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Bolton’s ‘brave decision’ makes sense

By Jonathan Davis
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If my experience is anything to go by, few recent events in fund management have aroused as much interest as Anthony Bolton’s decision to return to full-time investment management with a new China fund for Fidelity.

By doing so he seems to be breaking Jeremy Grantham’s golden, and all too well evidenced, rule that the biggest dynamic shaping the fund management business is career risk (avoidance thereof).

Why on earth is such a celebrated stockpicker taking a chance with a new venture that could so readily backfire and jeopardise the remarkable reputation that he has spent 30 years acquiring?

After all, when Mr Bolton retired at the end of 2007, his track record was second to none. His Special Situations fund outperformed the FTSE All-Share index by an extraordinary 6 per cent per annum over a period of 28 years. The European fund he ran for 13 years until 2003 also beat its benchmark by a handsome margin.

Having timed his exit from fund management with impressive prescience, handing over his Special Situations fund just in time to avoid the savage 2007-09 bear market, it is certainly a high risk strategy to come out of retirement and launch a new fund whose mandate is to invest in what many believe to be an already overvalued emerging market on the other side of the world of which he has only limited knowledge and experience.

Mr Bolton speaks no Mandarin or Cantonese and by his own admission has always been terrible at foreign languages. He won’t be learning the mother tongue of the country in which he will now be spending his time looking for investments.

By any stretch of the imagination, this is what Sir Humphrey of Yes Minister fame would have called a “brave decision”.

The prospectus for the new closed end fund will be published this week. The target Fidelity has set for the launch is raising $1bn (£642m, €737m).

This makes it not only one of the biggest investment trust launches of all time in the UK, but ensures that if it fails it will do so in the most visible way – career and reputational risk, in other words, on a grand scale.

Nobody who knows him will assume that Mr Bolton is taking on his new venture lightly.

It is a safe bet that the timing of his China fund launch has been carefully considered. The idea that he is moving to Hong Kong solely to take advantage of a lower tax regime, however appealing that may be to a citizen of the near-bankrupt UK, does not stand up to scrutiny.

Nor, despite the huge marketing push behind it (Fidelity is paying trail commission to intermediaries for the first time on an investment trust launch), is it credible that he has been somehow bullied into running the new fund to boost his employer's flagging UK sales.

Having first taken an interest in the Chinese equity market several years ago, there is no question in my mind that Mr Bolton's enthusiasm for the stockpicking opportunities in China is genuine.

While he has only committed himself to two years running the new fund, something that makes many advisers nervous, it is inconceivable to me that he would abandon the fund in the event of a Chinese stock market crash, as many sceptics seem to think is likely.

Having interviewed him recently for Independent Investor, I suspect that Mr Bolton regards talk of a bubble in Chinese stocks not as overdone – clearly, it could happen any time – but as somewhat beside the point.

It is inevitable that Chinese stocks, like all emerging markets, will be more volatile than developed markets, but that is part of the price you pay for potentially exceptional returns.

If the market does fall a lot, it can also rebound even more strongly. By choosing a closed end structure, Fidelity is presumably guarding against such an outcome.

For all the talk of a bubble, the Chinese market remains at barely half its all-time high; its economy is poised to reach the level of gross domestic product at which historically an emerging economy makes a decisive shift towards consumerism; the stock market is far from efficient; and the currency over time is a near certainty to appreciate, providing a built-in safeguard for foreign investors.

All these are positives for any investor prepared to look beyond the very near term.

In advance of the prospectus, it is impossible to judge how well the new fund will perform. What can be said for sure is that Mr Bolton is staying true to his own principles. Thirty years ago he concluded that the only way to outperform the market was to do something different from the market.

That, after all, is what being a contrarian means. Whether it succeeds or fails, the new fund guarantees that his name will be remembered long after many lesser mortals have taken their consensus thinking and risk aversion to the grave, lamented by few.

Jonathan Davis is author of Investing With Anthony Bolton: the interview can be found at www.independent- investor.com