PORTFOLIO ADVISER

Fund manager profile Rosemary Banyard, Sanford Deland Asset Management

FREE AGENT

After many years of managing equities at Schroders, Rosemary Banyard had a 'light bulb moment' and took up an offer to work from home on the launch the Free Spirit Fund for SDL, 18 months on and she has no regrets

Jessica Tasman-Jones

About a decade ago, while Rosemary Banyard was still a UK equities manager at Schroders, she tore out a page from a piece of broker commentary that referenced *The Little Book That Builds Wealth*. "I put it on my computer and I thought I've got to remind myself when I'm investing in companies that I want to identify one of these things, otherwise, what am I doing?"

Written by Pat Dorsey, former head of equity research at Morningstar, the book outlines four factors investors should seek during stock selection to ensure a company has a long-term competitive advantage.

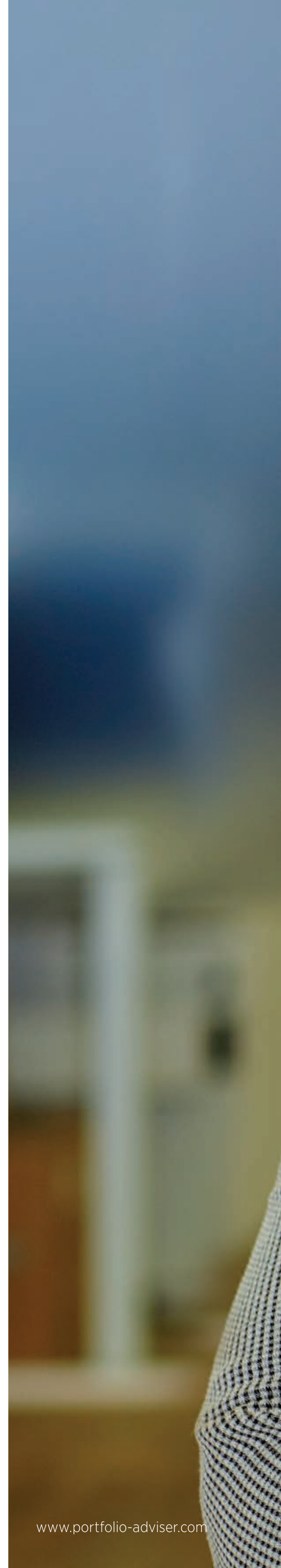
These are intangible assets, such as branding or patents, customer switching costs that create pricing power, network economics and cost advantages that allow a company to offer products at a lower cost than competitors.

In 2015, while she was contemplating her departure from Schroders, a decision that had been several years in the making, Banyard met Sanford Deland Asset Management (SDL) founder Keith Ashworth-Lord. In a lightbulb moment, she discovered her checklist mirrored the economic moats he sought via his business perspective investing approach. "It turned out what I was doing all along had a name."

In October that year her resignation became public and a year later she joined SDL, stating if she was going to leave Schroders it had to be for a very different fund house. "If you join a medium-sized firm there's still an expectation that you will go into the office in London, whereas one of the great joys of this is that I work from home."

Rosemary's baby

The Free Spirit Fund launched in January 2017. Today it has £13.8m assets under management, prompting Banyard, who ran over £1bn at Schroders, to refer to it as her "baby fund". The general discipline of fund management remains the same regardless of AUM, she says, but it is now easier to do more detailed analysis on each company.



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FUND SELECTOR COMMENT

Ryan Hughes
Head of active portfolios, AJ Bell

Rosemary Banyard is an extremely experienced investor whose knowledge of the small- and mid-cap space in the UK is well regarded.

Her fund at Sanford Deland has got off to a good start over the past 18 months but remains small, which precludes many of the bigger fund buyers from investing at this stage. However, she has proven over many years that she has the ability to identify opportunities in the UK market and the small size of the fund might actually help with this flexibility.

While the fund sits in the IA UK All Companies sector, it is highly likely that it will have significant exposure away from large-cap stocks. However, the investment process focuses on those companies that have strong free cashflow, pricing power and a strong balance sheet, which should help mitigate some of the risks of investing in this area.

One drawback is that the fund needs to grow from its current size of £14m to get the cost down, which is currently very high at nearly 1.5%.

For each of the 32 stocks she holds, plus the extras on her watchlist, she examines a 10-year history of cashflow, P&L and balance sheet statements, alongside forward-looking modelling. "With a relatively concentrated fund you can do that." Return on equity rather than on capital has also become more important as a measure since she joined SDL, due to the company's focus on finding economic moats.

The product is the first she's been involved with since launch, working with outsourced authorised corporate director Castlefield. At Schroders, with co-manager Andy Brough, she had won mandates, such as the UK Mid Cap investment trust, or moved into management on existing funds, like the UK Smaller Companies unit trust. "I've never been through this experience before. It's interesting, I like new challenges," she says of the fund launch process.

'YOU CAN POSITION FOR A PARTICULAR SCENARIO BUT I'D RATHER FOCUS ON GOOD BUSINESSES. IT'S LESS STRESSFUL AND SAVES HAVING TO READ A WHOLE LOT OF ECONOMIC COMMENTARY'

Rosemary Banyard, fund manager, Sanford Deland Asset Management

Starting from scratch, she modelled the fund on a pension mandate she had run at Schroders. She tweaked its benchmark, which had been the retail price index plus 5%, into the consumer price index (CPI) plus 2%. "The inflation-linked benchmark means I'm only interested in things that are absolutely undervalued or fair value. I'm not interested in a relative valuation as a metric."

The lower benchmark was introduced for retail investors but is a minimum objective. "You might end up unintentionally attracting people who don't understand plus 5% might not happen every year and that it will be erratic. So, it was not wanting to mis-sell to unsophisticated investors," she says.

What the fund lacks in scale it makes up for in performance, with its one-year returns of 17.5% doubling the 8.2% average in the Investment Association UK All Companies sector, according to FE Analytics.

The fund is currently attracting approximately £1m a month. That is a welcome contrast to UK equity funds as a whole, which have averaged monthly net outflows of £443m over the last year, according to the Investment Association.

Banyard partially attributes her more positive sales to the fact multi-managers – who have a tendency to move money around – currently overlook Free Spirit. "I'm just not big enough to be on their radar – yet." In contrast to the dedicated salesforce at Schroders, marketing relies on word of mouth.

Model building

Banyard employs discounted cashflow modelling for her forward outlook, with an explicit three-year outlook and a fading growth rate thereafter. A discount rate of 10% is a rough proxy for the cost of equity but also provides a more reasonable indication than the CPI plus 2% benchmark about the level of return the fund is aiming for.

"You could lower the discount rate and have more possible candidates to invest in but you would have less of a margin of safety," she says.

Financials, software and support services are the biggest sector allocations in the portfolio, representing 12.7%, 10.7% and 9.9%, respectively. However, without a benchmark she has no over- or underweights.

Since joining SDL, she has abandoned oil and miners, stating the unpredictable price of commodities does not work well with her discounted cashflow modelling.

"I don't feel inclined to take a punt on whether someone is going to find new sources of oil. It's just complete speculation and mining has some similarities."

Instead, she seeks businesses whose fortunes are not based on unpredictable, external factors. Morgan Advanced Materials is a recent addition to the portfolio. It manufactures ceramic and carbon materials for industries such as transportation where inert or heat resistant fittings are required.

"It's going through an improvement process. It's not a bad business, but it had been run by accountants for years, " Banyard explains. "It's now run by people who are engineers and who actually understand how they can improve the business."

With a new CEO and finance director appointed within the past three years, the FTSE 250 stock is in the process of increasing its research and development budget from 2.8% of revenues to 4%, she points out.

Rolling with the punches

In contrast, she sold a holding in Alpha Financial Software in June following a profit warning about contract delays. "I decided the business was much lumpier than I was happy with."

That exit, plus Ion Bidco's cash bid for her holding in Fidessa, which represented approximately 3% of the fund, means her allocation to software has decreased over the year to date. The fund's financials allocation doesn't include banks but rather specialist financials instead, such as boutique fund house Liontrust.

Despite strong performance since launch, the fund has fallen back to third-quartile over a six-month period, returning 5.7% compared with a 6.9% average in the UK All Companies sector.

Besides the hit from Alpha Financial Software, Banyard admits a high ongoing charges figure of 1.45% has been a drag on performance. However, it reduces as assets grow. At £25m it will be 1.25%, a threshold SDL told the regulator it expected to have surpassed by its three-year anniversary. At £75m, the OCF would drop to 1.16%.

A bottom-up stockpicker, Banyard states she doesn't have a view on the outlook for UK equities as a whole, or Brexit.

"You can position a portfolio for particular scenario but you might turn out to be wrong," she contends. "I would rather just focus on good businesses. It's much less stressful and it saves having to read a whole lot of economic commentary."

While the UK market has been touted as cheap on a relative price-to-earnings basis, Banyard admits she is struggling to find UK companies that are attractively valued. "When I do the calculations they come out well above what is fair value in my view."

She admits she doesn't know the current price to earnings of the UK market but says if it looks relatively cheap then she can only surmise that other geographies are valued even more highly. "Or else there are some businesses in the UK that are valued quite modestly but they are not ones that attract me," she adds.

Close companions

Both Free Spirit and the £408.9m Buffettology Fund – managed by Ashworth-Lord – sit in the IA UK All Companies sector, ranking fourth and top for performance over a one-year period, according to Trustnet. Banyard points out that Ashworth-Lord's fund is benchmarked against the market.

"I'm not saying he's constrained but I'm definitely not constrained by an equity benchmark. It's better to hold quite a bit of cash than pay too much." She holds 14.5% compared with 9.6% in Buffettology.

Bottom-up stockpicking means neither fund manager is positioned to outperform the other in different market conditions, according to Banyard. Craneware and Auto Trader are Free Spirit's top holdings, while Games Workshop and Bioventix top Buffettology's holdings. There are around 10 holdings that overlap between the two funds.

Berkshire Hathaway shares held by Buffettology hint at one of the main differences between the funds. Free Spirit is not explicitly run with reference to Warren Buffett and Banyard was not an avid follower of the famous investor, unlike Ashworth-Lord who had a licence to use the Buffettology name before joining SDL. "I knew some of his sayings because everyone does, don't they?"

New conventions

However, attending her first Berkshire Hathaway AGM in Nebraska this year turned out to be one of the perks of joining SDL. The AGM attendees are the type of investors Banyard says she would love to manage money for. "They are people who are in the habit of holding for the long term. They ask really good, insightful questions about the different businesses."

Berkshire Hathaway chairman Charlie Munger impressed her most. "If there's a question, Warren usually gives quite a wordy answer and then he'll ask Charlie what he thinks. Charlie will give a one-liner, which is usually incredibly funny and to the point."

While leaving behind Schroders was a tough decision, Banyard is glad she stuck with fund management. She had been approached about several non-executive roles while still at Schroders but she worried about becoming a box ticker, particularly if she joined the wrong board.

"Then I thought I would still like to run money. It's my passion."

While her offices have changed from the City of London to her home in Cambridge, Banyard still has the broker note about *The Little Book That Builds Wealth*. "It was only years later that I actually read it. It's quite a good little book and that piece of paper at home on my desk is well worn." **LW**