

MARK DAMPIER

FUND
FOCUS

Times of market volatility provide an opportunity for the true stockpicker to come to the fore and, after 20 years in the market, Neil Pegrum's flexible and unflappable style is benefiting his Cazenove UK dynamic fund

Ripe for the stockpicking

Cazenove launched its UK dynamic fund in September 2004 with Neil Pegrum at the helm. He is highly regarded for his dynamic style of management and his strong performance. He previously ran the Insight UK dynamic fund and before that the M&G British opportunities fund.

That short biography suggests he is a serial job mover but nothing could be further from the truth. He was at M&G for well over 15 years before moving to Insight, which proved to be a mistake. I am happy to report his onward move to Cazenove has been a great success.

What is surprising to me is that the market seems to have rather forgotten about Pegrum. This feels unfair, since the performance of the Cazenove UK dynamic fund has been extremely good during his tenure apart from a poor patch a year ago which I will discuss later.

Pegrum is doing nothing different from the way he ran money at Insight or M&G. He continues to adopt a flexible and pragmatic approach. This has always been his style and is perhaps the reason for his exceptional performance.

He is what I call a genuine stockpicker, focusing on the mid and small-cap area where there is more inefficiency where his experience and expertise can be used to the full. The truth of the matter is that after more than 20 years in the market, he not only has excellent contacts but has seen the vast majority of management.

The team at Cazenove adopt a business cycle approach where they try to understand the effect that the economic cycle

is having on different sectors and how this relates to individual stocks.

Pegrum feels this is useful because it allows him to keep in touch with the themes running in his portfolio. He is 100 per cent accountable for the fund and, unlike some other Cazenove managers, has the freedom to invest anywhere in the market. The fund can take big bets if he has a high conviction in certain stocks.

The Cazenove UK dynamic fund is a concentrated portfolio of 30 to 50 stocks. It is, of course, completely different from the All Share and is just on the cusp of top decile since its launch three years ago. I think what is most impressive about the performance is that Pegrum has avoided the majority of oil and metal stocks. He admits to underestimating the persistence of the bull run in natural resources but, to be fair to him, he has certainly made up that lost performance in other areas.

I believe that one stock he will always be associated with is Micro Focus. This is still his biggest holding and has been

There is a need to be incredibly careful and avoid the losers, particularly some of the more exotic rubbish on the Aim. Pegrum continues to look for companies with pricing power in a structural strong sector with management teams he trusts

one of the biggest drivers of fund performance. Unfortunately, it has been driving the portfolio in both directions. It is a software company with a strong market position, a high barrier to entry and growing revenues. Unfortunately, an IPO distracted the management team who took their eyes off the ball and the sales side was not run properly. After two profit warnings, the company's share price had tanked.

However, Pegrum's long experience taught him to have another look at the company rather than panic. A new management team came in and felt that they could rejuvenate the firm. Pegrum was far closer to the business than many others and recognised there was still huge potential in the company. He was proved correct and the company's share price has more than recovered since then. Indeed, last week it rose by 21 per cent on the back of strong results.

Pegrum believes this market suits the true stockpickers. There is a need to be incredibly careful and avoid the losers, particularly some of the more exotic rubbish on the Alternative Investment Market. He continues to look for companies with pricing power in a structural strong sector with management teams he trusts.

I believe this is just the kind of fund manager that investors need managing their money. You can argue endlessly whether large cap is cheaper than small cap or vice versa but a genuine stockpicker will make money in almost any market. I believe that Pegrum is one of the best. Mark Dampier is head of research at Hargreaves Lansdown