

## SHINING A LIGHT ON..... FRANKLIN UK MANAGERS' FOCUS FUND

### Update....

When we reviewed the fund in March we felt it would appeal to those investors looking for a high conviction strategy irrespective of market cap. Our update with one of the managers (Colin Morton) was to get an update on the fund and also their views on the market going into 2015.

The fund is a blend of all the best ideas from each of the UK Fund managers so effectively it is their shop window to the world which is what makes it interesting. It is obviously high conviction with a concentrated portfolio of forty stocks.

So we started with his view of the market today. His view mirrors what many have said before and that is that we are entering a new world with lower returns, lower interest rates and lower bond yields. Mixing with this is the global macro picture where some economies are doing better than others. So the US is doing well, Europe is struggling, Japan is embarking on massive reforms and emerging markets is proving that being selective is key to driving returns.

From all of this investors need to be realistic on future returns, he view mirrors a recent Barclays Gilt Study which suggests returns from bonds will be between 0 and 2%, cash 0 and 0.5% and equities between 6 and 7%. With lower inflation equities should continue to deliver above inflation returns but it is questionable that cash and bonds can do the same.

Added to this the UK has its own challenges. The key one is the election. The feeling is that whatever happens the majority of the wider macro decisions will remain similar however it is at the micro level that the impact could be felt within certain sectors. The risk as Colin sees it is that the SNP could hold the balance of power and therefore there could be coalition of three parties – Labour, Liberal Democrats and SNP.

Although UKIP are gaining popularity his belief is that they will only gain around 10 seats which won't necessarily mean they will have a part to play in the next government. The problem that this will cause is that it could create uncertainty in the bond and currency markets and potentially you could see a further election if the parties don't work well together.

So with this backdrop he believes this will play to the funds strengths where it focuses on companies that will do well whatever the political backdrop. Fundamentally these are companies which have strong structural growth and are liked by consumers.

We talked about three examples of stocks they like – Reed Elsevier, BAT and Avon Rubber. We touched briefly on Reed in the last update but some of the highlights and growth prospects come from a strong management team, the delivery of professional information solutions and the move from print to digital.

BAT is likely to be controversial because although he accepts that the return from developed markets is falling, the growth is coming from less developed markets and they are continuing to grow market share in these regions and paying a strong dividend.

## LWM Consultants Ltd

---

Another example is Avon Rubber which recently signed a 10 year contract with the American Army to supply Biotech Gas Masks. They have used this technology to grow the business in other parts of the world.

We touched briefly on food retailers and this is an area he has avoided because people's shopping habits are changing and he feels there are serious structural changes happening. One of the key things is that basket sizes are reducing and people are shopping more frequently. However, with recent management changes he is starting to look at the sector and there may be selective investments in the future.

In summary we continue to believe that this fund may appeal to those investors who are looking for a highly concentrated portfolio of best ideas. Clearly Colin believes there will be volatility especially around the election and potentially after the election but he believes the nature of the way they manage the investments is that although in the short term there may be volatility in the long term this fund should continue to perform because of the types of stocks they select.

### Fund performance

Performance over the last five years is shown below and year to date:

	2009	2010	2011	2012	2013	2014
<b>Franklin UK Managers' Focus Fund</b>	26.73%	28.67%	-10.57%	15.71%	45.05%	2.83%
<b>Lyxor ETF FTSE All Share</b>	29.16%	15.40%	-4.61%	11.67%	20.16%	2.60%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

*The source of information in this note has been provided by Templeton and is correct as at December 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*