SHINING A LIGHT ON……
FRANKLIN US OPPORTUNITIES FUND

At a glance

Investing in the US is very tricky and few managers outperform the index. In 2014 only 20% of active managers achieved this (Source JP Morgan). We recently spoke to the manager of the Franklin US Opportunities Fund. Much of the discussion focused on his view of the US and a small amount on his management style.

The fund was launched in the UK on 30 January 2009 but its track is in the US. Since launch in the UK it has returned 175.50% vs the S&P 500 which has returned 150.39%. In fact over 1, 3 and 5 years it has outperformed the S&P 500 although in certain years it has underperformed reflecting this should be a buy and hold strategy.

If the argument stands that the last 5 years favoured funds that tracked the index, and the next five years favours stock pickers then in theory this fund stands a good chance of building on its outperformance because it has already achieved this at a really difficult time.

Certainly the fact that the manager is based on the ground in the US, appears to have a detailed insight to the American economy and has delivered strong numbers makes this fund one for investors to consider. Like all our reviews we would add that this may not suit all investors and careful research would need to be done before an investor commits to investing.

Who are the team behind the fund?

Grant Bowers joined Franklin in 1993 and previously managed the Global Communications Fund. He has shown strong performance during his tenure ship and is well respected in the market.

Fund highlights?

As the primary focus was on the US economy it is worth just outlining Grant's approach to investing. His approach is bottom up so stock picking and he added he is conviction focused. The fund for him is a best in class. Two things for investors to consider and both depend on their interpretation. The number of holdings is 78 with the top ten making up 30%. Some may feel that a conviction portfolio would have less holdings and a higher weighting to the top ten. This really depends on interpretation and views.

The fund is an all cap fund with the focus on large cap (65%) and mid cap (30%). There is very little cash and all investments are made with a 3 to 5 year time horizon. The current focus for him includes technology, healthcare and consumer. I asked him to expand further and he explained in technology he is looking at software, services and semi-conductors rather than hardware based technology companies, in healthcare he is looking at pharmaceuticals, biotech and medical technology and then in consumer those companies that can expand their brand to new markets like Asia and Europe.

Turning to the US Grant started by explaining that we are in the midst of the longest economic recovery in history. His view is that we are sat about mid cycle in the recovery and there is a lot more to come. His view on the US consumer is positive based on an improving employment market, low interest rates and low inflation.

What's more striking is that US consumers are paying down debt from highs of over 13% in 2008 to 9.92% in 2015. Last time this happened was in the eighties and history shows that as debt reduces it opens consumer's propensity to spend. As debt reduces they feel happier to take on more over time for example in auto and home but this will be slow, no-one will be in a hurry to repeat past mistakes.

Turning to corporates Grant feels there are reasons to be optimistic. Earnings are growing at 6 to 8% and although this has slowed he expects this to pick up again in 2016. Obviously different sectors are responding in different ways but areas like health care, IT and consumer discretionary all offer opportunities.

He also highlighted that although companies are holding cash on their books there has been a shift in what they are doing. The market is starting to see share buy backs, special dividends, investment in R&D and M&A activity.

Touching on M&A the last time the market saw the same level of activity was back in 2007 and Grant feels this is a healthy and strategic way for companies to spend their balance sheets and drive new avenues of growth. What is interesting from Grant's view is that many of the deals are cross boarder deals opening up new markets.

Turning to valuations in the market Grant feels that the market is not cheap but it is about finding the right sectors and companies. Areas which he sees as expensive include utilities and telecom but he feels there are other sectors which offer good opportunities.

In conclusion what I liked about Grant was his deep knowledge of what is going on and his insightful thoughts. The strategy is not complicated although some might question with the number of holdings if this is a high conviction strategy. The fund has outperformed the S&P 500 albeit by a narrow margin. Investors need to consider whether a fund like this has the opportunity to widen the gap going forward and if they believe this to be the case whether this is the best fund to do this.

Fund performance

Performance from 2010 to 2015 vs S&P 500 TR and iShares MSCI North America.

	2010	2011	2012	2013	2014	2015*
Franklin US Opportunities Fund	23.94%	-2.11%	4.33%	36.86%	13.99%	6.92%
S&P 500 TR	18.68%	2.87%	10.91%	29.93%	20.76%	-1.54%
iShares MSCI North America	16.55%	-0.55%	5.15%	27.12%	18.81%	-3.71%

1 January to 31 August 2015

1 year, 3 years, 5 years and since launch (30 January 2009) performance:

	1 Year	3 Years	5 Years	Since launch
Franklin US Opportunities Fund	15.54%	64.12%	112.12%	175.50%
S&P 500 TR	8.50%	54.27%	108.73%	150.39%
iShares MSCI North America	5.32%	41.71%	79.25%	108.22%

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.

Conclusion

There is not a great deal to add, Grant has a good reputation and has delivered during a difficult period. He has a deep knowledge of the market and if the market favours stock pickers then he has the opportunity to widen the gap of outperformance.

The source of information in this note has been provided by Franklin and is correct as at September 2015. 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.