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Money

Warren Buffett fans can follow their leader

The guide A small fund mimicking the stockpicking style of the Sage of Omaha aspires to deliver longterm rewards, says **Mark Atherton**

You've seen the books that explain how to invest like Warren Buffett. Now we have a fund that aims to do just that, setting out to make money by following the principles laid down by the world's most successful investor.

The experiment is so far proving a remarkable success. The ConBrio Sanford Deland UK Buffettology fund has produced a return of 104.5 per cent over the five years since its launch, putting it fourth out of the 245 funds in its sector. It was the top-performing fund in 2015.

Times Money examines how this fund has successfully drawn on the investment thinking of the "Sage of Omaha".

The fund manager

Keith Ashworth-Lord has spent more than 30 years working in equity markets, but his eureka moment came in the 1990s when he studied the achievements of Benjamin Graham, the father of modern securities analysis, and his disciples, of whom Buffett was the most outstanding. Mr Ashworth- Lord says: "This group of successful US investors drew their inspiration from Graham and consistently outperformed the Standard & Poor's 500 stock index year in, year out."

He decided that the best way to emulate their performance was to take the most successful disciple — Buffett — and apply his investment principles to the running of a fund in the UK. He has been to Omaha, Nebraska, on several occasions to attend the AGMs of Berkshire Hathaway, Buffett's holding company, at which the great man expounds his investment philosophy. He has also had a personal meeting with Buffett and Charlie Munger, his right-hand man.

Mr Ashworth-Lord explains: "The term Buffettology is a trademark name owned by [Buffett's former daughter-in- law] Mary, and I have been licensed to use it in the UK."

Instead of a portfolio full of US household names that Buffett favours, such as Coca-Cola, Kraft Heinz and Procter & Gamble, Mr Ashworth- Lord's holdings include stocks such as Domino's Pizza, Diageo, the drinks giant, and James Halstead, the flooring product manufacturer.

The philosophy

The fund manager's thinking starts from the Buffett-style premise that there should be no distinction between part-ownership of a company (that is, buying shares in it) and outright ownership (buying the entire business). Or, as Buffett put it: "Stocks are simple. All you do is buy shares in a great business for less than the business is intrinsically worth, with managers of the highest quality and ability. You then own those shares for ever."

> Stocks are simple. All you do is buy shares in a great business for less

Buffett has some clear ideas of what he is looking for in companies that he could select for his portfolio and Mr Ashworth-Lord has adopted the approach for his stock selection. The companies should:

- Have a business model that is easily comprehensible. As Buffett once famously said: "If you don't understand how a stock works, you shouldn't invest in it."
- Produce financial statements that are transparent.
- Hold a position in a market where there are high barriers to entry.
- Convert a high proportion of earnings into free cash.
- Keep a strong balance sheet without too much borrowing.
- Have a management that is focused on delivering shareholder value.
- Grow organically rather than through merger activity.

Mr Ashworth-Lord, like Buffett, has a longterm approach and is very much a buy-and-hold investor. "I have the investment activity of a sloth. Once I have ownership of a superior business, I am loath to let it go unless there is a very good fundamental reason. I don't try to be clever by trading in and out of holdings. Like good wine, my stocks are laid down for longterm appreciation, hence our low portfolio turnover."

The stocks

When Buffett buys a stock he always looks for some sort of "economic moat" around a company that enables it to maintain a consistently high return on capital, says Mr Ashworth-Lord, who adopts the same approach with his fund, seeking out companies that have a special element to their business model that sets them apart from rivals.

His first example is RWS Holdings. This patent and commercial translation service has a unique franchise in the skills of its employees. They translate documents into English from other languages so that companies and individuals can file patents in Europe and the US. Mr Ashworth-Lord says: "When RWS hires linguists it trains them up in a specialist area, such as chemicals or engineering, so that they are doubly qualified. Their competitors tend to be small, freelance operators who cannot match RWS employees, and this explains why RWS is much in demand from multinationals such as Sony, Daimler-Benz and Novartis."

Diageo, his second example, stands out from the pack because of its almost unrivalled collection of international drinks brands, which includes Guinness, Smirnoff, Johnnie Walker, Tanqueray, Bell's and Captain Morgan Rum.

He says: "What these brands are doing is capturing a piece of a customer's brain. Whisky drinkers will always stick to a particular brand and when they order a glass they will ask directly for a Bell's or a Johnnie Walker. This brand loyalty gives the owners of the brand great pricing power."

Example number three, Rotork, demonstrates the power of intellectual property in establishing a dominant position in a specialised market. Rotork makes specialised actuators, which are used to open valves in pipelines. They are much in demand in the oil and gas industry, the water industry and in power generation. "Rotork's specialised products have been employed on every single refinery built in the past 35 years," says Mr Ashworth-Lord.

Does the Buffettology fund really invest like Buffett?

Not entirely, according to Brian Dennehy, of Fundexpert, the financial research website. He says: "Buffett is an extraordinary man with an intellect, mindset and discipline that would be extremely hard for anyone else to mimic. He is an asset manager running $360billion (£251.7 billion), which not many could handle. He has to take big bets on large companies to have an effect on investment performance. "Mr Ashworth- Lord may base his approach on Buffett, but he has his own ideas and investment style. With such a small fund he is able to move in and out of stocks of all sizes in a way Buffett cannot. I think his fund is excellent — but the label doesn't tell the full story."

Performance

97.7%

the return made by Buffettology fund since launch five years ago

Why is such a successful fund still so small, at £38million?

Mr Dennehy says that, with a fund of this size, there is probably little in the way of a marketing budget to promote it, despite its eye-catching name and outstanding performance.

The biggest funds are not necessarily those with the most successful track records. They tend to be the ones run by the big financial groups with large marketing departments."

Wealth managers and fund of fund managers may also be wary of a smallish fund without a long track record, though now that the fund is five years old, Mr Ashworth-Lord hopes to attract more interest from larger investors.

Mr Dennehy adds: "This fund is run by a man who is not simply emulating Buffett, but is a very capable manager in his own right."

Be a winner with the Sage of Omaha

- Think longterm. Warren Buffett says that short-term thinking is one of the most dangerous traps for an investor and should be resisted. As he says, you should never buy a stock unless you would be happy with it if the stock exchange closed down for ten years.
- Recognise your limitations. Buffett does not believe in investing in companies he doesn't understand. This meant he largely missed out on the dot.com boom of the late 1990s because he didn't understand how many tech stocks worked or how they were going to generate meaningful revenues for investors. Yet, it also meant he was less affected when the tech bubble burst in 2000.
- Focus on a company's intrinsic worth, not the price the market is putting on it. If you think a company is sound and worth more than the market price that is the time to consider buying. If you are right, the share price will rise to reflect the fundamentals of the company.
- Be hungry but don't be greedy. You need to have an appetite for making profits but not be consumed by it. Buffett says you must not be too interested in money or too impatient for success. Be more interested in the process rather than the payout.
- Think independently. You are investing your money and it is your opinion that counts. Buffett argues that you shouldn't be too influenced by people agreeing or disagreeing with you; the facts will determine whether you are right.
- Don't be panicked into selling when the market falls. Investors should resist the temptation to sell a stock because of frenetic activity around them. Stay calm and trust the analysis of the fundamentals of a company. In the same way, don't be carried away by a buying frenzy; stick to a disciplined, analysis-based approach.

Mark Atherton