

# US Opportunities Fund

## Commentary

October 2012

**Fund manager name: Brandon Geisler**

### Overview

Despite improving economic statistics during the month, US equities took a step back in October as the third quarter earnings season got under way and featured some high profile disappointments, notably from the technology sector. Management teams gave cautious outlooks owing to uncertainty surrounding the imminent US presidential election and the upcoming 'fiscal cliff', as well as ongoing weak demand from Europe. Towards the end of the month the arrival of Hurricane Sandy closed the market for two days, the first enforced closure since the 9/11 terrorist attacks, but this had little impact on the direction of the market.

### Performance and activity

The fund lost 4.7% over the month, underperforming the S&P 500 Index which fell 2.6%.

Among the top contributors were Intuitive Surgical, Precision Castparts and Capital One Financial. Intuitive Surgical, the surgical robotics manufacturer, cited US gynaecologic and general surgery growth as a driver of revenues in the fiscal second quarter, which was partially offset by a decline in US prostatectomy procedures and slower growth in Europe. Precision Castparts, the manufacturer of complex metal components, is benefiting from demand for original equipment with rising production at commercial aircraft makers such as Boeing. Capital One Financial shares rose to a five-year high in the period as recent acquisitions helped the bank grow net income 47% in the third quarter. Among the top detractors were Apple, VMware and Biogen Idec. Although Apple announced its third biggest quarter ever by revenue, bottom line profit appeared under pressure, which was impacted by a decline in gross margins. The third quarter was a transition quarter for VMware with a new CEO, a new product (vCloud Suite) and a new pricing model, and while the company did a pretty solid job of getting things done, the market focused on slower bookings and revenue growth which negatively impacted stock performance. Biogen Idec stock was negatively impacted by the Food and Drug Administration's decision to extend the review of the company's experimental multiple sclerosis drug, BG-12, by three months.

At the sector level, telecommunication services was a key contributor while information technology, consumer discretionary and financials detracted.

In terms of portfolio activity, we bought Citigroup, Genesee & Wyoming and Lowe's. We see opportunity in Citigroup's two-pronged approach: growing international banking and a domestic portfolio of assets that are trading at an attractive valuation. Genesee & Wyoming, the small-cap railroad operator, should benefit from its acquisition of RailAmerica in the US. There is also an opportunity to benefit from mining activity in Australia where the company has a significant presence. Lowe's is a pure play on a housing recovery in the US. We sold CSX, Bankrate and Stanley Black & Decker. We sold CSX in favour of Genesee & Wyoming which offers the potential for better upside. We sold Bankrate before and after the company's disappointing third quarter earnings announcement. The company is having difficulty monetising leads for credit card and mortgage companies. Stanley Black & Decker was a forced displacement sale in favour of industrial supply company, Wesco International, which offers the opportunity for more significant upside.

The fund is overweight consumer discretionary, industrials and materials and is underweight consumer staples, utilities and energy.

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**Outlook**

We believe there are a number of macroeconomic and policy-related risks in play including: decelerating global growth, uncertainty surrounding the European sovereign debt crisis as well as signs of a deepening recession in the EU, the approaching “fiscal cliff” in the US, concerns that the corporate profit cycle could be at or near peak levels and policy uncertainty given the change in leadership in many countries in 2012-13. All of this adds up to an environment where a defensively-oriented investment posture is appropriate. We are not planning to shift the fund into areas such as utilities, telecommunication services and consumer staples as we generally see limited growth opportunities and stretched valuations in those sectors. The fund does have a greater element of “US-centricity” to its holdings, with a heavy emphasis on companies that we think have dependable revenue streams and can produce solid top-line growth, despite a less-than-optimal macro backdrop. These include a broad cross-section of holdings including retailing, consumer services, pharmaceutical, and technology-related (particularly hardware, software and services providers) companies.

For further information on the Luxembourg-domiciled Henderson fund range please contact your local sales office or visit our website: [www.henderson.com](http://www.henderson.com)

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A copy of the Fund's prospectus, key investor information document, articles of incorporation, annual and semi-annual reports can be obtained free of cost from the Fund's registered office in Luxembourg: 16 Boulevard d'Avranches, L-1160 Luxembourg Grand-Duché de Luxembourg, in Germany: Henderson Global Investors, Bockenheimer Landstraße 24, 60323 Frankfurt, in Austria: Bank Austria Creditanstalt AG, Am Hof 2, 1010 Wien, in Spain: offices of the Spanish distributors, a list of which may be obtained at [www.cnmv.es](http://www.cnmv.es) (Henderson Gartmore Fund is registered with the CNMV under number 259) and in Switzerland from the Swiss representative: BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich who are also the Swiss Paying Agent.

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