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DAVID OAKES

WEALTH MANAGER PROFILE

Mercater Capital Management's co-founder on how long-standing industry contacts have helped shape his firm

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David Oakes's investment career has taken him to a number of illustrious companies before he finally settled on co-launching his own discretionary asset management business in 2003.

Cheshire-born Oakes has had stints at Manchester stockbrokers Henry Cooke Lumsden and Aberdeen Asset Management, as well as being hired by Cazenove to set up its northern office.

The journey has not been one without excitement.

He left Cazenove along with colleague Simon Nicholas, intending to launch Aberdeen Asset Management's fund of fund operations in 2002.

The timing was less than ideal, to say the least.

It was the exact same time that the split-cap crisis was threatening to engulf the company and Oakes smiles ruefully as he recalls the events of the day.

'It all blew up into a fire storm and money was pouring out the door so we decided it was not a good idea to continue,' he says.

Oakes says Aberdeen was very understanding and the result was that Nicholas went off to join Scott Lang Investment Management, and Oakes set up Mercater Capital Management with former Henry Cooke colleague Alaric Gordon.

Nearly seven years on, in somewhat calmer conditions, Oakes and Gordon preside over £100 million of discretionary assets, and a further £20 million of advisory assets from their Altrincham base.

Oakes is in charge of fund selection and asset allocation in his role as chief investment officer. The discretionary funds business reflects the personnel's long-term investment expertise, being purely multi-manager, and the business is majority owned by its staff, which includes Nicholas and Kevin Bright, Mercater's two day-to-day fund managers.

Fresh impetus was given to the fledgling business when it acquired Scott Lang two years later, thus reuniting Oakes with his former colleague.

Oakes cuts something of a cerebral figure. His answers are measured and thought-provoking, whether he is talking about the state of the economy, or what fund he is currently favouring for Mercater's portfolios.

Like previous cover stars Matthew Hunt and Philip Okell, Mercater has worked closely with Raymond James Investment Services; Oakes introduced Okell to the firm.

Now however, Mercater has moved on slightly, as the firm has grown. 'We started off with the over-arching back office and compliance side but are an associate now, rather than a full member.'

Oakes's business connections in the industry are as wide as his experience is deep. He has remained in contact with some of the investment industry's highest profile figures, including Jonathan Wilcox of M&G, Gartmore's Phil Wagstaff and Thames River's Charlie Porter.

Oakes has remained particularly close to Porter, whom he knew from Barings before he went on to found Thames River in 1998.

Mercater was a primary investor in Thames River's European fund at launch and also bought into Nevsky Capital's Agriculture and Water funds. Oakes and

his team work very closely with Porter's boutique.

He and his former Cazenove colleagues at Gore Brown seeded the boutique's new Credit Select fund, run by Stephen Drew with \$25 million.

Oakes's focus on asset allocation issues comes to the fore as he talks about the thinking behind the fund.

'It was obvious last autumn that rates were going to zero and that corporate bonds could be the answer but there were lots of pricing issues,' he says.

He met with Porter early last year to discuss the new fund. Investment director Michael Warren was looking to expand the boutique's range of funds. 'The Credit Select fund sits between a global bond and a high income fund. We wanted to keep it small and flexible and did not want to trade in and out. We want a similar income from it as from cash but we wanted it to be as safe as it could be made.'

At its launch last October, the world was a very different place and the fund went on to be highly successful in raising capital.

DO TAKES

WEALTH MANAGER PROFILE



Most of our clients have already seen bad things happen in the market so are not easily scared

'They raised \$165 million (£101 million) at launch and it is at around \$230 million now. I think it is the most successful single raising they have had,' Oakes reveals.

He is down at Thames River's Mayfair offices once a month, and also regularly visits M&G, Schrodgers and Walker Crips. He has funds from all three held within Mercater's portfolios.

Oakes's move into the industry was perhaps not the typical one for a private client wealth manager in that he did not take the university path.

He went straight from school to work in the back office at Henry Cookes, one of Manchester's premier stockbroking firms.

He received his blue button and spent a hectic year as a runner at the London Stock Exchange. 'Everyone worked in a black box underground. We didn't know if it was night or day.'

He returned to Manchester to work in the firm's private client business in 1979, using the time to take his investment exams.

He began to specialise in unit trusts and three years later launched a unit trust management service at what was then Henry Cooke Thomsons.

It was a forerunner of what would later come to be known as fund of funds.

By 1990, Oakes had become managing director of Arkwright Management, where he ran £60 million in the shape of the firm's in-house fund. 'It was a UK Growth fund, and did very well,' he says.

Oakes was soon seeking new challenges, however, and ended up outsourcing the fund to Axa Framlington's UK equities stalwart Nigel Thomas.

Not for the first time in his career, he was looking for a clean sheet and got it in 1994 when he was headhunted by Cazenove to launch its Northern office.

Based in Chester, Oakes recruited Simon Nicholas, but the investment backdrop was challenging. 'We had just seen a huge dump in bonds and it was very tough to get going,' he says.

Soon, however, the bull market that was to hold sway through the late 1990s came to the rescue.

Oakes was happy running the unit trust management business out of Chester, but the whole ethos of the company began to change when Cazenove decided to incorporate the business in 2000.

'The business lost its special feel and became like any other business,' he says.

Oakes says staff at the other Cazenove offices, which had also been autonomous up to that point, were also having similar sentiments about the development.

Cazenove had offices in Salisbury and Oxford. Like Oakes's Chester team, the Salisbury office decided to leave, while Oakes and Nicholas made their way to Aberdeen before the split-cap crisis steered Oakes towards forming Mercater Capital Management instead.

The Salisbury team is still closely linked with Mercater in the new guise of Gore Brown Investment Managers, and members attend the quarterly asset allocation committee meetings.

Meetings take place in either Gore Brown's offices in Salisbury, or in fund of hedge fund firm Culross's Dover Street offices, with Oakes taking care of the unit trust monitoring.

He mentions the opportunities thrown up by distressed debt over the past few months. 'Culross has raised \$38 million to buy assets in distressed Swiss portfolios, another area where there are opportunities for Mercater to grow their assets.

'People are saying: "Get this stuff off my portfolio or I leave!"' There are also monthly investment meetings, and a formal private client meeting to check on how policy is being implemented.

Mercater currently has around 40 funds in its portfolios and Oakes is buoyed by the performance over the last two years of market dislocation.

In the year to the end of June 2009, the Mercater Balanced Growth portfolio posted returns of -5.34%, compared with the Apicms balanced portfolio return of -15.3% over the same period.

Oakes' macro approach to investing becomes apparent once again. 'We started to go cautious in spring 2007 and sold out of all our small and mid-cap portfolios. By the summer, we were completely out of property,' he says.

'Last year we shorted sterling and switched assets into the dollar and the euro. We think the dollar will be strong.'

His keen focus on risk has paid dividends over the last few months. 'We have not lost any clients and our fund turnover is only about 4%, compared to the industry average of about 11%.'

The balanced income and balanced growth portfolios have enjoyed very sticky assets, he says, and the growth of the Sipp market has also been a very useful development for the business's continuing growth.

The average portfolio size is around £450,000, and the average client age is about 55, he says. The slightly older demographic of his clients has clearly been useful over the duration of the global credit crunch. 'Most of our clients have already seen some bad things happen in the markets so are not easily scared,' he notes.



We have had the biggest recession in history and suddenly all around it seems like we are seeing a suspension of reality

THINGS WE LIKE

It is a fascinating intellectual challenge to be involved in this sector of the economy, from trying to work out where markets are going, which themes have legs and which are turning into bubbles. Selecting the funds, translating this in to portfolios and watching them grow is very rewarding. Along the way, you get to meet managers at the top of their game, and yet most of them remain extremely modest. Enduring relationships result, which carry you through good times – and bad. Here are a few of our favourites.

- 1. Nevsky fund** I remember going to the launch presentation of this fund shortly after Russia had defaulted on its sovereign debt and asking if this part of the world was investible. Martin Taylor and his team, now 38 strong, have done an impressive job. The fund is up 765% since inception. It is now more of a Bric fund but is still managed on a cautious basis. It is worth joining the inevitable queue for units.
- 2. Odey European** I first met Crispin Odey when he managed the Baring German Growth fund in the 1980s, and we kept in touch when he branched out on his own. In those days, we were not able to invest in hedge funds, but supported the launch of the long-only Continental Europe fund in 1997, and still do. Where the mandate allows, and the option exists, I prefer the hedge fund since it gives the manager more flexibility. However, either fund will serve you well.
- 3. CF Walker Crips UK Growth fund** It is rare to find a true double act, but with Stephen Bailey and Jan Luthman, that is what you get here. When we came across it, the fund was small and unknown, but patience has been rewarded in performance and size. Despite the name, it is invested in companies that have little dependence on the UK economy but happen to be quoted here, which mirrors our view neatly. The Income fund from the same stable is also worth considering.
- 4. Premier Pan European Property Share fund** One of the upsides of my short time at Aberdeen was getting to know Alex Ross, who managed the Property Share fund. We supported the launch of this fund when he moved to Premier in July 2005, but sold in spring 2007 when we exited the asset class altogether. Last April, he came to see us, and said it was time to reinvest, which was excellent timing. Apart from having one of the most astute managers in this sector, the fund is liquid and offers a decent yield.

Much of the new business now coming in is coming from northwestern IFAs looking to outsource their investment assets. To boost this area of business further, Oakes has now recruited a marketing person.

'He is dedicated to making IFA contacts and spent 20 years working for Axa.'

Oakes is also happy to embrace the changes that will be brought in by the Retail Distribution Review, as he is qualified to at least level six, from his private client stockbroking days.

He says Mercater is also enjoying some decent new business from lawyers and some directly from word of mouth. In the first two months of 2009 Mercater's portfolios made huge gains but since then, Oakes admits that the portfolios have been behind the rally.

Like many of his risk-averse peers, Oakes admits that the sustained strength of the market rally was surprising.

'There is still no more than 50% equity in our portfolios and the easy money has gone in bonds, although they still look reasonable value.'

Oakes is fresh from his latest asset allocation meeting and retains a cautious macro outlook.

'Rates should stay low. The UK economy is still too fragile to go up, taxes will go up and unemployment levels will have huge pressures on consumption.

He expects another £25 billion in the Monetary Policy Committee's quantitative easing programme to hit the money markets, but after that, 'what will happen when it stops?' he asks with gloomy rhetoric.

Oakes is keen to stress that he is cautious rather than bearish, and firmly believes that equities still look quite cheap. Yet he does not believe the economy – and the investment industry for that matter – can escape so easily from the events of the past two years.

'We have had the biggest recession in history and suddenly all around it seems like we are seeing a suspension of reality. The banks still have a lot of toxic assets and whichever government gets in, it will have to do something nasty.'

Away from his worries over the direction of the global economy, Oakes is a keen sailor but he confesses he finds it hard to get away to the water as often as he would like.

He and his wife live near Northwich, close to their respective roots, and he is proud to relate that his daughter has just had her first piece of journalism published, on her travels in Australia.

In 2008 he chartered and sailed a yacht with friends up the Adriatic coast from Split to Venice, but this year, a mere 90 minutes of sailing time has been possible, he says.

The months ahead it seems, will be all about steering his clients away from choppy waters towards the relative calm of smoother returns. ■