

SHINING A LIGHT ON..... INVESCO US EQUITY 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). The Invesco US Equity Fund has been in the market since 1983 however the current team have only been at the helm since 31 July 2012.

There are a number of things that we took away from the update. Firstly the manager's focus on value stocks and the market has favoured growth stocks which they feel are overvalued. Secondly the managers are contrarian and not afraid to be different to the market. Thirdly they are pure stock pickers, the fund currently has 38 stocks with the top ten making up nearly 40% of the portfolio.

One thing in the update the manager didn't touch on was performance. We ran the figures from the time the new managers took over and although the fund has slightly outperformed the iShares MSCI North American Fund it has underperformed the S&P500. In fact looking at the performance it doesn't seem to stand out.

Potential investors at this point may decide to read no further but there are two things to consider. Firstly the manager's approach is value and if this has been out of favour then when it returns to favour he could start to significantly outperform the index, and secondly although his track record appears poor again if his investment approach has been out of favour and this reverses then the track record will improve significantly.

Certainly his approach seems different but with a poor track, which might be due to investing in value stocks, it seems difficult for investors to find something positive about the fund. However, the fact that he is investing in undervalued companies in out of favour sectors means that he has the potential to reverse that underperformance and it will be for potential investors to take a step of faith and see if he can achieve that.

Who are the team behind the fund?

The Head of US Equities is Simon Laing, he joined Invesco 2012 and co-manages the fund with Simon Clinch who joined at the same time. Simon had spent all his previous time at Newton where he had managed their US Fund but again performance had drifted at the time that he left. One thing to note when looking into his past is that there was a period where his fund was performing well and this may indicate that there are long periods when it does well, and also when it doesn't.

Simon Clinch previously worked at F&C and Aberdeen but has a shorter period of managing money.

Fund highlights?

There were two areas we wanted to cover. Firstly to understand more about their management style and then how they felt the US economy was placed.

The update was with Simon Laing and he started by explaining that over the last 12 months growth stocks have outperformed value stocks. He believes growth stocks are now trading at a premium and therefore their approach should benefit from this. Fundamentally as he explained they are stock pickers with a high conviction approach searching out long term opportunities.

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If they look at what has been driving returns it is area like healthcare and consumer staples whereas the likes of utilities and energy are where the value lies.

So it is unsurprising that the managers don't like consumer staples, telecoms and overvalued growth stocks but they do like industrials, selected energy stocks and selected banks. He went onto explain that certain areas like food beverages, consumer staples and retail are in bubble territory whereas other sectors are far below any bubble (banks, energy etc). It is these areas that they are looking for opportunities in.

We touched on one area, Energy, Simon explained that the Sector has been underperforming since 2008 and far from what many believe oil was not the problem. He feels it is a rare opportunity where you can get the type of valuations you are getting today. Many of these companies have cut costs or are addressing this so that they can be just as profitable at lower oil prices as they were when the prices were higher.

The top four holdings are Citigroup, JP Morgan, Apache and United Continental. Sector wise the fund holds 21.25% in financials, 16.78% in industrials and 12.18% in energy.

We turned to the US economy and Simon feels very positive. His concern is that the market is focusing on short term volatility without looking at the broader picture. As an example, even with the correction in the market China has performed better than the US this year and this is a reflection of how the market thinks. The US itself is showing steady GDP Growth, the US housing recovery continues, wage growth is improving and it has a sound financial system.

He also feels that talk of a recession are misguided. He feels the indicator for a recession is when it hits 3 to 3.5%, at the moment it is around 2%. Other positive factors are the low oil price, consumer balance sheets are stronger and retail sector remains robust.

Simon didn't want to predict when interest rates will rise because they will but he feels the economy can support this.

In summary Simon is confident that the US can deliver good returns going forward and he feels his style of management will benefit from this. Potential investors will need to look at his performance at Newton and consider whether the period of underperformance is due to the style of management being out of favour, and therefore this may reverse, or whether it is due to poor stock picking.

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Fund performance

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

	2010	2011	2012	2013	2014	2015*
IP US Equity Fund	14.73%	-2.00%	6.58%	31.45%	15.88%	-3.77%
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 and since start of tenureship (31 July 2012) performance:

	1 Year	3 Years	Since 31 July 2012
IP US Equity Fund	0.96%	44.76%	47.08%
S&P 500 TR	8.50%	54.27%	55.19%
iShares MSCI North America	5.32%	41.71%	42.86%

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, Simon Laing had built a reputation at Newton but the performance had drifted towards the end of his time at the company. Since taking over the fund the performance hasn't outperformed the S&P500 but if it is down to style then this could quickly reverse. It is down to investors to decide whether they believe the fund is best placed to deliver above benchmark returns in the future.

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