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Flexibility drives exclusive service

Peter Buxtorf and Steve Willmot run the Lacomp World fund. The wealthy international client base has advantages because they know about local trends and can help with asset allocation.

Having as much investment flexibility as possible gives a fund of funds a better chance to outperform. This is the view of the £7.5m Lacomp World fund, which not only has an active asset allocation strategy but has used passive as well as actively managed funds.

The asset allocation and fund selection for the fund is carried out by Peter Buxtorf, managing director of Bagshot-based Lacomp, and Steve Willmot, investment director.

The fund is not actively marketed and was established for Lacomp's smaller private clients based around the world. “We run bespoke portfolios for private clients but wanted a vehicle that could be used for smaller clients and that could show a track record of performance,” says Buxtorf.

“In 1999, therefore, we launched the Lacomp World unit trust and most of the money has been invested by internal clients. The Lacomp World fund is managed in the same way as we run the equity portion of our private client portfolios.”

Willmot says the aim of the Lacomp World fund is to deliver outperformance of the MSCI World index with low to medium risk. “We look to have lower volatility than the average fund in the sector. This is through a mixture of asset allocation and fund selection.

“By selecting low-volatility funds, the portfolio should have low volatility. We also seek diversification across different investment styles within each region. In Japan, for example, we have three funds, one of which has high volatility, one medium and one low.”

A critical part of the management of the fund, says Buxtorf, has been active asset allocation. He says Lacomp World uses the MSCI World index as a starting point but the fund has the freedom to move significantly away from this benchmark. “As important as the asset allocation is the timing, without constantly trading. We try to spot a trend early and then run with it.”

For example, the two major regional allocations by Lacomp are to be underweight North America and overweight Japan. Buxtorf says he is cautious on equities generally over the medium term because of concerns about America.

“We have many concerns over the US economy,” says Buxtorf. “These are led by government and consumer debt.” He says this has prompted a general shift towards large-caps across the Lacomp portfolio.

The 25% allocation to North America includes two small-cap and a value fund rather than broad US equity funds “that may be more vulnerable to a downturn in the stock market,” says Willmot.

He adds that Lacomp moved to an overweight position in Japan 12 months ago. “We are optimistic about Japan as we

believe the reform process has been progressing in spite of political developments. The other region we are bullish about at the moment is Eastern Europe.”

Buxtorf says having an international, wealthy private client base can help in asset allocation. “Many of our clients are expatriates based around the world. They tell us about developments locally. We follow up on their comments and often it proves useful for geographical asset allocation.”

Once the asset allocation is set, Lacomp then selects funds for the portfolio. It currently holds 25 funds although the portfolio has in the past comprised between 30 and 35 funds. Willmot says the number of funds has been reduced because of duplication in terms of style and stock holdings.

Willmot adds that in selecting funds, Lacomp initially uses a quantitative screening matrix. “This comprises a number of factors such as performance, size and tenure. We weight the different factors and then carry out a qualitative analysis of those funds that score well. If a fund underperforms on the scoring matrix for three months in a row then we review it. This may lead to it being sold. Another reason to sell is if we reduce an allocation to a particular region.”

The qualitative part of the process, says Willmot, involves analysing the investment style of the manager and what has driven performance. “We look at performance over discrete periods rather than cumulative performance.”

Willmot says the portfolio generally invests in regional funds although it has one single country fund – Gartmore

China Opportunities. The other exception is an 8% allocation to Merrill Lynch Gold & General.

Lacomp has held index-tracking funds but sold the last one in the spring. “We would probably only hold index tracking funds in the UK and US market. In Europe, for example, the economic outlook is not positive but there are some attractive stocks and stock-picking managers can do well.

“Thus, we do not want to hold an index tracker in Europe at present. The strong performance of mid and small-caps in the US and UK also went against the use of passive funds.

“But index trackers are a low-cost way to access the market in an environment where we believe it is harder for active managers to add value. This is most likely to be in the US and UK, when markets are beginning to turn upwards.”

Willmot says the Lacomp World fund could be managed successfully even if it were 100 times larger than the current £7.5m. If the fund receives infows that are small, such as £250,000, this is not invested evenly across the portfolio. “We could not spread this across the 25 or 30 funds in the portfolio. We invest the money where we have a high conviction.”

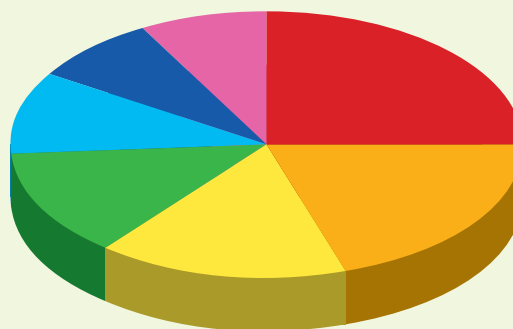
TOP 10 HOLDINGS

Lacomp World	%
Merrill Lynch Gold and General	8.08
UBS US Equity	5.81
Framlington Emerging Markets	5.76
Legg Mason Japan Equity	5.48
Schroder US Smaller Companies	5.40
Royce US Small Cap Equity	5.22
Jupiter European Special Situations	4.82
Schroder European Alpha Plus	4.62
New Star Pacific Growth	4.52
Baring Eastern Europe	4.11

As at December 1, 2005

Source: Lacomp

GEOGRAPHICAL BREAKDOWN: CF LACOMP WORLD



Top 10 holdings and geographical breakdown for the underlying funds in the Lacomp World fund, as at December 1, 2005.

Source: Lacomp