UBS UK Smaller Companies vs Rathbone Smaller Companies

As one adviser points out, smaller companies portfolios are a keen test for fund managers who want to exercise their stockpicking skills. See how two funds from this sector hold up under the beady gaze of this week's expert panel. **Andrew Michael** reports.

UBS UK Smaller Companies

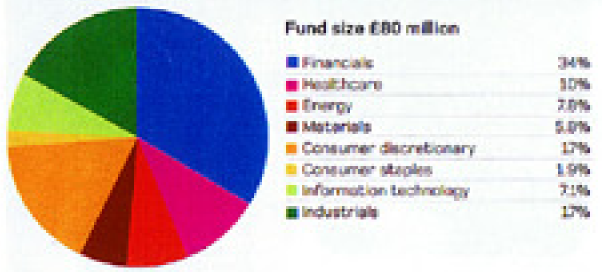
What *New Model Adviser*® says:

The fund is run by UBS Global Asset Management. It aims to achieve long-term capital growth through the active management of a diversified portfolio invested primarily in UK smaller companies equities. Its benchmark is the Hoare Govett Smaller Companies ex-Investment Trusts index.

What UBS says:

The UK smaller companies market, as measured by the IMA UK Smaller Companies sector average, enjoyed a strong start to the year, rising 1.8% in January,' says UBS. 'The fund has reduced its FTSE AIM exposure but we continue to maintain holdings in what we believe are good quality businesses in this market segment. Examples of AIM stocks we hold include Just Retirement, a retirement insurer, and Eros International, an owner and distributor of Bollywood films. While the fund is constructed with a focus on bottom-up stock selection, it is currently significantly overweight to the Financials sector. Despite the recent volatility in the fund's performance the long-term track record of the fund remains strong and this success can be attributed to the fund manager's active stockpicking approach.'

UBS UK Smaller Companies
Portfolio breakdown at 1 March 2007 Source: UBS



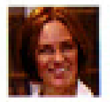
What the advisers say:

Jason Evans
Partner
Kohn Cougar

Though the UBS fund is managed by Frank Manduca, he is supported by an extensive team of analysts and fund managers. The diverse fund currently holds over 90 stocks, which is at the higher end of the range. The investment process is very robust utilising a combination of quantitative and qualitative research. When the fund launched back in February 2003, Manduca got off to a flier and in its first year, outperformed the benchmark by 32%. However, over the last three years he has failed to outperform the benchmark and the golden touch seems to have deserted him for the time being. The last year has been poor in relation to previous standards set, although performance has picked up over the last three months. We should give Manduca the benefit of the doubt and therefore I rate it a **hold**.

Tim Cockerill
Head of Research
Rowan

The fund has achieved fairly solid second-quartile performance but this has come with a high level of volatility. Manager Frank Manduca has over 20 years' worth of investment experience and in the late 1990s won awards for his smaller company performance while at Gartmore. The fund is well diversified. The largest weighting stands at a level of 2.4%, so the specific risk profile of the fund at the stock level is well balanced. Against its benchmark the fund is significantly overweight financials. This results from the manager's stockpicking approach, however, it is a potential risk. FTSE 250 stocks are found in the portfolio and are held among the top 10. Turnover on the fund is high suggesting that stocks within the fund are traded rather than held for the long term. Manduca has a good long-term record but his style of management is likely to result in periods of under performance as well as outperformance. Because other funds with lower volatility have generated the same level of return I make this a **fold**.



Nicola Downs
Director
Trentham Invest

Having looked at both funds and having inputted quite a few different factors and analysed their findings, I have ended up with broadly similar things to say about each fund this week. I can't get very excited about either of them, because neither are terrific underperformers but nor are they stellar achievers. In performance terms, the sector position of this fund since its 2003 launch is fourth out of 49, but over the last one, two and three year periods the portfolio has produced much more average rankings. It would be good to meet up with the manager to hear more about the way the fund is run. In the interim, I can think of other funds in this arena which have achieved superior performance for less risk so it has to be a **fold**.

Rathbone Smaller Companies

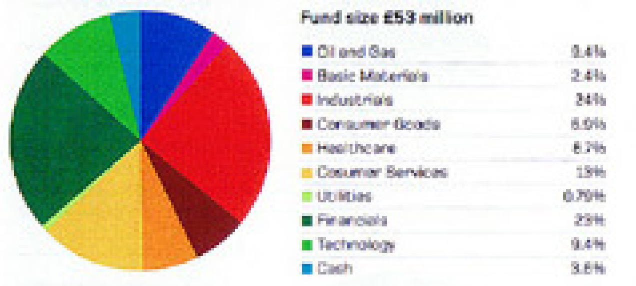
What *New Model Adviser*® says:

The fund is run by Rathbone Unit Trust Management. It aims to achieve growth in total returns from a portfolio of securities where, at the time any individual security is acquired, the issuing company's equity market capitalisation will normally, but not necessarily, be below £500 million. The fund will invest predominantly in companies with a full listing on the London Stock Exchange or on the Alternative Investment Market.

What Rathbone says:

'UK small caps will never be immune from a global sell-off. But the fund's focus on quality businesses, strong managements, balance sheets and cashflows should put it in a reasonably strong position to withstand the current uncertainty,' says Marina Bond, the fund's manager. 'Despite market turbulence [in February], the results season started well for the fund. Mattioli Woods was very strong, driven by beneficial legislative changes, strong investment markets, and ongoing demand for self-administered and self-invested pensions. Goals Soccer also had excellent full year results. Its positioning within the market of five-a-side football centres makes this a solid, cash generative growth story. A new holding is Inspired Gaming, which supplies and operates gaming machines.

Rathbone Smaller Companies
Portfolio breakdown at 1 March 2006 Source: Rathbone



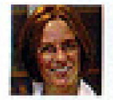
What the advisers say:

Jason Evans
Partner
Kohn Cougar

Managing a UK smaller companies fund is the ultimate test to prove yourself as a stockpicker. Over the last year the difference between the best and worst fund is a return of 48 percentage points. Given such wide parameters, investing in the right or wrong fund can have a dramatic effect on your portfolio. Marina Bond – manager since July 2005 – has had a decent start with the fund being in the second quartile over the last year. The fund has around 60% invested in AIM stocks. But picking winners in a rising market is an easy game, and the sector already has a many proven stock pickers, so I fold.

Tim Cockerill
Head of Research
Rowan

The fund has a solid second quartile record over five years, although Marina Bond has been in charge for less than two of them. The fund is well-diversified holding 93 stocks, with the largest weighted at 2.3%, therefore making the risk very well structured. Like many funds in this sector there are FTSE 250 stocks in the portfolio, representing 16% of the present total. From my view point this is not a true smaller company fund. Volatility has been below average recently – an attractive feature. Rathbone has a strong UK team which share ideas and is prepared to back their strongest bets. This does mean the portfolio can hold some more unusual stocks at times but the pay-off could be very attractive. For consistent performance it's a **hold**.



Nicola Downs
Director,
Trentham Invest

Again, I see this as a fairly average portfolio when you consider some of the opposition it is up against in this sector. Marginal positive alpha of 0.5 and second-quartile smaller companies sector performance rankings over six months as well as one, three and five years are hardly terrible items of data. But at the same time there are other funds from this sphere I would be more inclined to put my clients into. So it has to be a **fold**.

New Model **Adviser's**® verdict

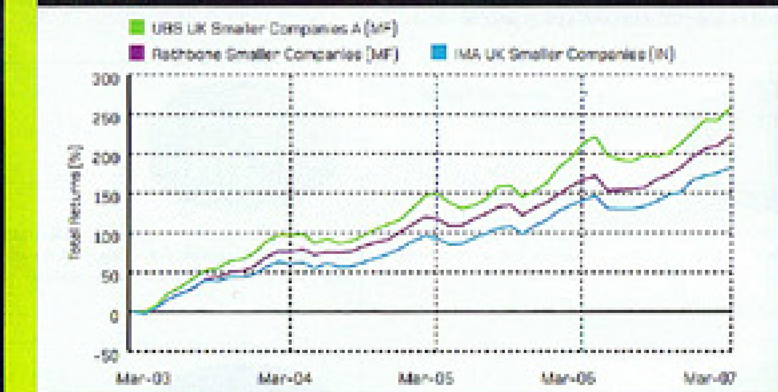
UBS UK Smaller Companies — FOLD

One panellist was happy to give this fund the thumbs up. But while it seems to be doing little wrong, the other two advisers felt it was a too average for them and were inclined to pass on this offering in favour of other portfolios in the sector.

Rathbone Smaller Companies — FOLD

Similar comments apply to this fund. One adviser was happy to give it a tick immediately. But the remaining pair want to see the fund continue to perform to the same level or better before giving it the OK for clients.

Both funds have exceeded the benchmark with steady progress Source: Lipper



Twist...

Old Mutual's Select Smaller Companies Fund is one which has a big fan club of advisers