Analyst Commentary

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Fiduciary Asset Management
Fiduciary Large-Cap Core

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Onsite Visit Comments:

We conducted an onsite visit with Tim Swanson, lead portfolio manager of Fiduciary's Large-Cap Core Strategy. We discussed the evolution of the investment team since Piper Jaffrey purchased Fiduciary Asset Management (FAMCO) in 2007. As the firm has grown in size, with approximately 50 individuals, management has sought to more clearly define the roles of individuals within the firm, which included formally designating a product head for each of the firm's four product lines, including equity, fixed income, Master Limited Partnerships (MLPs), and quantitative strategies. While the primary functions of individuals on FAMCO's investment Large Core strategy have not changed, the roles of key investment personnel have become more clearly defined. For the large core strategy, Tim Swanson became the product head for equities within the firm. Mr. Swanson continues to perform industry and stock research and is responsible for selecting securities for the large core strategy, in which he seeks to identify securities that fit the investment committee's views.

While the investment team remains intact, there have been changes in the titles of the firm's management. Charles Walbrandt, Chairman and member of the Strategy and Investment Committee, founded FAMCO in 1974. As part of a phased succession plan, he stepped down from his CEO and CIO roles earlier in the year, but retains his role as Chairman. It is anticipated that Mr. Walbrandt will retire in the coming years. CEO duties were passed to Wiley Angel, President and CEO, while James Cunnane assumed CIO responsibilities. Messrs. Angel and Cunnane remain members of the Strategy and Investment Committee. While it is our expectation that Mr. Walbrandt will eventually retire, the Strategy and Investment Committee that determines the broad positioning of the strategy currently remains unchanged. Wiley Angel has increased his responsibilities over the years and formally took on the role of CEO and President earlier this year. Mr. Angell has directed the firm's macroeconomic research and will continue to do so. As an aside, Wiley Angell's economic background runs in the family as he is the son of former Governor of the Federal Reserve Board, Wayne Angell.

FAMCO's investment approach is highly influenced by its macroeconomic and geopolitical views, which will influence the style tilt (growth/value), market capitalization (large-cap or mid-cap), and economic sensitivity (cyclical exposures) of the strategy. FAMCO believes that potential outperformance is primarily achieved by these portfolio biases, versus through underlying stock selection.

Fiduciary has also shifted its portfolio to favor different metrics, in order to align the strategy with its views on the economy and current positioning within the economic cycle. The investment committee believes that this particular cycle is unique in many ways, but fundamentally, it also shares many characteristics of prior cycles. The portfolio positioning is influenced by its view that there is an ongoing recovery in the economy and in asset prices. Favorable interest rates and accommodative policies will help drive a recovery they believe will be sustainable. However, the investment team remains cautious that sustainable growth will remain at a much lower level than enjoyed in the past, which will ultimately favor companies with secular growth underpinnings.

The firm developed three themes that it believes define typical leaders during a market recovery, lower quality, low valuations, and economic sensitivity. Its current view has the portfolio tilted towards value, as value stocks initially perform better during a recovery given the opportunities that are often created through oversold conditions. The strategy has also picked up its economic sensitivity, as this space also typically overshoots and can strongly benefit from an upturn in economic activity. Finally, despite the tendency for lower quality to drive markets during a recovery, the investment team will not seek lower quality companies. It remains focused on higher quality companies with solid financials that maintain strong competitive positions within their respective industries. Also, while smaller companies tend to benefit more strongly in a traditional recovery, the strategy retains greater exposure to larger caps than it might otherwise have in a typical recovery period. This is because the committee favors larger companies with greater global diversification of revenues. Its longer-term view does not place U.S. growth on par with growth opportunities abroad, given their view of continued lower leverage and needed repair to the consumer balance sheet.

We are comfortable with the Fiduciary Large Core investment team and its top-down economic framework for investing. We reiterate its Recommended rating on the Masters and DMA Rosters.