Client:	Chi Med
Source:	Shares (Main)
Date:	16 June 2011
Page:	51
Reach:	14589
Size:	410cm2
Value:	3575.2

Citigate Dewe Rogerson

Money manager looks for sensibly valued businesses buoyed by tailwinds

Slater seeks out growth at a reasonable price

James Crux

Mark Slater is Chief Investment Officer of Slater Investments, the City-based investment boutique he co-founded in 1994 and the biggest shareholder in the MFM Slater Growth Fund and MFM Slater Recovery Fund.

The former financial hack, who helped father Jim research the best-selling investment tome *The Zulu Principle*, is one of the top performing UK fund managers of the past decade.

His £41.2 million MFM Slater Growth unit trust furnished backers with a total return of 76.7% for 2010, well ahead of the 14.5% delivered by the FTSE All-Share, following on from a 41% return for 2009. With current holdings including digital cameras developer **Andor Technology (AND:AIM)** the fund is up 9.4% year to date.

'It is a pure growth fund', asserts the money manager, 'and one that is particularly well suited to the current environment', which he sees becoming increasingly challenging for UK plc.

Sustainable growth, good price

'Last year was fantastic and this year the fund has started well', opines Slater, who looks for companies delivering 'above average rates of growth and which are profitable and generating good cash flow'. To pique Slater's interest, such growth must also be sustainable. 'We are looking for growth of around 15% to 25%', he explains, adding such businesses typically operate in a niche market where there is ample room to grow.

'We screen for companies on a low PEG ratio and delivering at least double-digit growth rates. On top of that, we overlay cash flow and ask ourselves the question, is the growth sustainable? We want to see indicators of a strong business, such as rising margins and rising sales per share and we also want (to buy) businesses with a tailwind rather than a headwind'. PEG, or the price to earnings growth ratio, is assessed via dividing a firm's prospective price/earnings ratio (PE) by its future earnings growth figure.

Historically, 'we have always looked for a tailwind', he explains, 'but in this environment, a tailwind is extraordinarily attractive. Then, you must make sure that you are not overpaying and that is where the PEG is useful'.

Tailwind-driven trio

Slater bristles with enthusiasm about a particular trio of stocks in the MFM Slater Growth book, including China-based pharmaceuticals and health oriented consumer products play **Hutchison China Meditech (HCM:AIM)**.

The £240.6 million cap is 70.9%-owned by **Hutchison Whampoa (0013:HK)**, the global conglomerate chaired by Li Ka-shing, China's answer to Warren Buffett. 'Chi-Med has a huge tailwind in China', remarks Slater, pointing out that although 2010 numbers revealed a loss, this masked the profitable growth delivered by its healthcare division on the back of burgeoning spending by the Chinese government.

'We paid a 12-times multiple for a business with net cash and all kinds of goodies', recalls Slater, among them the consumer products arm, which Slater believes has the potential to emerge as a new China focused growth engine.

The fund manager is similarly upbeat about energy support services counter **Cape (CIU:AIM)**, in which the growth fund increased its position during the financial crisis, snapping up shares at a

➔

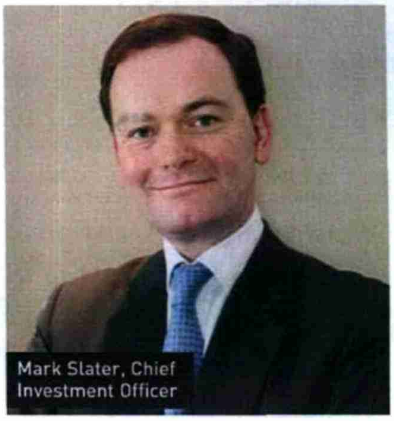
Client: Chi Med
Source: Shares (Main)
Date: 16 June 2011
Page: 51
Reach: 14589
Size: 410cm2
Value: 3575.2

➔

bombed-out 17p. At the time of writing, the company, whose growth was uninterrupted through the great recession, commands a £663.9 million market price tag at 563p a share.

'We bought back then and we've bought subsequently', assures Slater, convinced the company is entering 'a five-year period of 15% per annum growth. Cape has high earnings visibility and good cash flow and also a tailwind in the Asia Pacific rim, where business is going gangbusters'.

Warming to his theme, Slater describes deal-hungry film and TV content play **Entertainment One (ETO)** as 'an ideal company with a sensible valuation and good growth prospects'. The £313.2 million cap's particular tailwind, he believes, is its entry into the US market through a deal struck to launch star turn *Peppa Pig* property in the US with the help of Nickelodeon.



Mark Slater, Chief Investment Officer

MFM SLATER GROWTH FUND

Fund size	£41.2 million
Initial charge	5.25%
Annual management charge	1.5%

TOP TEN HOLDINGS AS AT 31 MAY % OF FUND

1. Hutchison China Meditech (HCM:AIM)	9.9%
2. Cape (CIU:AIM)	6.8%
3. Entertainment One (ETO)	6.6%
4. Andor Technology (AND:AIM)	5.6%
5. Dialight (DIA)	4.5%
6. British American Tobacco (BATS)	4.4%
7. Oxford Instruments (OXIG)	4.5%
8. Imperial Tobacco (IMT)	4.1%
9. Globo (GBO:AIM)	3.9%
10.Lonrho (LONR)	3.0%

Source: Slater Investments

Puffing out predictable profits

The MFM Slater Growth Fund also has positions in businesses with far larger price tags, among them London's two listed tobacco giants, **Imperial Tobacco (IMT)** and **British American Tobacco (BATS)**.

'They are growing at double digits, trade on a low multiple and offer a high degree of predictability, as well as a big yield', explains Slater. And via its holding in £54.4 billion cap BAT especially, the fund's investors are suitably plugged into 'lots of emerging markets exposure and strong brands'.

■