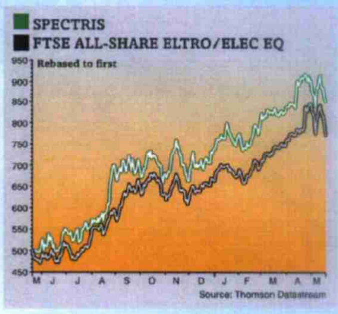
Hutchison China MediTech's main business is selling traditional Chinese medicines in China over the counter and via prescriptions. The firm says it is the leader in this market which it estimates to be growing around 20% per annum. All of the company's main products , both over the counter and prescription, are included in the Essential Medicines List, which all state-owned institutions must stock by 2020. This should help drive sales growth in the future. In addition the company has a drug development arm, creating new medicines along Western lines, and a small consumer products business. (IM)



Spectris (SXS) 853.5p

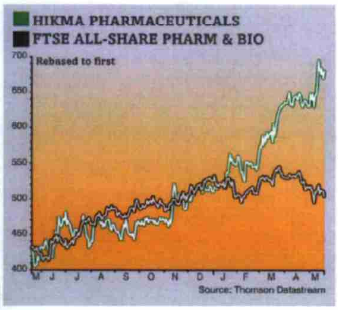
Market value: £992 million
Star buying: Paul Spencer, Rensburg Fund Management

As the European economy gathers steam, Spectris should offer shareholders further upside. The technology group last week (19 May) reported recovery in Asia and the US compensated for a sluggish Europe, especially Germany. Strongly diversified end markets saw the maker of precision instruments and controls report an overall 4% increase in revenues for the first quarter. Cash conversion remains strong and debts were reduced by £37 million to £87 million. A continuation of the present growth rate would make earnings upgrades likely this year. Margins should also improve as the benefits of last year's restructuring and integration measures are felt. (JF)



Hikma Pharmaceuticals (HIK) 676.5p

Market value: £1.3 billion
Star buying: Harry Nimmo, Standard Life Investments



Hikma's main line of business is selling medicines in to the Middle East and North Africa (MENA) region. The markets are growing, and because most drugs are paid for entirely by the consumer, there is strong demand in particular for branded generics. These are off-patent medicines sold under a brand name, providing assurance on quality. Hikma has the largest pharmaceutical sales force in the MENA markets, and because these remain fragmented it should be able to consolidate its position. The strategic attractions of emerging markets have been highlighted by the attempts of the big companies like **GlaxoSmithKline (GSK)** to move in to them. (IM)

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SuperGroup (SGP) 569.5p

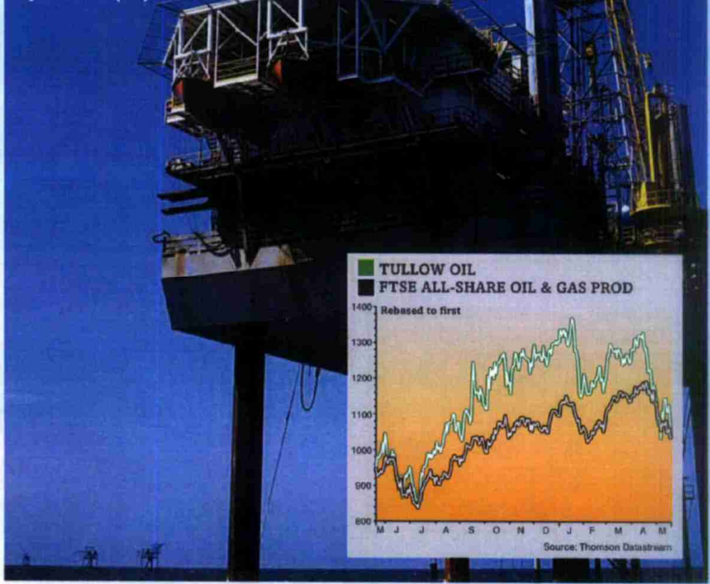
Market value: £490 million
Stars buying: Harry Nimmo, Standard Life Investments and Mark Slater, Slater Investments

The retailer of youth fashion should be purchased for its ambitious growth plans with a target of 150 UK stores compared to the current estate of 43. The company's Superdry label has caught the imagination of the fashion conscious with like-for-like sales up 17% in the year to 2 May, as revealed by the year-end trading update earlier this month (11 May). The debt-free company, set up and run by chief executive officer (CEO) John Dunkerton, who still holds a 33% stake, looks capable of mirroring the success enjoyed by that other owner-managed niche retailer **Dunelm (DNLM)**, which has more than doubled since its 2006 flotation. (SK)

Tullow Oil (TLW) £10.50

Market value: £9.4 billion
Star buying: Ralph Brook-Fox, Ignis Asset Management

We see the recent indiscriminate sell-off among the oil and gas producers as unwarranted and in the case of Tullow, off 18% since the beginning of April, it has afforded an opportunity to buy ahead of first oil in Ghana in the fourth quarter and significant exploration wells in Liberia, Sierra Leone, French Guyana and Guayana over the next six months. Sector weakness can be attributed to a combination of the oil spill in the Gulf of Mexico, a fall in the oil price and a general retreat in risk appetite but success with the drill bit should support the shares and the company has a great track record in exploration. (TS)



Vedanta (VED) £23.44p

Market value: £6.4 billion
Star buying: Ralph Brook-Fox, Ignis Asset Management

Shares believes the miner is due a re-rating following May's purchase of **Anglo American's (AAL)** zinc operations and the growth prospects of the acquired assets. The deal gives the £6.4 billion cap two exploration projects, including one of the world's largest undeveloped zinc deposits, Gamsberg in South Africa. This means Vedanta, which has minimal exposure to Australia, where many of its competitors' growth ambitions stand to be stifled by rising taxes, has several large exploration programmes on the go. The transaction also reduces the historical focus on India and so lessens geopolitical risk. (SK)

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