

Fund Bites

Threadneedle US Equities update

The Threadneedle American Smaller Companies Fund has been part of our portfolios since 2011. This “fund bites” is a summary of the recent telephone update we had with the fund manager, Cormac Weldon.

Introduction

We feel that the range of US funds within the portfolios are strong, that is not to say we won't change what we have if we find better opportunities but at this moment in time we feel we have a range of funds which are positioned to benefit from the recovery in the US.

The Threadneedle American Smaller Companies Fund was added to the portfolios in 2011 and remains a key part of the balanced and adventurous portfolios.

In this update with the manager we touched on the US economy as well as some of the positioning within in the fund.

The fund remains a consistently strong performer, and its size together with the businesses it looks to hold we feel make it ideal to benefit from the US recovery.

The Fund



The update was with the fund manager Cormac Weldon (picture left) and started

by looking at the US economy. Clearly it is on a much firmer footing and that brings opportunities.

We are a year into the recovery in the housing and auto sales sector and there is a belief that this has more life in it.

At the peak housing and auto sales was around 10% of GDP, average is around 8%. This dipped below 5% and is now slightly above 6% so this supports the managers thoughts that there is still life in the market.

Housing is important to the recovery, at the peak of the crash negative equity was around 26%, this is now around 14.5% and is expected to drop further to around 11.9%. Whilst the negative equity was high people

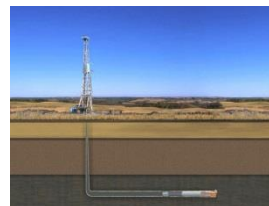
wouldn't spend. As it falls people feel more confident to spend.

But the housing market recovery has been slower than expected. First time buyers are finding it harder to get credit for new homes, there is a shortage of starter homes and students are coming out of college with more debt.



If we turn to auto sales the average car in the US is 11 years old and as part of the recession sales have

fallen to a low of 9 million in 2008. However as confidence comes into the market people will start to replace their cars. More modern cars offer greater efficiency and combined with a low interest rate environment it makes new cars more attractive. Since the low of 2008 now around 16 million new cars were sold in the last year so there is a pick-up in this area.



The other area of interest is natural gas. The manager discussed this in some detail and there are still opportunities in

this area. He used an extreme example of a company with assets in Chile where the gas was supplied by Argentina and when they reneged on the deal they turned to shipping the assets to Louisiana and set up a new factory to do this because it was cheaper. So natural gas has the opportunity to create a manufacturing renaissance in the US.

Other areas we discussed were capital expenditure and companies are still being cautious. They are spending what they need to but not being expansionary. As confidence grows this should change and the fund is positioned to take advantage of this.

We covered one other area which was media and the opportunities within this area. The way we access movies and tv programmes has

changed significantly, and there are more platforms to view these.

This leads to opportunities in the media space and also the cable network.

From their view the US offers a lot of good stories it is at an early stage of recovery and high yield stocks are overvalued but there is plenty of value in other areas for example strong brands like Starbucks.

In summary the news from the US is positive, and although this has seen strong gains there are still opportunities.

Conclusion

We choose this fund because of its focus on smaller cap companies as we believe it is these businesses that will deliver over the coming years. We remain very positive about this position, and believe the manager continues to seek these opportunities.

The source of information in this note has been provided by Threadneedle and is correct as at 25 September 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. 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 as rise.