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By Tim Boreham

Templeton Global Growth Fund: Finding bargains among unloved

Funds oriented to growth stocks such as Hamish Douglass's Magellan have been the rock stars in recent times, which makes value funds such as Templeton the crooner on stage at the RSL club belting out hits from the 1960s.

The disparity is reflected in the Nasdaq — which is laden with tech stocks — gaining 22 per cent for the year to date, compared with the S&P 500 index (of top global companies) climbing 14 per cent.

The listed exponent of the global Templeton ethos of finding opportunities among unloved established companies, **Templeton Global Growth Fund** (TGG, $1.42)hasn't wavered from this approach since debuting in May 1987 (just in time for October's Black Monday).

"We're about value as well as patience," says chief investment officer Peter Wilmshurst.

Since inception, the fund has returned 7.5 per cent a year after fees, compared with the global MSCI index's 6.7 per cent return (the index includes emerging countries so is the fund's preferred measure).

Value funds do better when interest rates are high, because investors are more likely to plonk their money in cash rather than push stock valuations to silly levels.

Given the "artificially low" US rates are definitively heading north (the 10-year bond rate broke through 3 per cent in May), value stocks should be gaining favour.

But last year, the asset class underperformed growth funds by 10 per cent (the Templeton fund itself fought to a draw, gaining 14.4 per cent, compared with the MSCI's 14.8 per cent increase).

As with all investment trends, the worm will turn and low-multiple stalwarts again will be favoured over extravagantly valued growth stocks. The simmering trade war ignited by Donald Trump could well be the catalyst if it stymies economic growth.

But Templeton hasn't waited for the macro conditions to shift, having taken a punt on two underloved sectors.

The first one is oil.

As the price for the primordial sludge tumbled in 2015 before bottoming in early 2016, Templeton was bulking up its exposure.

Not on Wildcat Strikes Inc, mind you, but traditional plays such as Shell and BP. With crude breaching the $US70 a barrel, these stodgy stalwarts have roared back into favour.

The fund has also been keen on oil services plays — which are almost as numerous as the oil producers themselves — but they too have rallied hard and are only fairly valued.

The fund’s second big punt is on European banks.

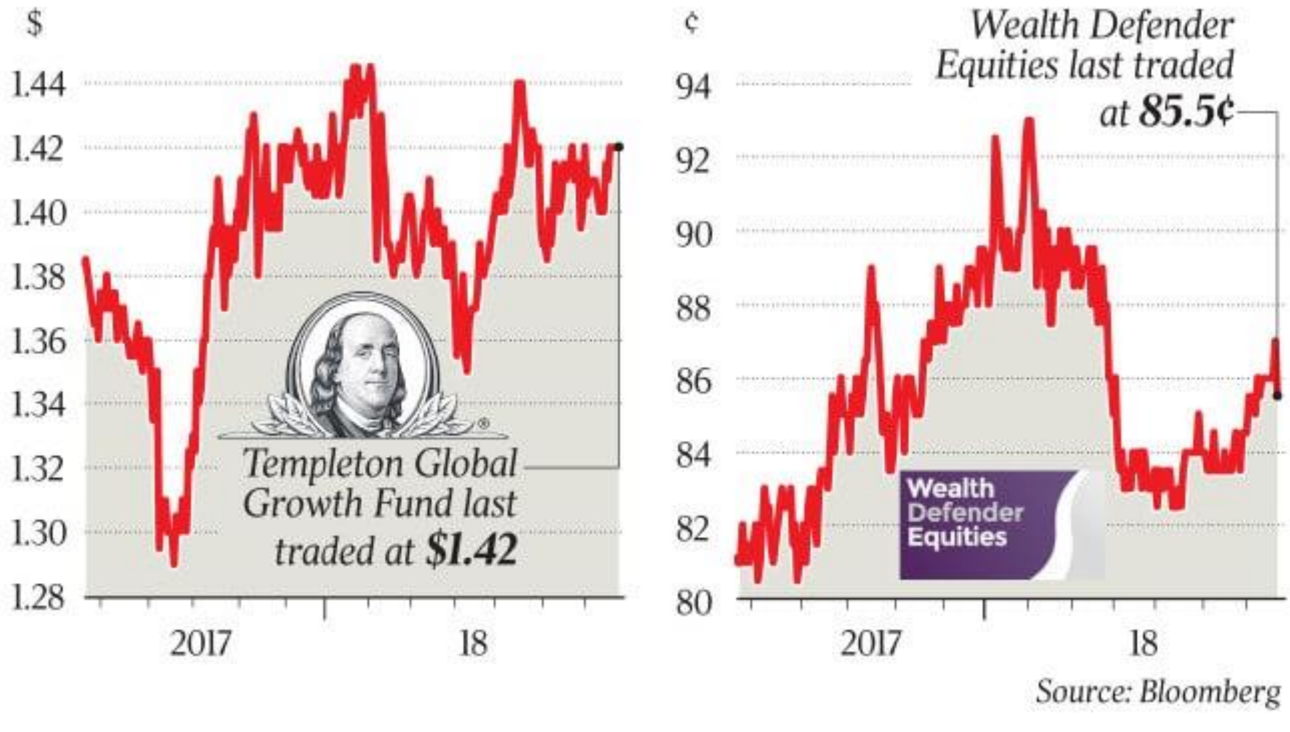
Most financial services stocks struggle with low interest rates, but that’s especially the case with Europe, where the banks receive negative interest if they park a deposit with the European Central Bank. On the customer side, it’s hard to price a deposit below zero, so the banks have experienced a margin crunch.

Wilmshurst reckons that European Central Bank president Mario Draghi will be keen to engineer a rates rise before his term ends next year.

“You would expect him to go out as a central banker who saved Europe and put it back on the path to prosperity with normalised interest rates,” he says.

The fund weighed into the European banks in 2012-2013, picking up Credit Agricole at 0.3 times book value (now the French bank is trading at a slight book premium).

Wilmshurst also likes Asian-focused British banks HSBC, Standard Chartered and Barclays.



He also dubs Chinese telcos as “among the cheapest in the world”.

Meanwhile, Templeton does have a few tech growth stocks (such as Alphabet) in its portfolio, but it’s largely a case of no FAANGS to these investments.

Currently the Templeton LIC is trading 7.6 per cent below the value of net tangible assets (the value of the underlying portfolio) of $1.58 a share.

Total recall

Still on listed investment companies, the Perennial Funds Management offshoot was touted as offering investors airbag-type protection against market downturns. But like those faulty Takata airbags, the concept is subject to a recall.

The idea underpinning **Wealth Defender Equities (WDE, 87c)** was that the fund would deploy derivates such as caps and collars and futures to protect the portfolio against market-wide declines up to 20 per cent. But protection comes at cost — one to two percentage points of performance — and the fund has sadly underperformed since listing in May 2015.

Since inception, Wealth Defender’s NTA has grown only 1 per cent compared with the broader market’s 5 per cent growth (the fund largely invests in the “usual suspect” top 50 companies).

Wealth Defender’s other woe is that its shares have traded at a persistent discount to NTA (the gap is currently about 10 per cent).

To rectify this, from August 1 management has the option of using protection on a “dynamic, discretionary” basis, when it deems it appropriate “in view of the market outlook”.

Management has also taken a bath on its management fees, widely perceived as too high. Notably, a 15 per cent fee was payable even if returns were negative, but above the index return.

Now, the fee still accrues but is only payable when there’s positive NTA growth.

Like the rhythm method, there’s an inherent risk with such “optional protection”: the manager needs to be able to foresee a sharp market downturn, which often come with no warning.

Wealth Defender shareholders will feel like right Wallies if the fund decides to ride bare just at the wrong time.

Meanwhile, Paul Moore’s PM Capital has a different approach to narrowing the NTA discount that blights so many LICs.

The global investor is doing the rounds to raise up to $490 million for a new listed vehicle called Ptrackers, which emulates the performance of PM's existing **PM Capital Global Opportunities (PGF, $1.30)**.

The difference is that in June 2025 holders have the option of redeeming their shares at the prevailing NTA value, or converting to PGF shares. Any discount should vanish closer to D-Day as arbitrageurs do their work.

Of course, the Ptrackers "no discount warranty" doesn't guarantee the fund's NTA will actually grow over the seven-year period.

Tim Boreham edits The New Criterion. Ptrackers is covered by Independent Investment Research.

https://www.theaustralian.com.au/business/templeton-global-growth-fund-finding-bargains-among-unloved/news-story/4d589f5936bba05b4adc0c2ee05d3e07