TRANSCRIPT: EPISODE 3
9 May 2019 (pre-recorded 18 Mar 2019)

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[INTRODUCTION]
Sam Slator (SS): Hello I'm Sam Slator and I'm from FundCalibre and today I'm with Paul Smith, manager of Premier Defensive Growth fund, hello.

Paul Smith (PS): Hello.

[INTERVIEW]
[0:13]

SS: How do you explain your job to your friends or to someone who doesn't work in financial services?

PS: Most of friends don't work in financial services, so it is something I regularly do. And I would say I make investments for people with savings and it tends to be the people with savings tend to be less risk averse individuals. People that would like to make a nice return but they really don't want to lose their money and therefore the investments I make tend to be low risk in nature.

[0:39]

SS: Okay and what are they most likely to ask you about? Would then then ask you about your pensions or do they ask you about Brexit a lot at the moment? Or Trump? Or what do they talk to you about?

PS: I think to be fair there's probably some Brexit fatigue amongst my friends, therefore, two or three years ago they may have asked me about Brexit but less so in more recent times. And as far as Donald Trump is concerned, I think there's always amusing stories but rarely a question around that.

Now and again it's the pensions, I get asked about, but I think it's fair to say at that point I'd always advise to speaking to a financial adviser rather than myself. I don't suppose any of those questions are particularly ones I get regularly, but it would be about investments.

[1:23]

SS: And how do you invest your own money? Do you do regular monthly payments or lump sums? And which asset class do you personally invest in?

PS: From my point of view, ever sense I was a very young man, when I received an income, as long as I could live a reasonable lifestyle off that income than anything surplus of that I try to save away.

So that would be done on a monthly basis, I've always found it best is when the salary came in, it immediately the savings left, then it felt like you never had it and it therefore appears in a nice nest egg hopefully over time.

In my industry obviously we do get some lump sums through our bonuses and as they come in some of those are in cash and you do your best to try not to spend it and to save some of it away. And some of it is also invested in my own funds as well, we have a similar investment from that point of view.

[2:10]

SS: Now on to your fund, Premier Defensive Growth, as the name suggests its defensive in nature and aims to give a modest but positive returns in any environment. Although I should stress, it's not guaranteed. Within that you invest in five different themes - can you give us a short explanation of each of those please.

PS: I can. It's always very difficult to give a short explanation, I think, but I will do my best.

I guess a lot of them are self explanatory in the names of those themes.

[2:39]

So for example, short term catalyst is one of our themes and that simply means in the short term, we've identified a catalyst which we think will be a driver for the investments return and we believe the market has mis-priced that catalyst. So we look to do an investment to take advantage in that.

[2:53]

We have other themes such as defined investments, which all have a fixed life and fixed entitlement and since we launched the fund, those fixed lives tend to be very short, on average less than two years which means you can more easily identify what can go wrong with those investments.

This means it's a much more predictable investment type and then you can buy that with a fixed entitlement, you can calculate if those risks do occur, if things do go wrong, how much the investment would move by. It makes the whole thing predictable, or as per the name - defined - defined investments.

[3:22]

We then have discount opportunities, this is where we've identified investments trading at a discount to what the real value of those investments are and we simply there try to remove any market risk and make the whole investment about being focused on that discount. Will that discount be re-rated? Will it go wider or tighter to its actual value?

[3:41]

We then have trading strategies which is simply where we identify whether an investment is cheap or expensive and subsequently buy or sell the investments accordingly.

[3:50]

Last but not least we have relative valuation which is simply where we find one investment is relatively better value than another investment and we simply play the performance of the two against each other and that tends to remove market risk as well.

[4:04]

SS: Your head of fixed income and run a bond fund as well as this fund but I understand you're not keen for the outlook for bonds at the moment and you only have two bonds in the Defensive Growth Portfolio.

As a bond investor, how do you deal with that situation and how uncomfortable does it perhaps make you feel?

PS: I don't feel uncomfortable, I feel uncomfortable about the outlook for the bond market. I do think the bond market is largely priced for perfection and not priced for change in markets and if I've learnt anything over the last couple of decades - things will always change. And therefore the bond market is perhaps makes me feel uncomfortable in terms of the outlook for the bond market.

For our Premier Corporate Bond Monthly Income fund we do have to invest in bonds and therefore we're just taking a more cautious stance. It's more defensive from that point of view. Within the Premier Defensive Growth fund, we don't have to invest in bonds and therefore as you've stated we have very few holdings at the moment which are bond like.

[4:55]

SS: Absolute return funds didn't really do what they were supposed to do last year when stock markets fell - many actually posted negative returns. What makes your fund different?

PS: That's quite a teasing question, it's almost tempting me to pick on the competition, but I think from my point of view there are clear differences.

A lot of peers within the absolute return space tend to focus on the big macro environment, on the economics and politics and this fund very much focusing on what we call the micro environment. Small issues such as company specific events and investments specific news.

Therefore we are doing something very different and I feel at the moment the bleak economic and political environment is perhaps unpredictable. It is volatile. We know that from our own Brexit political situation, so it makes much more sense for me to be focused on the micro, where I can be much more confident in getting an absolute return using those investments.

[5:46]

SS: Looking at your CV, your career is centred very much around low volatile investments, things that shouldn't give an investor a nasty surprise, that are stable and more predictive. So cheeky last question, do you ever wish you'd invested in something more exciting?

PS: It's a very good question, I think perhaps and there's probably a few schools of thoughts around this. I've done well at what I do - low risk investments - and I've generally called markets reasonably well, we've won lots of awards etc, so we've done well at what we do over the last couple decades.

Therefore, it's tempting to say, if we could have taken more risk maybe we'd have got higher return, given we were performing well. Of course, there's always the argument that perhaps I'm just good at low risk investments and if I therefore were to suddenly to be given emerging market equity portfolio or something much higher risk, that I wouldn't be able to deliver the same sort of risk adjusted returns that I can from a low risk portfolio.

I'm probably safe saying I'm a good low risk manager and I'm happy to stay that way.

SS: Thank you very much for your time, that was great.

PS: Thank you very much.

SS: I'm Sam Slator and if you'd like to listen to more of our podcast, please subscribe to FundCalibre.