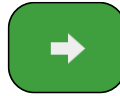


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MFS stands out as an active management success

BY CHARLES STEIN SEPTEMBER 21 2016, 05:41

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AS INVESTORS flee active managers, MFS Investment Management, which created the first mutual fund in 1924, is staying the course, picking blue chips and gaining assets.

Investors are pouring into the \$39.1bn MFS Value Fund, which has added almost \$2bn in the past year. Flows into the \$25.6bn MFS International Value Fund have been so strong that the firm closed it to new investors in 2015.

The duo's performance beat at least 95% of peers over the past five years, according to data compiled by Bloomberg, by selecting high-quality companies such as Johnson & Johnson and Nestlé and holding them for long periods. But MFS Value's expansion into bank stocks such as Wells Fargo, which is embroiled in a scandal over opening bogus accounts, has backfired.

"We own a lot of boring businesses that are great investments," says Camille Humphries, who helps run the international portfolio at Boston-based MFS.

Gold US\$/oz : 1325.8 Change: 0.85%	Platinum US\$/oz : 1043 Change: 1.46%	Silver US\$/oz : 19.59 Change: 2.03%	Palladium US\$/oz : 686 Change: 0.59%	Brent Crude : 46.56 Change: 0.78%	All data is delayed by 15 min Data supplied by Profile Data
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and ran with the price of oil, and leading-edge technology shares that face a constant threat of being dethroned by newer competitors.

The funds held up better than their peers in difficult years such as 2008 and 2015, and trailed in 2009, when stock markets globally staged a powerful recovery after the financial crisis.

MFS Value gained 7.7% in 2016 and 14% annually on average in the past five years. The international fund has returned 12% a year since 2011.

"I don't want my clients to cry over enormous losses during downturns," says Kashif Ahmed, a financial adviser who owns both funds and appreciates their "slow and steady" qualities.

They have defied the trend of investors fleeing actively run funds, which have mostly underperformed indices against which they are measured. US mutual funds and exchange-traded funds run by stock and bond pickers suffered redemptions of \$150bn in the year to August 31, while passive funds attracted \$286bn, according to Morningstar.

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MFS Value received more than \$6bn in deposits in the five years ended August 31, with about 30% of that coming in the past 12 months. Its international counterpart attracted more than \$15bn in that period, data from Morningstar show.

Steve Gorham, who has helped manage MFS Value since 2002, says it has always looked for companies with a durable model, strong balance sheet, significant free cash flow and leaders who put that cash to work wisely. Travelers, an insurer, has been a holding in the fund since 2008, returning \$35bn of capital to shareholders in 2006-15 through share repurchases and dividends.

"If they had put that money back into the business, it could have triggered a price war," says Gorham, who joined MFS in 1989 answering customer telephone calls. "Instead, they gave it back to us."

KDDI, a Japanese cellphone firm that MFS International has held since 2003, has benefited from similar discipline. It has avoided the price wars that are common in the cellphone business and has focused on providing dividends to shareholders, says Humphries.

Shares have more than tripled in the past five years as the S&P 500 index has roughly doubled.

MFS Value has boosted its ownership of bank stocks in the past two years, betting the financially stronger firms can return capital to shareholders. JPMorgan Chase and Wells Fargo are among the top five holdings. The bet is not paying off. Wells Fargo fell 10% in the past year, and Goldman Sachs Group is down 8.1%.

The international fund owns more technology stocks, about 15% of holdings, than its domestic counterpart. One of them, Swedish maker of network and software equipment Telefonaktiebolaget LM Ericsson, has declined 30% so far in 2016.

"Our ability to predict the next cycle of innovation is low and we don't have the same level of confidence in the future cash flow," says Gorham, explaining his decision to steer clear of most domestic technology names.

Although index funds have flourished since the financial crisis as many stocks have participated in the rally, the market is likely to lose steam in coming years, says Kate Mead, who helps manage MFS Value.

"I don't think you want to own everything.

"And if you do," Mead says, "that is great for us, because we will be able to differentiate ourselves."

Bloomberg

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