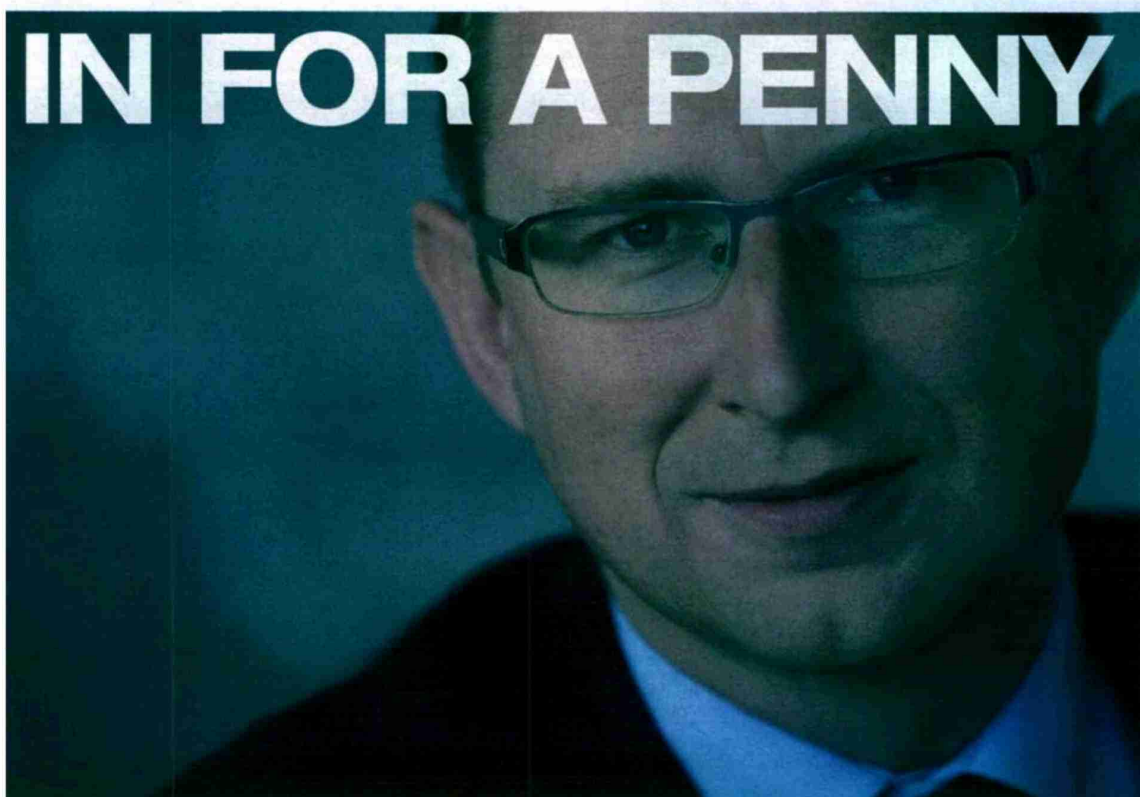


**Client:** Chi Med  
**Source:** Investment Week (Main)  
**Date:** 18 October 2010  
**Page:** 61  
**Reach:** 12301  
**Size:** 723cm2  
**Value:** 7136.01

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Richard Penny's Legal & General UK Alpha Trust has consistently generated strong returns since its launch in May 2005, driven by the manager's focused 'best ideas' approach.

According to Lipper, the £100m vehicle is ranked first percentile out of 243 funds in the IMA UK All Companies sector over five years to 31 August 2010, up an impressive 62.93% compared to a sector average of +13.36%. Over three years the fund is ranked top decile, up 18.17% compared to a sector decline of 11.63%, and over one year the fund is up 19.49%.

**A high conviction focused blend**

The manager takes a long-term view on core holdings with a time horizon of two to three years split between 'strong growth' and 'deep value' investments where a longer holding period is typically

recorded. It is a focused portfolio generally holding between 25 and 50 investments in micro- to mega-cap UK stocks, and targets outstanding opportunities in both value and growth markets.

Penny's thinking behind this innovative, flexible approach, which covers the whole market, is to utilise the two complementary styles of growth and value that outperform in different parts of the economic cycle.

"In looking for this difference between value and price for shares that can double we have had some of our best success in the AIM market, which most people cannot believe, Penny explains.

"It is because people have been flocking for the exits of that market we have found attractive prices, and some pretty good businesses I would add."

Fifteen months ago there was a lot of refinanc-

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ing activity taking place in the market due to falling profits and reduced bank debts and bank loans. This fitted into Penny's deep value strategy, and he was able to buy a number of stocks at significantly discounted prices.

He points out banks are now more helpful with loans and more involved in the corporate bond market. As a result there is less refinancing and subsequently Penny has had more success in recent months with his growth stocks.

#### Recent fund successes

One of the fund's many success stories is the retail company SuperGroup, which was added to the portfolio earlier this year. "It is an international business, which floated in March at £5 and has produced fantastic growth since it came to the market," Penny says.

He identifies the healthcare firm, Immunodiagnostic Systems, as a key driver of performance over the last year. "The share prices have gone up from £1.20 when we bought it in January 2009 to £7.40 on 2 August this year," Penny says.

"At the start we put 3% to 4% of the fund in it. We have actually sold quite a lot of the stock now, so obviously it is less attractively valued than it was."

Another strong growth stock, which Penny bought a year ago and continues to hold, is Hutchison China Meditech, a firm which sells traditional Chinese medicines in China. He points out it has posted 25% sales growth for five years, and is "very nicely profitable."

"Our average price in this is about £1.08 and today they are worth £3.60 so that has been a big winner for us."

#### Strong growth themes

Penny identifies data as a strong growth theme, driven by the rapidly increasing number of consumers purchasing iPhones. "More and more people are buying them and it is just blocking up the networks," the manager says.

He points out spending of around \$120bn is expected in the next few years on server hosting and building the infrastructure that will be required to handle the increase in data traffic.

Penny identifies this as an area of rapid expansion

which could drive a business's growth up by

15% to 20%. To exploit this theme he has bought a stock called iomart, which helps people host servers and run their websites, and the broadband satellite operator Avanti Communications.

"Avanti could be an early stage version of Inmarsat, which has been a great investment. It has funded and is funding satellites that will be involved in broadband for remote areas."

#### Recent addition

A recent data addition to the portfolio is smart phones retailer eXpansys, whose chairman is telecoms entrepreneur Peter Jones of BBC TV's *Dragons' Den* fame. It is Jones' first attempt at a quoted entity.

Penny reveals: "He was very keen to get the likes of ourselves and the other institutional investors in, so we think we got a very good deal. The chief executive officer of the firm is Anthony Catterton, a former managing director at Carphone Warehouse. So, with their combined experience, we think eXpansys fits well within the portfolio."

#### Benefitting from healthcare

Profitable healthcare stocks have been another strong growth theme. As well as Immunodiagnostic Systems, Penny has held Tepnel Life Sciences, whose share price has risen by 170% since he bought it, and a life science stock called BBI Holdings, where he had a 50% gain.

"These are profitable and relatively unborrowed businesses that are not too dependent on the economy. They have been an area of speciality for us and have provided significant areas of fund performance."

#### Exposure to emerging markets through UK listed companies

A third area of growth is UK listed companies specialising in emerging markets. Hutchison China Meditech is a particular favourite. Another is OPG, which is solely UK listed but is building power stations in India, where Penny points out there are massive shortages of power.

He says the fund is likely to move more towards growth stocks in future. "What is working in the market at the moment is people being very





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**Reach:** 12301  
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conventional. They are buying companies which have absolutely hit all their forecasts so if we can find stocks which are growing nicely at reasonable prices I think those will be very good performers in the current market."

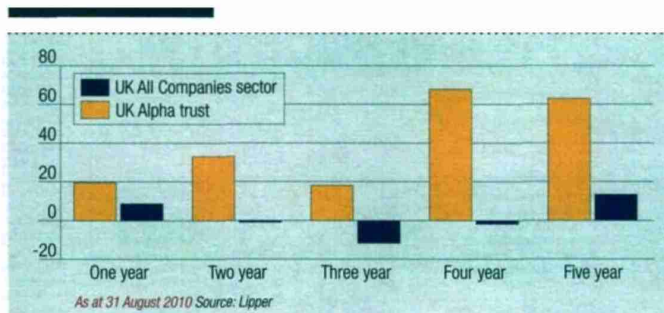
Penny adds: "A lot of people are saying we will have some downgrades in profits and that may well be the case as we go forward six months and 12 months. However equities are pretty cheap."

"A lot of people say equities have done nothing for 10 years. That may well be true but that is more of a reason why they will achieve more now. If they had doubled over the last 10 years then it would leave us less room potentially for appreciation from here."

"There are some good yields on the bigger stocks and some very good stock picking opportunities in deep value or strong growth. As a consequence we believe the UK Alpha Trust, which is managed using a process that is built to last, has the potential to continue to provide investors in the fund with impressive performance returns on an absolute and relative basis over the medium and long term."

*Past performance is not a guide to future performance. The value of investments and any income from them can fall as well as rise and is not guaranteed. Investors may not get back the amount originally invested. It is intended for professional advisers and should not be relied upon by private investors or any other persons.*

- HAS 18 YEARS' INVESTMENT EXPERIENCE.
- JOINED LEGAL & GENERAL IN 2003. LAUNCHED AND MANAGES THE UK ALPHA TRUST.
- PENNY PREVIOUSLY MANAGED A NUMBER OF FUNDS AT M&G INVESTMENT MANAGEMENT INCLUDING THE M&G RECOVERY FUND.



Five-year performance

