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Impact of BP's troubles helps Tempus Ten to beat the market

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Tempus

It's usually better to succeed on your own account rather than rely on others to fail.

That sentiment might temper any tendency to treat the half-year performance of the Tempus Ten with too much triumph. For although, for the first time in many years, all ten of the portfolio's constituents have done better than the FTSE all-share index, that benchmark — down 5.5 per cent since the start of the year — has had to contend with a significant one-off strain: the travails of the heavily-weighted BP, whose shares have fallen 49 per cent since January. Put another way, BP single-handedly accounts for three quarters of the market's fall.

All the same, the Ten has met all three of its objectives: to record positive returns in absolute terms; to exceed the "risk-free" return from ten-year gilts (currently 3.4 per cent); and to outpace the progress of a tracker fund invested in UK equities. Overall, the portfolio has advanced 16.5 per cent — a comfortable 22 percentage points ahead of the FTSE all-share. That showing means the Ten's outperformance against the market has nearly doubled over the last three months (previously 12.5 percentage points).

An equal store might be placed on the portfolio's claim to capital preservation — only two stocks are lower than at the start of the year, and then mere percentage points. Once the return from their dividend income is added back, shareholders are no worse off.

Logica, the FTSE 250 computer services group, down 1.8 per cent, is the Ten's most obvious loser from concerns over cutbacks in government spending — which accounts for about 60 per cent of the company's UK revenues. Those fears have been reinforced by the new coalition's creation this week of an "efficiency and reform" group, whose targets include wringing £100 million of savings from public sector IT expenditure through renegotiating existing contracts. Work on one of Logica's — the Vetting & Barring Service, a post-Soham database for checking child workers which the company is managing under a £50 million contract — is already thought to have been scaled back.

James Fisher, the provider of marine support services, down 2.9 per cent, remains hampered by its cash-generative but highly cyclical coastal shipping division, which last year fell into the red. However, last month's trading update showed the rest of the group performing to plan, and when shipping volumes start to recover, Fisher's earnings forecasts should follow suit.

Cyclicality has worked in the portfolio's favour at Premier Farnell, the FTSE 250 distributor of electrical components, up 33.5 per cent. The company's sales are traditionally linked to movements in GDP, but have been given further momentum by the growth strategy of Harriet Green, chief executive. The details of her second, three-year programme will be set out to investors next month. However, it is Hutchison China MediTech, the healthcare group backed by Hong Kong's Hutchison Whampoa, that takes top billing. The shares rose five-fold in 2009, but have kept on rising — up 57.9 per cent this year. Its core attraction is a highly profitable business that makes and sells traditional Chinese medicines, which is growing at 20 per cent a year. But it also has a biotech business that will sooner or later be spun off, and distribution division through which Western branded foods and beauty products are sold into China, including a joint venture with America's Hain Celestial.

The fortunes of the portfolio's two natural resources plays have sharply diverged over the past three months. Eastern Platinum, the operator of South Africa's Crocodile River project, has trimmed its gain to 28.8 per cent — from 67.6 per cent at the end of March. The worries over Chinese growth that have unsettled all miners have played a part, but so too have those over the demand for car auto-catalysts after the withdrawal of last year's scrappage schemes.

In contrast, Valiant Petroleum, up 1.2 per cent at the end of March, is now ahead 20.9 per cent. The boost has come from last month's oil discovery at the explorer's West Tybalt field in the northern North Sea. The find has raised hopes of drilling success at Valiant's Viola prospect this summer. Centrica, the British Gas owner, pays a chunky dividend, but it is also delivering solid capital growth — up 8.8 per cent. Profits have recently come under pressure from rising wholesale gas prices, but analysts now suggest that margins in gas supply could double from current levels.

Lloyds Banking Group, the portfolio's biggest constituent, up 6.9 per cent, has retreated since the three-month stage, joining the sell-off in its sector prompted by jitters over sovereign debt and the risk of a double-dip recession However, it is also touted as a beneficiary of this week's Emergency Budget, with the likely hit to earnings from the proposed bank levy more than outweighed by its savings from lower corporation tax.

That leaves GKN, the engineer, up 3.4 per cent, where concerns over its pension fund deficit continue to weigh, and Animalcare, the AIM-listed developer of veterinary medicines, up 9.0 per cent, which should provide clarity on new product launches at next month's trading update. For these two, in particular, the second half of 2010 should bring better gains.

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Tempus Ten so far

	Price Jan 1, 2010	Price June 25, 2010	Change %
Hutchison China MediTech	199½p	315p	57.9%
Premier Farnell	**172¼p**	**230p**	**33.5%**
Eastern Platinum	54¾p	70½p	28.8%
Valiant Petroleum	**563½P**	**681p**	**20.9%**
Animalcare Group	100p	109p	9.0%
Centrica	**281p**	**305¾p**	**8.8%**
Lloyds Banking Group	50¾P	54¼p	6.9%
GKN	**117p**	**121p**	**3.4%**
Logica	113¾P	111¾p	-2.9%
James Fisher	**445p**	**432p**	**-1.8%**
Average			**16.5%**
FTSE all-share index			**-5.5%**
Difference			**22.0%**