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Please note that these are unprecedented times and markets can react very quickly to news. The views expressed are at the time of recording and could change.

[INTRODUCTION]
Darius McDermott (DM): Hi Darius McDermott from FundCalibre and this is the Investing on the go podcast. Today I'm super delighted to be joined by Alexander Darwall, a fund manager I've known for over 20 years, and we've known each other at his previous employer with Jupiter. He is and has always run the Jupiter, the sorry European Opportunities Trust now, run by his new venture Devon Equity Management. Alexander, thank you very much for joining me today.

Alexander Darwall (AD): It's a pleasure to be with you Darius, thank you.

[INTERVIEW]
[0:40]

DM: I think this is a nice opportunity just to talk, reasonably briefly about your move to Devon and how you have adapted to those changes?

AD: Well, thank you. I had a wonderful time at Jupiter. I've got a lot of good friends there, it's a great investment house, I've only got good things to say, they've been very good to me, but I am excited about what we're doing now. Richard [Pavry], Luca [Emo] and myself have worked together for many, many years at Jupiter. And when we made the decision to have a more focused, sharpened investment experience, this was the way to do it.

It's certainly going to prolong my enthusiasm and shelf life, which is what I really wanted to do. And the exciting thing for us is that with Richard Pavry, who runs the businesses as the CEO, Luca and myself can, as investors, really focus on what we enjoyed doing. So, we have a tremendous investment focus. We've got a really nice team, we've got a terrific platform and what I mean by platform is the regulatory legal, order-management systems, all of the business side is set up for us.

And what's nice for us on the investment side is it's set up for one thing and one thing only to make our lives easier, to do the investment and to get as good returns as we can for investors. So, we're having fun, we're having fun at home at the moment, but I'd rather be in the office and we're going to be really pleased to be back in the office together. But it's a very exciting venture for us. And I'm going to, I look forward to many years in our new company.

[2:24]

DM: And having just spent some time with you this morning already, I'm pretty sure, I know the answer to this question, but what can investors expect from the European Opportunities Trust today versus when you were at Jupiter?

AD: Well, they should expect more of the same and everything we did in terms of setting this up was to try and look at what has made the track record good over the years - I think I'm allowed to say that - but we've got, I think, we've got a good track record. We can stand with that track record. So, what made us successful and we looked at those things and we replicated those things. So, it's the same team of people. It's working funny enough in the same place and we're called Devon Equity Management be we’re actually based on Victoria Street in London. So, my connections to get in the city or connections to fly to Europe are as good as they've ever been. So, we're working in exactly the same way, with all the things we needed before. But maybe with a little bit more focus. There are no distractions.

Everything we've done, as I say, we've done same team working in the same way, trying to replicate the, what I call ingredients for success, what made us successful. And I had to tell you, I mean there is always a very, very important ingredient here, which is enthusiasm. If we don't enjoy the job, it's no fun and we can't do it well, but we've got lots of enthusiasm and that is so important because we need to get out there and do what we do, seeing companies and making good quality investment decisions that does rely on a lot of hard work and for that we need some enthusiasm and I speak for myself, but I think I can speak for my colleagues, we've got lots of that.

[4:09]

DM: And look, we will come on to current market conditions driven by COVID and Coronavirus, in a moment, but I think it would be a nice time for the listeners - as I say, I've known you for 20 something years - but just to remind the listeners in normal markets, what it is that you do as an investor and your team look for in a company?

AD: We try to find special companies. And companies that are special are really companies that we think can flourish in different economic scenarios. Because we don't do a lot of economic forecasting. I don't know what the next surprise around the corner, it might be a good surprise might be a bad surprise. And in fact, the COVID-19 episode has played to that because we never forecast this, of course no one did, but our companies, which do something special and different with strong balance sheets with lots of intellectual property and a bit less capital intensity - all those things are actually helping us at the moment. So, whilst we never forecast COVID-19, the fact that we like special companies is our best way and has, is proving to be a relatively good way of coping with this crisis.

Another way of looking at special is to say that these are companies which we believe can grow longer and stronger than you might expect. By which I mean we see higher growth rates, better margins with our companies because people find it very hard to compete with them and because they're not in regulated sectors. And I think, whilst it's not a definition of special, I think another characteristic of the portfolio is our companies are more global than the average. And I think that is another big strength which you can expect to see in our companies and it helps us at difficult times like this. So we're very comfortable with our holdings are present. It's not an easy time for anyone, but the best way of coping with these very, very difficult episodes is to make sure we're in truly special companies. That's what we're doing.

[6:27]

DM: Thank you. Now then to the day well I suppose not the question of the day, but the world in which we live in today, you've been managing this trust for 20 years now, how does the current environment or current market crisis feel versus other market crises, which will of course you and I have been through previously.

AD: Well I think it is different and there are some similarities, I'll start with the differences. The differences are this is a health, at root, it's a health problem whereas normally is a financial problem. It becomes a financial problem, but at root it's a health problem. The second way in which I think it's different is the governments are actively trying to suppress business at the moment. I mean that's not typically what they do in a crisis, but they are clearly trying to close down pieces of business, which is very, very uncomfortable. And I think the third way in which it could be deemed to be slightly different is that some of the normal rules don't apply in so far as governments are intervening more and governments will be making decisions. And whereas we like companies whose success is proved by what I call primacy of the consumer, some of these companies, are going to survive because the governments decide. So there's an element of nationalisation going on. So these are factors we need to think about.

That said, I think there are similarities. As I touched on a few minutes ago, the best way we can cope with it is to sidestep some of these issues. We don't want to be in areas where the government's going to intervene unduly, because governments make different types of decisions from consumers. And we're always happier, as I said, with special companies, having companies that do something special products or services that people want to buy. Well if it's the government that's deciding, not consumers, it introduces an element of risk with which we feel uncomfortable. So, we sidestep the problems. So, where it's the same is let's make sure outside those areas where governments intervening that we are in companies, who have something really special because if we think their products and services are been truly valued, that demand will come again. There will be life after COVID-19 and our portfolio is set up for life after COVID-19.

[8:53]

DM: Let's have a little delve into portfolio then. Are there any changes that you have made and I'm sort of particularly interested in your, decent, or good exposure to both healthcare and technology companies, companies that although you didn't forecast COVID-19 appear to potentially be beneficiaries, healthcare, obviously the search for the drugs, but technology that we're working from home more and technology is playing an even greater part in our lives. And if there's any areas that you've maybe lightened a little bit out of?

AD: Yeah, that's a really good question. Thank you. It is true, you are right, we had about 25% of the portfolio was exposed to healthcare. But again, just before I go on from that, I should tell you that we don't really think in terms of healthcare, we think in terms of special companies. So, if you looked at our companies, Novo Nordisk, is our biggest pharmaceutical healthcare related holding. It's about treating diabetes and obesity and some of the co-morbidities like cardiovascular diseases. So, it's not an obvious COVID-19 beneficiary in any sense at all, but it's remarkably resilient as a business because, coming back to what I said about buy a company which is special because it can flourish in different economic scenarios - if you have diabetes, you need treatment every single, I was going to say every single day, but actually you can get once weekly now, but go with me on the every single day idea or once weekly idea. You need to keep treating your diabetes or it will kill you more quickly than COVID-19 can. So, this is good recurrent business. So, we've been beneficiaries of having special companies of which about 25% of our portfolio happened to be in healthcare. That's gone very well because this is a must have product. It's key that people keep having those products.

[10:58]

At the same time, we have a big technology exposure, but again, technology is a vast sector and we think very much more about cherry-picking special companies within the technology sector. I can tell you some bad technology companies, some ‘me too’ technology companies, but we're not interested in that. We're interested in special companies that happened to be in technology, but you are right to say Darius, this has been good for the fund. It has been good for the fund. We had a relatively small exposure to the energy and travel industry, but we have reduced that more. I've made some mistakes in that area, the normal rules don't apply in some of those areas as I said at the moment. So, we have reduced in that area and we've actually got a bit more in technology than we would have done before, but we're pretty comfortable with what we’ve got.

[11:51]

DM: And maybe just to wrap up because I think we've already been around some of the subjects which I'd like to sort of cover, which is sort of government intervention and opportunistic market volatility whilst painful at the time, always gives you opportunities. Something which I find interesting is this lower interest rate and hence superior growth, special growth may well be the place to be for the next decade as well as the last decade. To just maybe briefly then market vol[atility] or any of those things. Have they given you any real opportunities to buy your special companies at lower prices or some companies that were on your radar but came into the right sort of price range for you or anything like that?

AD: Well, I'm going to separate sort of two parts of that question. If the question is over the last month or so or two months, has the extreme share price - and it has been extreme share price volatility - presented opportunities that we thought were worth taking. The answer is yes. In the short term, has that made us look smart? Yes. But taking you onto the second part of the question, in a sense that's not really what matters. What really matters is when the dust settles and it will never settle completely, but when we get, break the back of the COVID-19 problem, we're then going to see whether strong companies prevail and can take advantage, serious business opportunities. That is what we buy for, so whilst in the short term we, we might say, yes, share prices are high and we've taken advantage. It means very little.

The extreme volatility could mean that we have a nasty downturn in share prices again, that's possible. I don't know. Our focus is always on real world behaviour and companies, not share prices. So, the real test is going to be not over the next one or two months, the real test is over the next year or two. Did we make smart decisions investing in companies who are winners in the aftermath of COVID-19. I think they're going to be a lot of losers, there are a lot of companies that are going bust. Again, we're trying to avoid the situations where governments will decide who lives and who dies, and we're trying to play in that part of the economy where real business factors will prevail because that's where our expertise - if we have expertise - it's understanding which business characteristics will prevail. So, we're spending a lot of time on that. So, I don't want to feel unduly or in the slightest bit pleased about the short term, tempting though that is, because the real test comes on a year, two year view, were we sensible in picking a series of fundamental winners. Of course. I hope we are. Of course, I think we are, but that's not yet proven.

DM: Alexander, thank you so much for your insight, not just on how you run the European Opportunities Trust, but actually also your views and thoughts on the current market turmoil that's going on with the health crisis that we are currently involved in. So for more information on the European Opportunities Trust, please visit fundcalibre.com and to subscribe to the Investing on the go podcast from FundCalibre, please subscribe via fundcalibre.com.