

**SHINING A LIGHT ON.....
FRANKLIN UK MID CAP FUND**

Update....

We have reviewed this fund a couple of times, both times we have highlighted its out performance of the All Share Index. The manager Paul Spencer is well respected and has managed the fund for ten years (since February 2006).

For this review we have compared the performance against the FTSE 250 Index. Over ten years Paul has significantly outperformed the index, over the last five years slightly and less so in recent years. Like many funds it demonstrates that this is a long term hold however some may argue that the recent average performance may be a “negative” going forward.

Where this fund demonstrates a difference in the market is two-fold. Firstly, this is a high conviction portfolio with currently 37 holdings (weightings between 1.5% and 4% currently) and secondly it is a pure FTSE 250 Fund. Unlike some funds this second point is really important because once a share is promoted to the FTSE 100 it is dropped from the fund, and likewise if it drops out it goes. Some funds will continue to hold stocks even on promotion.

Paul explained that 2015 was a good year for the fund delivering above expected returns (double digit). His expectation for 2016 is less and he believes a lot of 2015 performance was due to M&A activity in the mid cap space as well as companies returning capital to shareholders through buybacks and special dividends.

Some of the winners for the fund were Regus (+62%), Betfair (+100%), UNITE and SuperGroup. Pain came from the likes of Spire Healthcare and IMI but he also benefited from not holding any miners and oil and gas producers.

The current top five currently is made up of UNITE, Bellway, Micro Focus, Rentokil and Bodycote. From a sector side the focus is on Support Services, Financial Services and Industrial Engineering. Paul added that with Financials it is specialist companies like Close and Rathbones that the focus is on. He expects the cyclical exposure to increase over the coming months.

Sells in the last quarter included Booker and Hunting with Close, ICG and IBSTOCK being added.

In summary we believe this is a well-managed fund and clearly performance comes from the stocks he picks as well as those he avoids. The concern would be in the short term the small amount of outperformance and whether investors paying for active management are being rewarded. On the flipside the 10-year track record shows they are being compensated at the moment but for investors it is the question as to whether he can in the future.

LWM Consultants Ltd

Fund performance

Performance over the last five years, and 2016 to 31 January:

	2011	2012	2013	2014	2015	2016
Franklin UK Mid Cap Fund	-5.98%	27.18%	36.77%	1.24%	13.60%	-6.99%
FTSE 250 Ex IT TR	-10.30%	28.71%	34.94%	2.79%	12.04%	-5.39%

Performance over 1, 3, 5 and 10 years

	1 year	3 years	5 years	10 Years
Franklin UK Mid Cap Fund	5.14%	38.20%	76.56%	222.54%
FTSE 250 Ex IT TR	4.50%	39.53%	70.72%	150.12%

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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