AJBell Investcentre

Fundamentals with Russ Mould

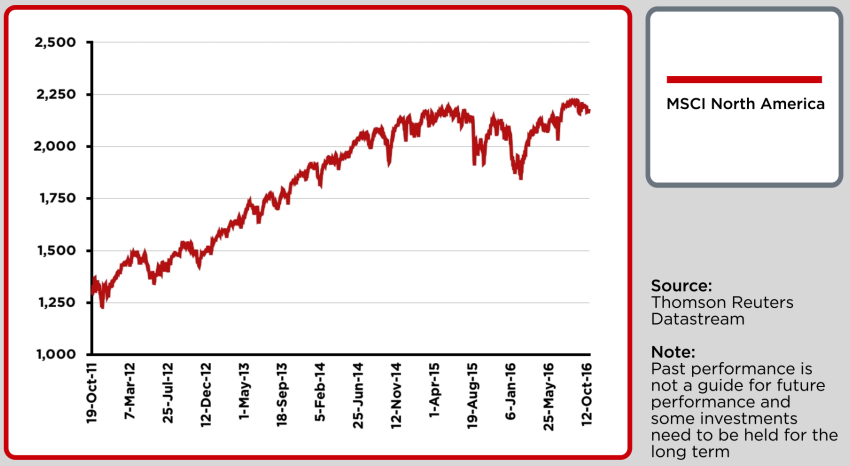
November 2016

Hello, I'm Russ Mould, AJ Bell's Investment Director, and welcome to Fundamentals, where I'm going to look at one of the most popular funds on the AJ Bell Investcentre platform right now, namely Old Mutual North American.

[CAPTION - Old Mutual North American R GBP (Acc) SEDOL – B1XG9G0 ISIN – GB00B1XG9G04]

The £1.2 billion collective's mandate is to deliver capital growth to advisers and clients. It will seek to do this, as the name suggests, by putting money to work in US or Canadian quoted companies, although it can also invest in other funds, warrants, money market instruments and derivatives.

Old Mutual North American's benchmark index is technically the MSCI North American one, whose performance over the past five year is shown here, although the fund pays scant regard to the index and has no desire to be a closet tracker.



Source: Thomson Reuters Datastream

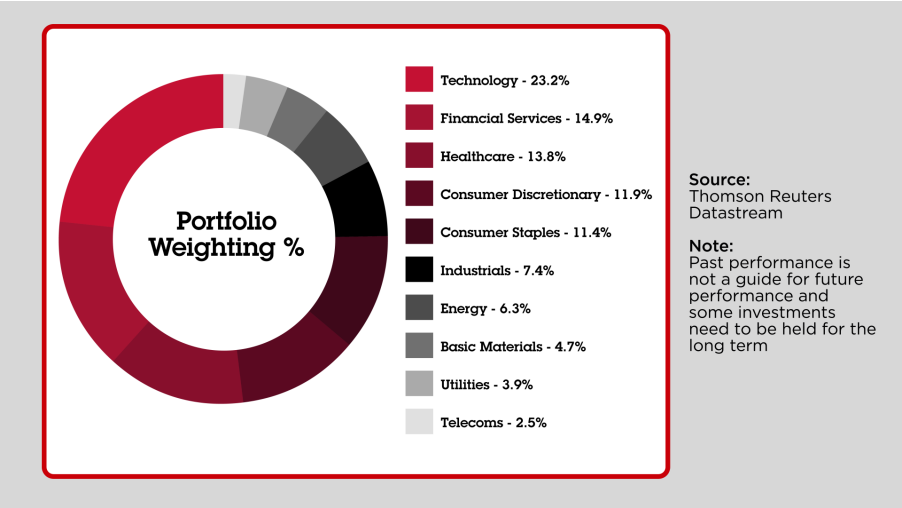
What makes this fund particularly interesting is it is a so-called quant fund, where the stocks are not picked by fund managers but computer models designed to screen for certain characteristics, a process known as quantitative analysis.

In this case, Old Mutual North American will screen stocks by valuation, balance sheet quality, growth, return on capital and a number of other factors, including market sentiment and prevailing trend momentum.

The net result of all of that is a very diversified portfolio with 245 holdings, the top 10 of which represent just under 20% of the portfolio.

The top five positions are all well-known names – Apple, Amazon.com, Alphabet, Intel and Cisco.

By sector, technology has the biggest weighting, at just under a quarter of the assets under management. It is followed by financial services and healthcare, as we can see here.



Source: Thomson Reuters Datastream

The product comes with an ongoing charge figure of just 1%, so it may not be the cheapest, but the results have been good. Old Mutual North American ranks third out of a 24-strong peer group, in terms of a five-year performance.

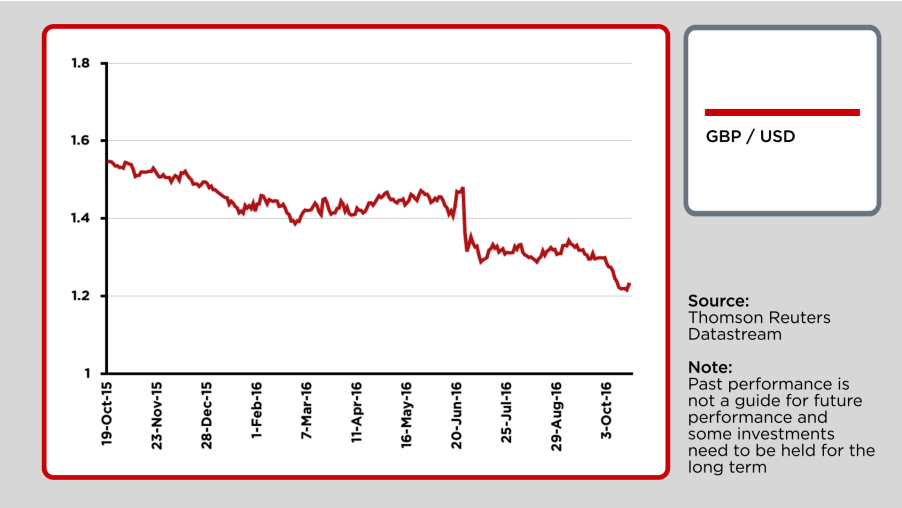
The yield is just 0.5%, but income is not the key goal.

For those who place store in such things, the fund gets a five-star ranking from Morningstar.

So those are the mechanics. So the question is why would advisers and clients potentially be buying now?

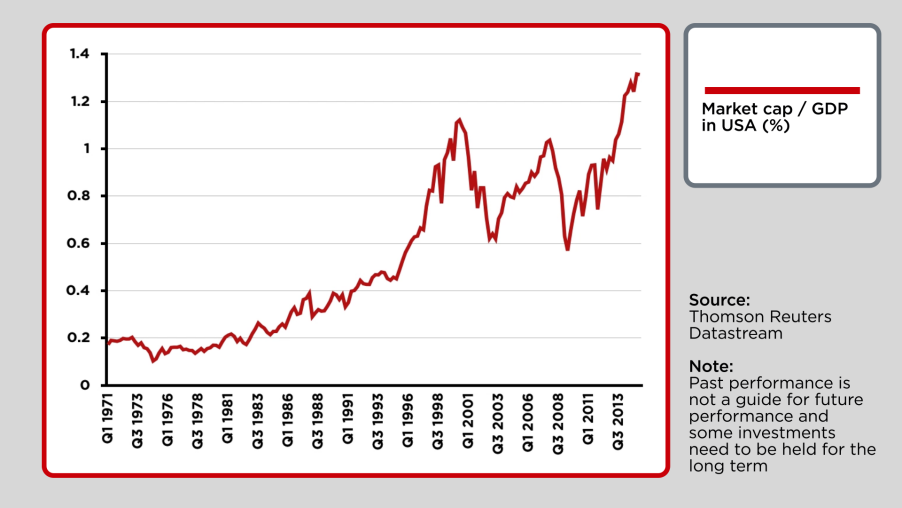
I think there are three possible reasons:

- First, advisers and clients might like the dispassionate, quantitative approach that looks to tackle the issue of fund manager – or human – error. The fund ranks top four against its peers on a one-, three-, fiv-e and ten-year view.
- Second, Old Mutual North American brings exposure to tech and healthcare, sectors which are not easy to access through the UK market in particular. Some advisers and clients may blanch at the valuations afforded to Apple, Amazon and Alphabet but the share prices have been running strongly of late and this growth exposure is a potential attraction.
- Third, any advisers and clients buying potentially get the dollar on their side. The US currency is nudging higher against the pound as markets look toward a US Federal Reserve interest hike in December – which may or may not happen – while the Bank of England is still running its additional Quantitative Easing scheme.



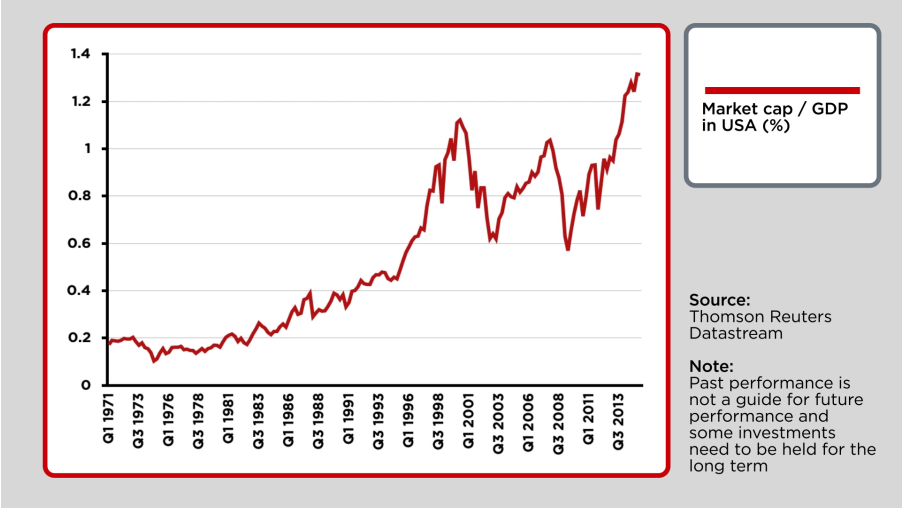
Source: Thomson Reuters Datastream

There are risks. No-one knows how the US Presidential election will play out in November, as Donald Trump takes on Hillary Clinton. In addition, it is easy to argue that US stocks are expensive relative to their history, using metrics which do not rely on habitually optimistic near-term earnings forecasts from analysts, such as market cap to GDP, as we can see here:



Source: Thomson Reuters Datastream

Also the US stock market does tend to do less well when interest rates are rising, at least relative to when they are falling, so a Federal Reserve hike on 2 November or 14 December could provoke some volatility – this chart shows what happened to America's S&P 500 index in the three months before and after last December's quarter-point increase.



Source: Thomson Reuters Datastream

As a result, it may be worth checking that the US equity market fits with a client's overall strategy, target returns, time horizon and tolerance for risk, no matter how tempted they may be to seek overseas exposure, given our uncertain domestic situation.

Thank you for watching and I look forward to seeing you next time.

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