

SHINING A LIGHT ON..... FRANKLIN UK MANAGERS' FOCUS FUND

At a glance

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

One challenge for investors is finding a fund which in theory can respond across the cycles, effectively a managed UK fund. The Franklin UK Managers' Focus Fund is a fund which we feel does just that. It acts as a shop window for the Franklin UK Team by bringing together the four key managers and putting the best ideas from their funds into one single fund. Each manager can pick up to 10 stocks (with the exception of the small cap manager who can pick 20) and these are blended together in one fund.

This is a unique idea as investors don't need to choose whether mid cap, large cap or small cap are going to do better because the fund is a multi-cap fund. It is a high conviction fund with only the best ideas coming together under the umbrella of the fund and although there are four managers they have an overseer who ensures that there are coherent ideas coming together in the portfolio and there is not too much weighting to one sector.

It is also a well-established fund, starting in 2006 under Rensburg and then in 2011 joining with Franklin. It has an impressive track record and we think may appeal to investors looking for a high conviction strategy irrespective of market cap.

Who are the team behind the fund?

Colin Morton has a focus on large cap and equity income stocks managing the UK Blue Chip Fund and UK Equity Income Fund. Over the long term he has a strong performance track record (60% of the time performing above the peer group).

Paul Spencer has a Mid-Cap Focus, managing the UK Mid-Cap Fund and UK Smaller Companies Fund. Over an eight year period he has 100% record of outperformance against his peer group. Richard Bullas has a small cap bias and manages the UK Smaller Companies Fund. Like Paul he has a 100% record of outperformance.

Ben Russon manages the UK Opportunities fund with a focus on Large / Mid Cap stocks. Performance is mixed with a 55% outperformance to the peer group.

The managers are overseen by Mark Hall who previously managed the UK Select Growth Fund.

Fund highlights?

The fund is small with around £28 million of assets, although it is starting to gain traction and we expect this to increase. The current make-up of the fund is split as 9 large-cap stocks, 12 small-cap stocks, 8 mid-cap stocks and 10 flex-cap stocks.

Because each manager has their own style it is harder to identify a clear investment strategy in so far as each manager has their own style. However, what the fund does is take their highest convictions and then bring these together. Care is taken to ensure that they are coherent ideas and that there is not a weighting to one sector.

We discussed three ideas from the managers and we think this gives an idea of the different management styles.

Reed Elsevier (Colin Morton) is a structural growth opportunity. It has strong repeat revenue with online publications like the medical journal but it also has opportunities to grow its business through innovative ideas for insurance companies. The managers feel it has an attractive valuation as well as strong dividend growth potential.

Carphone Warehouse (Ben Russon) is the leading UK mobile phone retailer and has recently entered into discussions with Dixons on a merger. This is still to happen but if it comes to pass Dixons have become a well-managed company and would provide an additional multi-channel outlet. The ability for Carphone Warehouse to expand further is evident.

And finally Bodycote (Paul Spencer) provide heat treatment and metallurgical coatings. The nature of the business means that they are normally inside the business they work for, for example they have a plant at Rolls Royce. They are also likely to benefit from the manufacturing renaissance in the US. It is an extremely cash generative business and should benefit from the global recovery.

The managers work closely together and this gives a hint towards their style. Although they work in different areas they are constantly sharing ideas. Meeting two of the managers we also came away with the feeling that they are not taking undue risks and the style of the fund is interesting because it doesn't reflect the will of one manager but the coming together of all their ideas.

Although the performance of the managers individually seems mixed the coming together of best ideas seems to work well for this fund. The performance is strong and we believe for any investor who likes the Templeton UK management style but can't decide on which fund then this makes a good choice. It would also not necessarily need to be blended with other funds because it provides access across the market cap spectrum.

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Fund performance

Performance over the last five years is shown below, and year to date.

	2009	2010	2011	2012	2013	2014
Franklin UK Managers' Focus Fund	26.73%	28.67%	-10.57%	15.71%	45.05%	-2.60%
Lyxor ETF FTSE All Share	29.16%	15.40%	-4.61%	11.67%	20.16%	-2.90%

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. Returns are based on the US share class.

Conclusion

This is a unique idea and provides investors with access to a high conviction, concentrated portfolio of 40 stocks across the market cap. The performance has been strong and at the moment the fund is small. It would be for us a fund to watch but at this stage with the UK funds we use we would not look to add at this stage.

The source of information in this note has been provided by Franklin and is correct as at March 2014. 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.