

## 02 PROFILES & ANALYSIS

Fund manager profile Richard Pease and James Milne, Crux Asset Management



# BEST IN SHOW

*A key part of the boutique style for Richard Pease and James Milne is adding a personal touch to their dealings with company management, all while accompanied by their four-legged friend*

Sebastian Cheek

**R**ichard Pease is in a relaxed mood when we meet, no doubt due to the fact the star fund manager recently won a high-profile legal case against Janus Henderson over unpaid management fees.

The manager of the £2.2bn Crux European Special Situations Fund even has his Staffordshire Bull Terrier, Archer, in the office, who greets me with a friendly nuzzle.

## Victory lap

It can't have been the most tranquil of months but, evidently relieved, Pease starts chatting with a calm, enthusiastic manner.

In March, the High Court ruled in favour of his claim that Henderson Global Investors (now Janus Henderson) breached the terms of his contract as it "failed and refused" to pay him £2.7m of outstanding management fees after he left, taking European Special Situations with him.

Pease won two claims. First, that Henderson had failed to pay him remuneration in breach of contract and, second, that it wrongfully held back accrued payment after he had quit Henderson. Precise sums owed have yet to be decided and Janus Henderson could still appeal the decision.

Referring to the case as the "dreary litigation thing", Pease is at pains to point out how reluctant he was to take it to court. He says it was nothing personal but the only option as he simply could not mediate "in any shape or form" with Henderson.

"I was just bewildered that they wanted to test it in court," he says. "In the end, with great reluctance, we had to go to court and we won everything, which obviously I am relieved about."

The case originates from when Pease resigned from Henderson in October 2014 to start up boutique firm Crux Asset Management in June 2015. His contract with Henderson, which had been agreed when it acquired New Star in 2009, had allowed him to take the European Special Situations Fund with him.

Speaking about the original contract, Pease says: "We had a very unusual contract. It wasn't a bonus or reward but a contractual entitlement to a revenue share. That's why I joined, and to try and claim it was anything else was just odd."

"There is no point having the right to do something if they then fine you so heavily. It is self-defeating and not in keeping with the intention of the contract."

It was during the New Star days that Pease met his co-manager James Milne, who has assisted Pease on the European Special Situations Fund since it launched under Henderson in October 2009.

But the pair's working relationship got off to a rocky start when the financial crisis hit and the fund's performance slumped.

"From the moment James joined me we had quite a tricky time in the markets. We went through an actual crisis and then the New Star crisis, which was largely a consequence of the financial crisis," says Pease.

The duo rode out the turbulence before New Star collapsed and was pulled from the wreckage by Henderson Global Investors when it bought the firm in 2009.

Milne is a cool customer, an accountant by training with a double first in engineering science from Oxford. Pease boasts that his right-hand man achieved the top results in his accountancy exams for his year group, which was made up of lots of international students. "He's the accountancy equivalent of a rock star," says Pease.

In a further shining endorsement of Milne, Pease had it written into his contract on joining Henderson that he could take Milne with him when he moved firms.

"No one took James seriously at that stage, so I could get it into my contract that I was allowed to take him with me if I moved."

Having someone of Milne's calibre by his side was a saving grace through the economic downturn and the subsequent troubles at New Star, says Pease.

"James was very good at formalising the risk control, so we really did know where we were. We were in the soup but could provide the liquidity we needed to because we had a big well on the fund."

"The only good takeaway from the New Star debacle was we could demonstrate, under fire, that everyone got their money back in a 24-hour period. We actually outperformed quite strongly in the 2008-09 crisis."

Fast forward to 2014 and Crux Asset Management was born, and on 8 June 2015, European Special Situations

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was restructured from a Henderson fund to a Crux one. According to FE data, it has returned 5.9%, 45.4% and 73.2% over one, three and five years, respectively, versus the IA Europe ex UK sector's 6.6%, 35.6% and 59.9%.

The boutique environment Pease experienced at Jupiter, and which the pair shared at New Star, suits them better.

"Both Jupiter and New Star were boutiques, as is Crux. It's much nicer to work in a boutique," says Milne.

**'VALUATION IS A MATTER OF OPINION. CASHFLOW IS CASHFLOW. YOU CAN COUNT IT'**

**Richard Pease**, co-fund manager,  
Crux European Special Situations Fund

#### It's good to talk

As a top-tier accountant, it would be fair to say Milne knows his way around a balance sheet, which sets him in good stead for scrutinising company financials. After crunching the numbers does he grill management teams hard?

"It's never a good idea to grill management because they clam up," says Milne. "The whole idea is that they chat to you normally about things."



## FUND PICKER COMMENT



**Jonathan Moyes**  
Head of research,  
Whitechurch  
Securities

Whitechurch is a long-term supporter of Richard Pease's investment style and has moved with him across several investment houses, most recently backing the European Special Situations Fund when it launched in 2009. The team employs a disciplined stockpicking approach that focuses on identifying high-quality, medium-sized and entrepreneurial companies with attractive growth characteristics.

In the active versus passive debate, Pease and James Milne's record will serve as a strong advocate for

disciplined active investing, having substantially beaten both the index and the peer group over the longer term. We believe this is due to the team's strict adherence to its process.

However, this has not gone unnoticed by fund selectors. The fund continues to take in substantial inflows, meaning it now tops £2bn in size. This represents a fresh challenge for Crux but we are more than confident that Pease, Milne and their team can rise to it.

Pease explains that bringing Archer into the room to meet company executives also helps take the edge off meetings. "This chap's very good as he makes them relax," he says.

In terms of the workload split, Pease says, somewhat tongue in cheek: "[James] does the work, I do the talking."

Milne certainly clocks up the miles when it comes to meeting company management, claiming to have met more than 100 companies in Q1 alone last year.

He adds: "I jokingly always say I don't like eating sandwiches at my desk, so the easiest way to get out of that is to go to as many group lunches as you possibly can. There is always a new company to meet."

Pease also claims his team has the personal mobile number of more or less every single CEO, CFO, or both, of the firms they own and that on quiet days in the office they will ring around for a catch-up. "You mustn't become a bore but a quarterly phone conversation is fine," says Pease.

### Count on cashflow

In terms of ideas for the portfolio, the duo focuses on organisations that Pease describes as "service-driven", which tend to be companies where management and/or family own bigger stakes. "You like the cook that eats his own cooking," says Pease.

The pair also like firms that have been through private equity, with about 18 of the 60 or so companies in the portfolio having gone through this process.

At the expensive end the team looks at the like of Givaudan, the world's largest flavouring and fragrances company. This firm, says Pease, is an example of a long-term structural growth success and is preferred to the likes of Nestlé or Unilever.

The portfolio's biggest position, at about 4%, is German-listed property company Aroundtown, which Crux made 50% on last year, according to Pease. It is a general property business that buys properties sited in A-class locations in Germany from distressed banks, turns them around and bumps up the yield.

## 'IT'S NEVER A GOOD IDEA TO GRILL MANAGEMENT BECAUSE THEY JUST CLAM UP'

**James Milne**, co-fund manager,  
Crux European Special Situations Fund

"Valuation is a matter of opinion, cashflow is cashflow; you can count it," according to Pease.

The duo's view on Europe is that the politics looks "uncertain and ugly", although they are quick to point out that they are stockpickers and not trying to sell the European economy. "We are trying to flog you good business models that are enduring and global," says Pease.

The portfolio is European by name but global in nature. Pease says the exposure is mainly in Europe but the portfolio has about a 30% exposure to the US and a "hunk" in Asia.

The reason for going global is being able to take advantage of situations where a large

multinational company sweeps into a market and distorts margins. As such, firms in the portfolio often dominate a small niche.

"If you are born in Holland or Finland, for example, and you are ambitious, and good, you're going to outgrow your local market," says Pease.

Milne cites Switzerland as an example of a country punching above its weight on the global stage. "They've had loads of massive, global companies, and it's about half the size of Wales."

"These companies are not headline grabbers but they are the guys that make the real money, within a smaller context," Pease says. "It may be a small pond but we like to be the big fish."

But it's not all about margins, according to Milne who says this is something analysts often get overexcited by. "I've heard my peers say, 'Oh, it's a high-margin business, ie it should be a high PE', well, no. Usually that means it's got a high capital base and so your return on capital might not be very good."

### Secret to success

Hargreaves Lansdown conducted some analysis on Pease and found that if an investor had handed him £1,000 in 1990 it would now be worth approximately £47,000. So, what's the secret?

"We've not done anything super-sexy or super-clever," he says. "It's just about sticking to your principles and the process. It's the power of compound; of good businesses."

In terms of the Crux European Special Situations Fund's growth, Pease says clients will largely dictate how big it gets. He adds that he does not want it to grow too big because he feels it could potentially compromise his ability to run the money.

Looking to the more immediate future, the firm has mooted the launch of a UK version of the European Special Situations Fund for Richard Penny, who joins Crux in June from LGIM.

Pease says: "You see a lot of people who can talk the talk but, with Richard, he can really walk the walk. He's a very nice man and I'm really pleased he's joining." **LW**

## BIOGRAPHIES

**Richard Pease** began his career at the Church of England where he ran two funds, before a short period at Windsor IM. In 1989, he joined Jupiter Asset Management where he launched and ran the European Unit Trust and several other European funds. He helped set up New Star Asset Management in 2001 where he launched and managed the New Star European Oeic. In April 2009, New Star was acquired by Henderson Global Investors and in October 2009 the European Special Situations Fund was launched with Pease as manager. He joined Crux in June 2015.

**James Milne's** career began in 2002 at KPMG in London where he qualified as a chartered accountant before moving into corporate finance. In July 2006, he joined New Star Asset Management and in April 2009, he transferred to Henderson Global Investors when it bought New Star. Milne has assisted Richard Pease with the Henderson European Special Situations Fund since it was launched in October 2009, and he moved to Crux at the same time as Pease in June 2015. He is also co-manager on the Crux European Fund.