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[INTRODUCTION]
Darius McDermott (DM): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Darius McDermott and we're joined today by Mark Sherlock, the Elite Rated manager of Hermes US Small and Mid Cap fund [Hermes US SMID Equity]. Mark thank you.

[INTERVIEW]
[0:15]

DM: You have a degree in politics, what made you become a fund manager instead of a politician?

Mark Sherlock (MS): Yes, my degree was in politics, which was fascinating, although my first job was in accountancy. I stumbled into fund management somewhat and pleased I did because I can't really imagine a more interesting career. You mentioned politics and I think given the state of politics of today, whatever side you're on in the UK Brexit debate, not being a politician might have been a narrow escape. I guess in both cases the best decisions are made with a long term perspective.

[0:52]

DM: Politics is dominating both in the US and the UK. How much do you take politics into account when choosing your investments?

MS: Actually less frequently than you may think. Of course a lot of air time is given to politics in the US currently with the President and his fondness for Tweeting. Those tweets may amuse or appal in equal measure but on a day to day basis for many of our companies they are not that relevant.

Of course, there are some areas where politics strays into economics specifically at the minute, Chinese trade talks and the extent to which President Trump may be trying to influence interest rate policy at the Federal Reserve.

But on a day to day basis, a stock picking fund like ours, particularly operating in small and mid cap, there are other drivers typically to a company's performance financials in the future.

[1:52]

DM: And you travel to the US fairly regularly, tell us a little bit about how often you go and what was the most interesting company you met on your last trip.

MS: We're a team of four and we each travel to the US around once a quarter so that would typically be for a week and that wouldn't generally be a sell-side sponsored trip, we would literately book a flight, rent a car and go off and visit companies and perspective companies. We tend to be away as a team, one week in three traveling in the US.

In terms of my last trip it was to the West Coast. I did largely California, so San Diego in the south up to San Francisco in the north and given that geography, it was principally a tech related trip.

[2:44]

Favourite company there is a company called QBic and they have three divisions to their business but their core division and largest division designs, implements and operates mass transit payment systems.

So perhaps most familiar to your listeners here would be the oyster card scheme run by Transport for London, which they do on Transport for London's behalf. They have similar contracts in other major cities and throughout the world and they recently won the New York City subway payment system tender.

There are a couple of other businesses in the defence space, technology within defence and training. But [QBic is] a really interesting business I thought with great recurring revenues, fantastic incumbent position and an exciting future in terms of both top line growth and margin progression potential over the coming years for our investors.

[3:43]

DM: Most investors in the UK, I think, would associate the US by being fairly concentrated in the East or West coasts but where else have you visited, or the team, that you found interesting in the US? Or other interesting areas or regions?

MS: Well yes we're fortunate to travel and as you correctly surmise much of that is done on the Eastern seaboard or the Western seaboard, be it Boston and New York or over in California with the addition in the Midwest of Chicago. In terms of other areas, we do have a spread of businesses throughout the portfolio that represent other geographies and we make sure we go out and visit those.

From my point of view, probably the most extreme place or least likely place that I've been is Bismark in North Dakota which is sometimes referred to - somewhat derogatively - as a flyover state. But we have a successful investment there in the utility business. For those films buffs, it's where Fargo is set and for those who are not film buffs, there's basically a lot of snow for a lot of the year and not much else.

Colleagues have been to, we have a holding company called Ansys, based in Canonsburg Pennsylvania, which again is not on the tourist map. On the upside though, we did a few years back have two holdings on the islands of Hawaii. You can imagine that was a popular field trip. We sold out of both of those since but that was always in high demand.

[5:25]

DM: So your fund invests in small and medium-sized companies but I think that "small and medium size" is a different quantum in the US than it does to UK investors where average market cap is much smaller, what does it mean to you and to this fund?

MS: Absolutely so as with other things in the US, they tend to be bigger than the UK and the same is true of the small and mid-cap space. In terms of the Russell 2500, which is our index, that has market caps between $1 billion at the low end upto $11-12 billion at the high end. These would be considered quite large businesses elsewhere in Europe, certainly when I first started I looked at UK small companies when I began my career and your listeners may be more familiar with the FTSE 250. The Russell 2500 is the equivalent in the US but as you correctly point out it's much larger market caps and 10 times the opportunity in terms of stocks it contains. Of course there being 2,500 stocks rather than of 250 stocks.

DM: So bigger and many more to choose from.

MS: Bigger and more to choose from, yeah absolutely.

[6:40]

DM: Can you tell us about one or two of your most interesting holdings, maybe a couple of your biggest conviction positions at the moment and why you like them?

MS: Of course. I would focus perhaps on, if we take two companies, the first would be a company called Aptar. They are a business that the strategy has held continuously in various position sizes for the last 21 years, which is not a claim I think many funds can make. It does, at least I hope speak to our long term view of the world.

It's a company that makes, is a global leader in closures. What that means is any sort of consumer product that you may buy, be it orange juice through to personal care products; shampoos, conditioners, hair care, perfumes and so on. They make the dispensing mechanism that gets the product from the bottle where you want it to get it.

Think of Tropicana orange juice for example - one of their clients - we've all bought sort of cheap orange juice and tried to rip the top off and it ends up going all over the countertop. The theory at least is that with a Tropicana packaging system, more of the orange juice ends up getting in the glass and less all over your shirt.

They have multiple applications throughout consumer all the way through to pharmaceuticals: they make asthma inhalers which are FDA regulated, the Federal Drug Administration, regulated and consequently command high margins themselves. They're very well placed.

[8:17]

I think why they continue to be interesting currently is their focus on the environmental side of things. Of course a lot of their business is plastics based.

An interesting stat I was reading the other day is: 7 billion disposable water bottles are opened everyday and only 1 billion of them are recycled.

If you think on a typical coke can, the closure remains with the can and that is 99% of the time not the case with water bottles and the most polluting piece of litter found on the beach globally is these plastic water bottle caps. It's a significant issue and I think we're all aware of plastics in the ocean and so on.

Aptar, as an example of their innovation, have come up with what they call a 'stay-with' cap, which as the name suggests the cap stays with the bottle. They're looking into minimum standards of recycled plastic for inclusion in their bottles and so on.

It's a company that many people won't have heard of, as I say we've held for 20 years, it's compounded away very nicely for our investors over that time period: double digit 12% I believe compound annual growth rate over that period. When you think of what we've had over the last 20 years, the great financial crisis, various wars and terrorist events and so on, it's exactly the sort of company that we feel we should be buying and holding. That would be one.

[9:45]

The second one, rather more briefly perhaps, is a company called Cooper and they make contact lens. Benefiting from trends in improved eye healthcare, we're all looking at more screens more of the time so it's having an effect on our eyes. Also, exposed to some of the good trends from switching from glasses to contact lens and, within contact lens, the switching from monthly or weekly contact lens to disposable daily lens. All of these are beneficial trends and Cooper should really benefit from that over time.

Great installed base, once you have contact lens you tend not to change the brand you use so very high recurring revenue and of course something you really don't want to mess with your eyes so switching by consumers is low.

Two businesses, both of which we think are great multi-year compounding opportunities for clients.

DM: Mark, thank you very much for joining us and giving us a couple of really interesting and actually quite powerful examples of some of the companies you own.

Thank you for listening, I'm Darius McDermott and if you'd like more information on the Investing on the go podcast, please subscribe at FundCalibre.com