SHINING A LIGHT ON……
FRANKLIN UK MID CAP FUND

Update….

We reviewed this fund about six months ago. Our conclusion was that this was a well-managed mid-cap fund delivering consistent out-performance. *(Of course there is no guarantee this outperformance will continue into the future).* The concern was around the underperformance of the sector and investors will need to consider this as a long term hold.

This is a high conviction strategy with 36 holdings and the top ten holdings making up 40% of the fund. One concern to be considered is the fund size which is £1 billion and there has to be a point where the strategy has to limit new money. Clearly it is not at that stage yet, but it is something investors need to consider.

Paul started by explaining that there has been a strong rally in the sector after a weak start in 2014. We have seen takeover bids, currently 6 in the last few months including Synergy Health and TSB and this is good news for the sector. On the flip side there has been carnage in the oil and mining space.

So it is about what you hold and what you don't hold which will determine the success or failure of your strategy. The stocks which have done well include Regus, Unite and Betfair. Not holding Drax and Premier Oil also helped the fund but holding Hunting, Supergroup and Thomas Cook was a negative for the fund. He has since sold out of Thomas Cook but has been adding to Hunting with the depressed share price.

New holdings include N Brown, Card Factory, Betfair and Merlin and the sectors where he is overweight include building supplies, housing and retailers. He holds nothing in mining, construction, food and beverage and telecommunications.

He did add that it is becoming harder to find new ideas and much of this is around valuations and this is something to be aware of if the fund becomes too big.

Paul is optimistic for the sector, he believes it is more diversified than the FTSE 100 which is better during volatility in the market. Although there has been a strong rally he believes there are good reasons to remain positive.

There are private equity companies awash with capital and therefore there are likely to be more bids, and companies are holding cash so there is likely to be buybacks. On a day to day basis individuals are likely to have more money for discretionary spending and this will benefit the likes of Card Factory, N Brown and Supergroup.

In conclusion we remain of the view we held six months ago. Clearly the sector has performed better over the last six months but it is becoming harder to find new ideas. Investors should watch carefully the size of the fund and whether this has any impact on future performance.

Fund performance

Performance over the last five years is shown below:

	2010	2011	2012	2013	2014	2015*
Franklin UK Mid Cap Fund	32.72%	-5.98%	27.18%	36.77%	1.24%	7.68%
Lyxor ETF FTSE All Share	15.40%	-4.61%	11.67%	20.16%	0.93%	6.28%

1 January to 28 February 2015

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.

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