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Mark Slater puts his faith in the Zulu principle

A near-70% performance has trounced the competition this year for an investment warrior on top form, writes Mike Foster

Mark Slater's performance in the year to September went off the scale. His UK growth equity fund saw a gain of 69.6%, trouncing every equity fund in sight. MFM Slater Growth had already been a steady performer over five years, despite facing challenges in 2008. Slater's funds also surged in the 1990s boom and survived the subsequent bear market.

Mark is the son of Jim Slater, a City of London figure famous for claiming he had become a minus millionaire after his Slater Walker Securities empire almost went bust in the mid-1970s.

Jim was never a favourite of the City establishment. But Mark's Slater Investments manages £700m, four-fifths of which comprise institutional mandates. It also runs a recovery fund and a hedge fund, up a cumulative 270% since 2006. The City likes that kind of record.

Slater sets out to become an expert in stocks before buying them. He is content to

limit his choice to UK-listed companies, many of which own international interests. He restricts his universe by screening out those where earnings multiples and growth rates are too low.

Following a disappointing 2008, when good and bad stocks were trashed, Slater benefited in the year to this September by owning quality stocks which bounced sharply when his selection roared back into favour. Slater said: "We are seeing more faith in quality stocks which beat their forecasts. It is a trend which has been developing for a while, but now there is more conviction." He said brokers and managements were talking down prospects, meaning forecasts are being trounced.

Slater said companies have told him they are detecting the return of cost inflation. He expects well-managed growth stocks with pricing power to benefit enormously, as broader inflation takes off. And because quality growth opportunities will be hard to find, their re-rating will be strong.

"I can't tell exactly when this will take place. But the authorities will allow it to happen to get out of financial trouble, and equities will be back in favour," he said. But Slater is looking for growth at a reasonable price: "It is an approach which combines the value and growth disciplines. I don't chase momentum." Over the years, Slater has found those stocks that do best are those of smaller companies worth up to £1bn with good cashflows and quality managements. But he said large companies have been offering value of late. British American Tobacco, GlaxoSmithKline and Imperial Tobacco figure in his top 10: "I don't invest in them to balance things out. They appeal to me," he said.

With every investment, he applies something called the Zulu principle. Mark Slater recalls helping his father write the book – *The Zulu Principle: Making Extraordinary Profits from Ordinary Shares* – explaining how you can invest successfully on the stock market. The title harked back

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to the day, long before the creation of Google, when Jim Slater saw his wife reading an article about the Zulu tribe.

Jim said: "Within a few minutes she knew more than I did about Zulus and it occurred to me that, if she had borrowed all the available books on Zulus from the local library, she would have become the leading expert in the country. A visit to a Zulu kraal could then have helped her to become a leading expert in the world."

When Mark Slater has applied the Zulu

principle to stocks, he can develop the confidence to buy them. Conversations with managements – and rival companies – take place in the latter stages.

Slater said when he has established conviction, he tends to own a stock for two to four years. But he is not averse to owning them for longer, or averaging down his purchase price: "Industrial group Cape is a company we have known since 2005. When its stock was pushed down to 17p in March 2009 in the market panic, we became excited because we knew its cash-flow dynamics. We knew it wouldn't go bust. We bought stock off Jupiter. We bought off Lazard. We nearly bought more." Cape is now Slater Growth's biggest investment, comprising 8.9% of its portfolio. Its share price is 390p and Slater thinks the best is yet to come: "I like to stick with a story I believe in."

Slater most often finds reasons to sell stocks in his favourite companies when competition appears in the niche markets they once dominated. He fell out of love with Black's Leisure, for example, one of his earliest successful naps, when similar out-of-town leisure stores started appearing.

Mark Slater's success means he no longer operates under the shadow of his father, who is viewed by some as among the UK's most successful share tipsters. Jim competed for a slice of the UK investment banking business through Slater Walker in the early 1970s, but when liquidity was sucked out of the UK market in the secondary banking crisis of 1974, Slater Walker practically collapsed. Jim Slater conceded he was a "minus millionaire" owing £1m more than his assets in 1975. But he repaid his debts with interest, by holding his nerve and dealing in stocks and

property.

Jim is a keen backer of gold and Brazilian farmland. Mark's favourite stocks include newly listed fashion retailer Supergroup, medical group Hutchison China MediTech and Domino's Pizza. He hates bonds, believing that institutions will suffer one day by being forced to buy them for maturity and regulatory reasons.

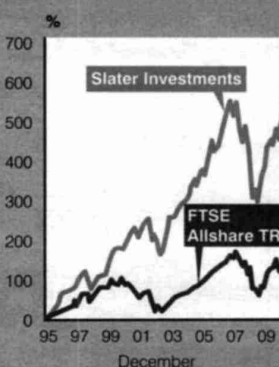


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Mark Slater,
Slater Investments

Off to a good start

Model Portfolio Long Term Record



Source: Slater Investments Ltd