HARRY NIMMO

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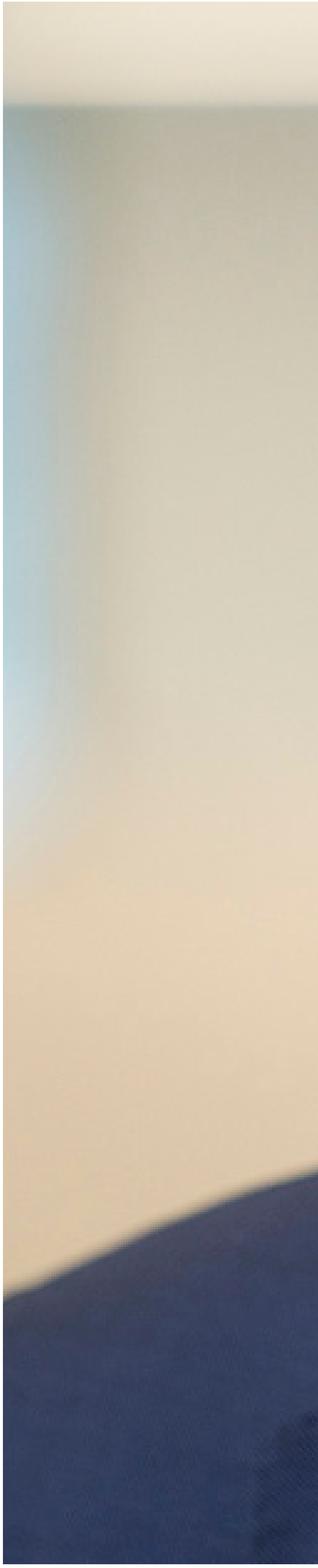

Aberdeen Standard Investments’ Harry Nimmo on being as hungry as ever

STEPHEN LITTLE

Even after 33 years in the asset management business, Standard Life Investments UK Smaller Companies fund manager Harry Nimmo is as enthusiastic as the day he started.

“I’m enjoying it so much I reckon I’ll be in the business a few more years yet as long as Aberdeen Standard is willing to have me. Retirement is the furthest thing from my mind at the moment,” he says.

The star fund manager’s route into the industry is an interesting one. After completing a degree in geography at the University of Dundee, he went to Saudi Arabia in the 1980s to work as a land surveyor for oil company Saudi Aramco.

Looking for a more settled existence, he returned to the UK in 1983 and did an MBA at Edinburgh University before joining Standard Life in 1985 as an investment analyst. He hasn’t looked back since.

In 1997, he launched the £1.5bn UK Smaller Companies fund, which has generated an annualised return of 14 per cent since inception. He also manages the Standard Life UK Smaller Companies trust.

Nimmo uses a screening process he calls “the Matrix” to narrow down the 700 stocks that constitute the smaller companies market. This gives the team a shortlist of around 100 stocks. After meeting with business managers to decide which to buy, Nimmo selects a portfolio of around 50 holdings.

The fund’s figures speak for themselves. Over the past five years, it has returned 69 per cent, compared to 49 per cent for the IA UK Smaller Companies benchmark, according to FE.

Nimmo says he prefers stocks that are performing well, rather than those that are cheap.

“Low-value stocks suggest a firm has big problems, and companies with big problems can go bankrupt. Our investment strategy is focused on finding tomorrow’s larger companies today,” he says.

“We seek out high-quality companies, with growth potential and earnings momentum. We try to avoid ones geared into the economic cycle.”

The fund’s biggest sector plays are healthcare, software, support services, food and drink, and retail. The manager avoids businesses in the riskier oil and gas, mining and finance sectors.

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He says: “We strongly believe that, in smaller companies, lower risk equals higher returns. Our fund has been through four market and economic cycles. It has seen several bear markets and it’s come out the other side, making good money for investors prepared to be there in the long term and accept equity risk.”

Last year, Standard Life Investments and Aberdeen Asset Management joined forces to become Standard Life Aberdeen in a deal worth £11bn. While a merger on such a scale could quite easily cause disruption, Nimmo is adamant it has not affected the team structure or management of the fund.

“The merger hasn’t affected our clients in any way and we have not changed anything, so it is business as usual. The beauty of our investment process is that it hasn’t changed in over 20 years.”

Brexit

Nimmo believes his fund will ride out any post-Brexit headwinds in part due to its international exposure. Almost 55 per cent of company profits come from outside the UK, which he says will help shield it from any economic shocks.

“They might be described as smaller listed companies but many of the firms in the fund have big international businesses either based outside

the UK or they export," he says.

"If Brexit is bad for the UK economy, our companies should continue to grow and come out the other side."

"Since the Brexit vote, there has been a move to diversify away from the UK, but it is still a great place for finding smaller companies because of the dynamic business environment," he says.

"The Aim market is very important as it encourages business formation, entrepreneurship and job creation. We have found in the past seven years that Aim has matured dramatically and there is a far broader spread of sector exposure.

"Nearly a third our funds are invested in Aim-listed stocks and there is nothing quite like it around the world."

That said, he admits this part of the market is being driven by inheritance tax breaks, which some critics have warned could lead to a bubble.

"There is an element of tax breaks driving investment here. But that aside, it is still a substantially better market than five or 10 years ago. It is no longer dominated by the resource sectors and some technology sectors where there were historically very risky one-shot companies."

Headwinds

Nimmo is positive on the outlook for the market more broadly, but warns of headwinds in the short term.

"As well as Brexit, we have also got the Donald Trump effect and trade wars to deal with. This means our markets may be somewhat subdued. But we are not pessimistic – that is a short-term view.

"In the longer term, we don't foresee any problems because of our investment process. Taking a six-year time horizon at any point since the launch of the fund would have given you a 10 per cent per annum or better return. We think that is a pretty good number.

"We try to encourage investors not to get too caught up with the short-term investing. Equities are risky and you need to take a long-term view."