Oppenheimer's Turn

A friend, 27 & single, is now working for Oppenheimer. Their Risk Profile questionnaire appropriately placed her in the highest acceptable risk category, and then Oppenheimer's computer spit out the recommended allocations shown below for a $4,000.00 annual 401K contribution. **Our thoughts** follow.

May 23, 2018

At your request we have analyzed Oppenheimer's recommended portfolio for your 401K, and provided our recommended portfolio from the Funds available. The following table lists their recommended Open-end Funds (OEFs) with the last column showing the percentage of each position:

Name	Symbol	Asset	Category	Yield	Exp.	M*	Acc.
Vanguard Treasury Money Market Fund	VUSXX	Cash					1%
Oppenheimer Limited-Term Government Fund	OLTYX	Bond	Short Government	2.37%	0.50%	4	1%
Oppenheimer Total Return Bond Fund	OPBYX	Bond	Intermediate-Term Bond	3.29%	0.45%	2	6%
Vanguard Total Bond Market Index Fund	VBTLX	Bond	Intermediate-Term Bond	2.64%	0.05%	3	6%
Oppenheimer International Bond Fund	OIBYX	Bond	World Bond	4.48%	0.75%	4	2%
Vanguard Value Index Fund	VVIAX	Equity	Large Value	2.39%	0.05%	5	8%
Oppenheimer Main Street Fund	MIGYX	Equity	Large Blend	1.28%	0.69%	3	13%
Vanguard 500 Index Fund	VFIAX	Equity	Large Blend	1.83%	0.04%	4	13%
Vanguard Growth Index Fund	VIGAX	Equity	Large Growth	1.11%	0.05%	4	8%
Oppenheimer Main Street Mid Cap Fd	OPMYX	Equity	Mid-Cap Blend	0.58%	0.86%	3	8%
Oppenheimer Discovery Mid Cap Growth Fund	OEGYX	Equity	Mid-Cap Growth		0.87%	4	2%
Oppenheimer Discovery Fund	ODIYX	Equity	Small Growth		0.87%	4	11%
Oppenheimer Global Value Fund	GLVYX	Equity	World Large Growth		1.05%	4	3%
Oppenheimer International Diversified Fund	OIDYX	Equity	Foreign Large Growth	0.65%	1.08%	5	4%
Oppenheimer Global Fund	OGLYX	Equity	World Large Growth	0.75%	0.89%	4	4%
Oppenheimer International Growth Fund	OIGYX	Equity	Foreign Large Growth	0.88%	0.85%	4	3%
Oppenheimer Developing Markets Fund	ODVYX	Equity	Emerging Markets Large Growth	0.56%	1.07%	5	3%
Oppenheimer Real Estate Fund	OREYX	Equity	Real Estate Mid Blend	1.39%	1.08%	3	4%

The next to last column shows Morningstar's performance rating for each OEF:

"Morningstar rates mutual funds and ETFs from 1 to 5 stars based on how well they've performed (after adjusting for risk and accounting for sales charges) in comparison to similar funds and ETFs.

Within each Morningstar Category, the top 10% of funds and ETFs receive 5 stars and the bottom 10% receive 1 star. Funds and ETFs are rated for up to three time periods-three-, five-, and 10-years and these ratings are combined to produce an overall rating. Funds and ETFs with less than three years of history are not rated."

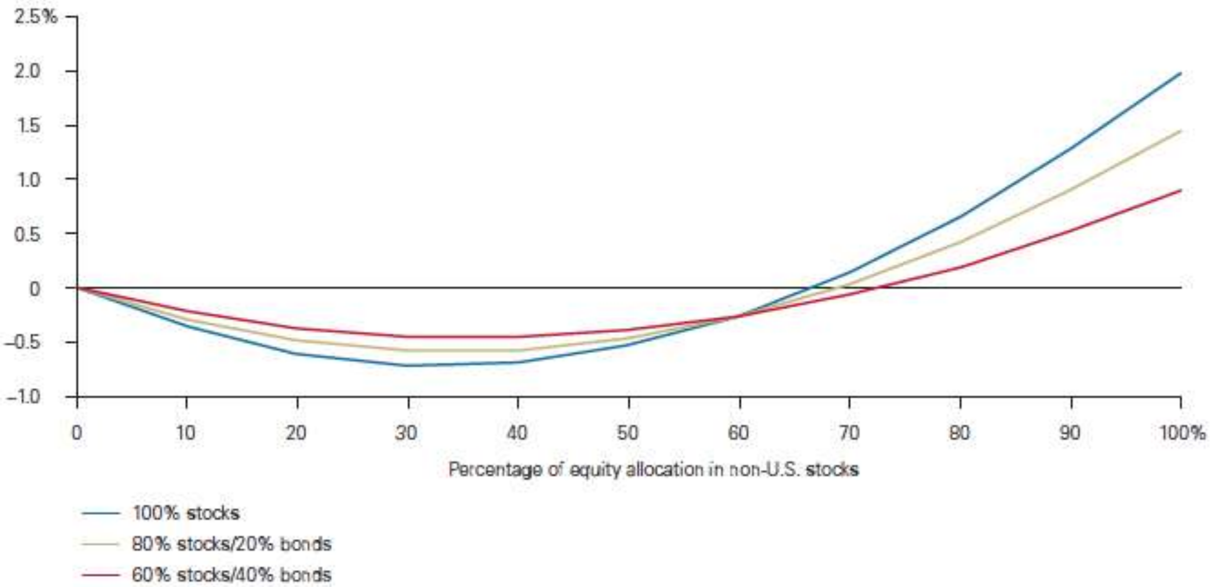
Morningstar's **Category** for each OEF is also provided. As investing legend John Templeton once observed, **"The only investors who shouldn't diversify are those who are right 100% of the time."** However, diversifying among categories, as though they were Asset Classes, often gives the illusion of lower risk while merely increasing the cost and lowering the performance. As detailed on our website, there is strong academic evidence that Value beats Growth over time. However, there is absolutely no justification for buying a bunch of Value, Growth and Blend Funds, when you can effectively buy the market with a single index Fund at much less **Exp**. In legendary investor Peter Lynch's first book, ‘One Up On Wall Street’, he coined the term "diworsification". While yours isn't the worse case we've seen, underperformance is usually the result: (http://www.hughescapitalmanagement.com/2017/11/18/fidelitys-turn-diworsification-111817/)

As we also note on our website under Factors: "Size is one of the three original factors when Fama and French published their three-factor model in 1992 to explain stock returns. Over the long run, small capitalization stocks tend to beat their large counterparts." The S&P 500, Large and Mega (>$100 Billion) Caps, is a subset of the S&P 1500, which is also comprised of the S&P MidCap 400 and S&P SmallCap 600. The S&P 1500 covers approximately 90% of the U.S. market capitalization. The Size Factor is clearly demonstrated by the relative performance of the S&P 600 and 400 to that of the S&P 500. Small (IJR, blue line) beats Mid (IJH, orange line), and both clobber Large (SPY, green line):

Assuming a combined 50% allocation to Foreign stocks from the 2 World Large Growth OEFs being recommended, your recommended portfolio's Foreign equity exposure only comes to 13.5%. From "Wells Fargo's Turn - 12/13/16", under Worth Sharing on our website: "International stocks constitute nearly half of the most widely followed global benchmark, the Morgan Stanley Capital International All Country World Index (MSCI ACWI), and two thirds of the world’s total market capitalization. ... Academics term this error **Home Bias**, which is defined by Investopedia as "the tendency for investors to invest in a large amount of domestic equities, despite the purported benefits of diversifying into foreign equities." From International Diversification, Part 2 - 9/10/17: "Our continuing recommendation of a 40% allocation to International Stocks for clients whose primary objective is Capital Appreciation ... is at the high end of the range that has historically been most effective in reducing volatility. As noted by Jon Seed in “Passive” Investing: Theory and Practice in a Global Market, "While Vanguard recognizes that the diversification benefits of international equities are real, they

Figure 3. Adding non-U.S. stocks has historically reduced the total volatility of a portfolio

Average annualized change in portfolio volatility when adding non-U.S. stocks to a U.S. portfolio



Notes: U.S. equities represented by MSCI USA Index; non-U.S. equities represented by MSCI World Index ex USA from 1970 through 1987 and MSCI All Country World Index ex USA thereafter. Bond data represented by Salomon High Grade Index from 1970 through 1972, Lehman Long-Term AA Corporate Index from 1973 through 1975, and Barclays U.S. Aggregate Bond Index thereafter. Data through December 31, 2013.

Sources: Vanguard, Thomson Reuters Datastream, and MSCI.

suggest that anywhere between 20-40% is "adequate." Vanguard buttresses this conclusion by showing that most of the benefits of international equity diversification dissipates quickly."

Your recommended portfolio has a 15% allocation to Bonds, which are in a Bear Market, with no signs of relenting. Even if you weren't 27 and single, the allocation should be 0. Our negative view on Bonds, both cyclical and secular, can be found under Asset Allocation on the HCM website:

"Over long periods of time, the returns on equities not only surpassed those on all other financial assets, but were far safer and more predictable than bond returns when inflation was taken into account." – Princeton professor Jeremy Siegel from the 2014 preface to his classic book, Stocks for the Long Run."

At their current yields, government bonds, as Jim Grant of *Grant's Weekly Interest Rate Observer has noted*, now offer "**return-free risk**." As Gary Antonacci, the author of Dual Momentum Investing: An Innovative Strategy for Higher Returns with Lower Risk, has written:

"The average annualized real return after inflation on U.S. long-term government bonds from 1900 through 2013 was just 1.9%, considerably less than the 6.5% average annualized real return from U.S. equities during this same period. Bonds had negative real returns from 1940 all the way through 1981. Purchasers of long-term government bonds in 1941 had to wait until 1991 before breaking even."

And:

"Given the way that bond prices move inversely to interest rate changes, intermediate-term bonds could lose half their value if their annual yield rises to their long-run average rate of 6.75%. One should keep in mind that real Treasury bond returns were negative for the next 45 years following similar valuation levels as exist today.

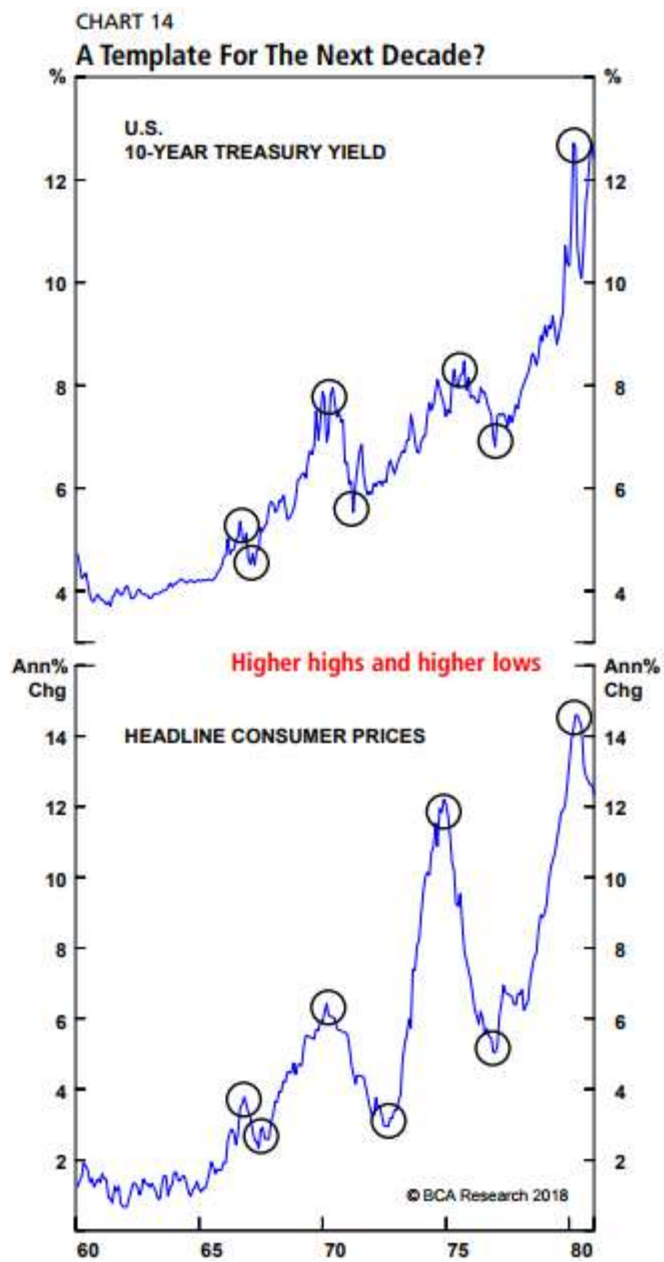
Here is what Warren Buffett wrote about fixed-income investing in his 2012 annual letter to Berkshire Hathaway, Inc., shareholders: 'They are among the most dangerous of assets. Over the past century these instruments have destroyed the purchasing power of investors in many countries, even as these holders continued to receive timely payments of interest and principal… Right now, bonds should come with a warning label.'"

While there may come a time in the future when long-term Bonds once again make sense as a part of a diversified portfolio, currently it is an asset class best avoided."

Our cyclical concerns have increased. From BCA Research's February 16, 2018 Global Investment Strategy:

"While bond yields are due for a pause, the long-term trend remains firmly to the upside. BCA declared "The End Of The 35-Year Bond Bull Market" on July 5, 2016.2 As luck would have it, this was the same day that the 10-year U.S. Treasury yield hit a record closing low of 1.37%. We argued at the time that both cyclical and structural forces would conspire to put in a bottom for yields.

Since then, the global economy has continued to grow at an above-trend pace. This has caused output gaps to shrink in every major economy. The U.S. has now reached full employment. Wage growth tends to accelerate once the unemployment rate falls below NAIRU. Faster wage growth will give households the wherewithal to spend more. With little spare capacity left, this will fuel inflation. The shift from fiscal austerity to largesse across much of the world is adding to the inflationary pressures. The Trump tax cuts are starting to look like chump change compared to the massive amount of spending coming down the pike. The Senate agreed last week to raise the caps on spending by $153 billion in FY2018 and an additional $143 billion in FY2019. This does not even include the $80 billion that has already been allocated to disaster relief, the still-to-be-negotiated sum for infrastructure spending ....



Globalization, which historically has been a highly deflationary force, is on the back foot. Global trade nearly doubled as a share of GDP from the early 1980s to 2008, but has been stagnant ever since. Donald Trump pulled the U.S. out of the Trans-Pacific Partnership and he may very well pull it out of NAFTA. Opposition towards open-border immigration policies is rising. More Mexicans left the U.S. over the past eight years than entered it.

On the demographic front, the three decade long increase in the global ratio of workers-to-consumers has finally reversed. As baby boomers leave the labor force, the amount of GDP they produce will plummet. However, their spending on goods and services will continue to rise once health care expenditures are included in the tally. The combination of more consumption and less production is inflationary. Against a backdrop of slow potential GDP growth, policymakers will welcome rising inflation as the only viable tool left to deflate away high debt levels. ...

Global bond yields are on a structural upward trajectory, however the progression will be a choppy one. The rapid rise in bond yields will flatten out, but the 10-year Treasury yield (it broke 3.1% last week) will nevertheless finish the year at about 3.25% – around 25 basis points above the forwards. Yields will continue to rise into next year. ...

The next downturn will see inflation and bond yields dip again. However, they will do so from higher levels than today. As in the 1970s, bond yields and inflation will trend higher over the coming years, reaching “higher highs” and “higher lows” with every passing business cycle (Chart 14)."

As noted on our site, Hughes Capital Management (HCM) "applies the academic findings of Behavioral Finance to the management of Individual Investment Accounts .... A factor is something that explains stock returns, ranging from Insider Buying and Value, to stock price Momentum. The concept of Factors has been around since Eugene Fama (who won the Nobel Prize in Economics in 2013) and Ken French began developing statistical models to explain stock returns relative to the broader market. Since their initial work, more and more factors have been added, and just in the past few years the idea has exploded in popularity, with so called “Smart Beta” funds (another term for Factor based investing) sprouting up everywhere one looks." Since such an approach isn't currently available to you, we have taken a close look at the track records and process of Oppenheimer's stable of active managers. Fortunately, there are several that stand out.

We recommend a **50%** allocation to:

A solid record with modest volatility.

by **David Kathman, CFA**
07/26/2017

Oppenheimer Discovery remains one of the more attractive small-growth funds, despite some major ups and downs in recent years. It earns a Morningstar Analyst Rating of Silver thanks to its experienced team, solid long-term track record, and low expenses.

Ron Zibelli has managed the fund since 2006 after previously running Merrill Lynch's small-growth fund for several years. All four of his dedicated analysts have been with the team for more than a decade, and two of them, including comanager Ash Shah, have been with Zibelli since the start of his tenure at Merrill. That commendable level of stability parallels the consistency in the team's strategy, which has always combined high growth with high quality. Zibelli and his team look for small-cap companies that are growing fast, but with features that can help them maintain that growth, such as sustainable competitive advantages and strong balance sheets.

Such a "quality aggressive growth" strategy is tough to pull off well, but Zibelli and his colleagues have done a very good job of it over the years. The "aggressive" part of the equation has enabled the fund to do well in many periods when growth stocks have excelled, such as 2013 and the first half of 2017, but the "quality" part has helped the fund hold up well in most bear markets, notably those of 2008 and 2011. There have inevitably been years when the fund has lagged its peers, often because of unfavorable market conditions. However, such slow stretches have never lasted long. In 2016 the fund faced headwinds as the market favored cyclical and value stocks, but it rebounded nicely in the first half of 2017 as the market rotated back to traditional growth stocks.

As a result, the fund has beaten about three fourths of the small-growth Morningstar Category during Zibelli's tenure as manager, through June 30, 2017, with less volatility than its average peer. It also beat the category in seven of 10 calendar years from 2007 through 2016, including six years in the top quartile. On top of that fine track record, the fund is notably cheaper than its peer-group median, adding to its appeal.

Process Pillar: Positive

Lead manager Ron Zibelli's strategy might be called "quality aggressive growth." He and his team start by screening the small-cap universe (stocks with market caps of $200 million-$3 billion) for firms with accelerating but consistent growth rates--generally at least 10% sales growth and 15% earnings growth. This narrows the universe down to 350 stocks to be researched intensively. That research emphasizes quality more than most other small-growth funds do; Zibelli prefers the fund's holdings to be niche leaders in structurally attractive industries and to have proven management teams, sustainable competitive advantages, and strong balance sheets. This quality bias helps earn the fund a Positive Process rating.

Zibelli aims to keep the fund's sector weightings within 5 percentage points of the Russell 2000 Growth Index's weightings, but he has sometimes bumped up against the limits of that constraint, as when the fund was heavy in technology and light in energy in mid-2012. Such sector bets arise from where Zibelli and his team happen to find the most attractive stocks, and not from any top-down macroeconomic calls. They typically hold 90-110 stocks, with no position greater than 3% of the portfolio, and will sell stocks that exceed $5 billion in market cap or have deteriorating fundamentals.

The portfolio can look aggressive by many measures, with valuations and growth rates above the small-growth category averages. But the emphasis on high-quality stocks means the most-speculative names don't make it in, and the fund tends to hold up well in down markets. As of June 30, 2017, the fund's price/earnings, price/sales, and price/cash flow ratios were all higher than those of the Russell 2000 Growth Index and the small-growth category, as was its average earnings-growth rate. But the fund held far fewer micro-caps than the index, adding a measure of stability.

The fund doesn't currently have many major sector bets relative to the small-growth category, consistent with Zibelli's aim to focus on stock-picking. Its only significant sector overweighting as of July 2017 was in technology; four of the top six holdings as of June 30, 2017, and nine of the top 15, hailed from that sector. Healthcare is an overweighting versus the category (20% versus 16%) but an underweighting relative to the Russell 2000 Growth Index (22.5%). Within that sector, the fund is underweight in biotechnology relative to its average small-growth peer, because most of those stocks don't meet its quality criteria. The fund is about even with the category and the benchmark in consumer cyclicals and industrials, having been underweight in both 10 months earlier.

Performance Pillar: Positive

This fund has put up solid, generally consistent performance numbers under lead manager Ron Zibelli, earning it a Positive Performance rating. From the time Zibelli took over in May 2006 through June 30, 2017, its returns rank in the small-growth category's top 27% and have beaten the Russell 2000 Growth benchmark. Its risk-adjusted returns have beaten both the category and the benchmark by wider margins, reflecting its relatively modest volatility. After going through a tough time in Zibelli's first few months at the helm, the fund came roaring back in 2007 with a top-decile return. It has gone on to beat the category in seven of the past 10 calendar years, including six years in the top quartile, though it has only beaten the benchmark in five of those years.

The fund has typically done relatively well in volatile or down markets such as 2008 and 2011. Its emphasis on quality growth stocks means that it has sometimes has a hard time keeping up in aggressive, speculation-driven bull markets such as 2009, when it gained 27% but landed in the category's bottom quartile. However, in 2013, another year when the riskiest assets led the way, the fund gained 46% and ranked in the top quartile. After lagging its peers in 2014, the fund bounced back to a top-quartile return in 2015, a tough year for small-growth stocks; it had another rough year in 2016 but performed very well in the first half of 2017, gaining 13% and returning to the category's top quartile.

People Pillar: Positive

Ron Zibelli became this fund's manager on May 30, 2006, after former manager Laura Granger left for Credit Suisse. He came from Merrill Lynch, where he had been leader of the small-growth team and manager of Merrill Lynch Small Cap Growth (since renamed BlackRock Small Cap Growth II MDSWX) from October 2001 to May 2006. That fund achieved pretty good results on his watch, beating the small-growth category in three of the four full years he managed it and ranking in the category's 44th percentile during his tenure. Prior to joining Merrill in 2000, Zibelli spent 12 years at Chase Manhattan Bank. The experience and track record of Zibelli and his team earns the fund a Positive People rating.

Ash Shah became Zibelli's comanager as of Feb. 28, 2014. Shah has worked with Zibelli as an analyst since 2002 when both were at Merrill Lynch, and he has retained analyst responsibilities. Of the other two dedicated analysts on the team, Justin Livengood is now comanager on Oppenheimer Discovery Mid Cap Growth OEGAX, which Zibelli has managed since mid-2007; there is also a junior analyst who does portfolio support activities and also covers basic-materials stocks. Oppenheimer Discovery Mid Cap Growth has also achieved a solid record since Zibelli took over. Zibelli has more than $1 million invested in this fund and more than $1 million in Oppenheimer Discovery Mid Cap Growth; Shah has $100,000-$500,000 invested here.

Parent Pillar: Neutral

Art Steinmetz became CEO of OppenheimerFunds in July 2014, the firm's first from its investment ranks, after managing several of its taxable-bond funds for many years. Steinmetz replaced Bill Glavin, who joined the firm in 2009 to help clean up the mess that occurred following the 2008 financial crisis, when several key Oppenheimer fixed-income funds suffered massive losses due to hidden risks. Since taking over, Steinmetz has been trying to move Oppenheimer forward in a positive way, launching new funds and emphasising offerings that can (he hopes) outperform in areas where passive and index vehicles don't do well.

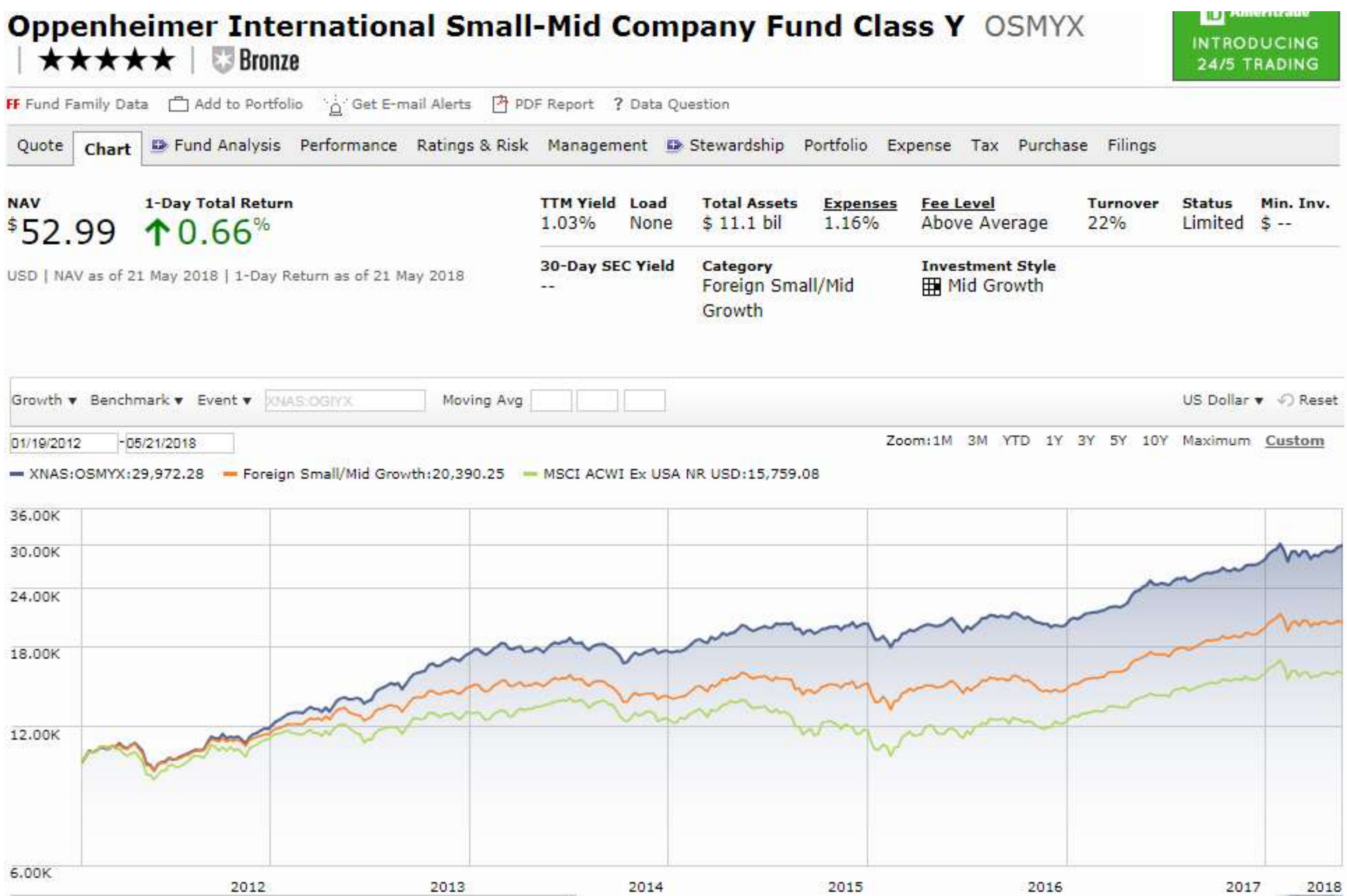
Overall fund performance has improved since the financial crisis, and the company has made strides in the area of manager ownership of fund shares. More than half of fund assets are run by managers with at least $1 million personally invested alongside fundholders, twice the level of two years ago. And although the firm's average fee-level percentile still lands in the "average" range for fees overall, it represents continued improvement.

That being said, Oppenheimer still has to show that it can attract and retain top portfolio managers in all parts of its business. It still remains to be seen if Oppenheimer can stand out from the industry set as it transitions from "fix-it" mode to one more of growth and new-product initiatives and one under new leadership.

Price Pillar: Positive

This fund is cheaper than its typical peer. About 60% of fund assets are in the A shares, whose 1.11% expense ratio (as of the Sept. 30, 2016, annual report) is significantly below the median for front-load shares of small-cap funds, resulting in a Positive Price Pillar rating. That price tag is down from 1.30% six years earlier. The C, I, N, and Y shares also have lower expense ratios than the medians for their peer groups.

30% to:



Deft stock-picking.

by **Patricia Oey**
07/05/2017

Oppenheimer International Small-Mid Company manager Rezo Kanovich has established a track record of strong risk-adjusted returns with a consistent process in the past five years, earning the fund an upgrade of its Morningstar Analyst Rating to Bronze.

Prior to taking over this fund in January 2012, Kanovich had worked since 2005 as an analyst under Rajeev Bhaman, who runs Silver-rated Oppenheimer Global OPPAX. Like his previous boss, Kanovich searches for high-quality names operating in growing industries that typically fall into one of the following themes: mass affluence, new technologies, restructuring, and aging. Most notably, he maintains a large 25% allocation in healthcare stocks, an area with which Kanovich, who had previously worked at a biotech consulting firm, has had some industry experience.

During his five-year tenure as portfolio manager, the fund has been a consistent top performer in the foreign small/mid-growth Morningstar Category. This outperformance has led to rapid asset growth, and at its current $8 billion in assets, it is the largest actively managed small/mid-cap international equity fund. A large asset base can be a risk for a manager of a small/mid-cap fund, as small-cap names tend to be less liquid, making it hard to buy and sell them without moving their prices against the fund. This can be a significant problem during large redemptions. After steady asset growth, in 2015, Kanovich started to trim the portfolio’s small-company stake, which historically had been a significant source of returns-- in 2012 and 2013, small caps accounted for 75% of the fund's returns.

Despite the fund's shift toward larger names, it has maintained its ability to outperform peers, as Kanovich has been able to pick winners among both small and larger companies. But the fund's size and portfolio trends, and their impact on performance, bear watching.

In April 2016, Oppeneheimer closed the fund to new investors. While this move looks like it was made in the interest of shareholders, on the same day Oppenheimer raised fees by about 20%, which we view unfavorably.

Process Pillar: Positive

Consistent execution of a low-turnover, quality-oriented, growth investment approach focused on smaller international companies supports an upgrade of this fund’s Process rating to Positive.

Rezo Kanovich looks for well-run firms positioned to benefit from structural growth trends. These companies tend to have unique business models, high barriers to entry, the ability to self-finance growth, and strong management teams. He looks for names he can hold for an average of five years and tries to make purchases when companies’ shares look mispriced. He avoids buying names with "growth at any price" valuations, which is key to mitigating the fund’s downside risks. New names enter the portfolio at around 50 basis points and are typically capped at 2% to reduce single-stock risk.

During Kanovich's five-year tenure, this fund has grown rapidly, to $8 billion from $1 billion. In mid-2015, Kanovich began trimming small caps (from 25% of the portfolio to 10% now), adding large caps, and holding mid-caps steady at about 50%-60% of the portfolio. As a result, the fund's average market cap is now slightly higher than the category average. So far, this market-cap shift has not affected the fund's performance relative to peers, but it bears monitoring. This fund is currently the largest actively managed fund in its category.

This fund has maintained a 20%-25% stake in healthcare names, more than twice the Foreign small/mid-growth category average of 10%. Consistent with peers, it typically avoids materials, utilities, energy, and telecom companies. The portfolio’s quality metrics, such as financial health and profitability, are in line with category peers. That said, unprofitable companies (most of which are in the healthcare sector) account for a little more than 8%, which is more than Morningstar Medalists in the international small and mid-cap categories.

While Rezo Kanovich has been migrating up the market-cap ladder, the number of holdings and the concentration of the portfolio has remained the same. During the past three years, holdings have remained around 150, and the top 10 holdings still account for about 15% of assets.

Certain themes are evident in among the fund's holdings. In e-commerce, there is U.K. supermarket Ocado, Swedish retailer and payment solution provider Qliro Group, and Japanese office supplier ASKUL. Kanovich also likes companies that provide a key product or service within a supply chain. Examples include Swiss company Lonza, a supplier to drug manufacturers, and CAE, a global leader in aviation industry training.

The portfolio's three-year average annual turnover of 20%, less than a third of the category average of 70%, reflects the team's multiyear holding period.

Performance Pillar: Positive

Strong risk-adjusted returns justify this fund's Positive Performance rating.

International equity funds have underperformed U.S. equity funds in the past few years, but this fund has bucked the trend thanks to deft stock-picking. During the trailing three years, it was the top performer in its category, returning 10.5% annualized, and it outperformed its MSCI ACWI ex USA SMID Index benchmark by about 700 basis points annualized.

In the fund's first two years, about 75% of performance came from companies with market caps of less than $3 billion. Rezo Kanovich has been shifting toward larger names in the past two years but has continued to outperform so far, as he has been able to pick winners among both small and larger companies.

The fund has a large healthcare exposure, but it is diversified across subsectors such as biotechnology, equipment companies, and drug manufacturers. Other significant industry bets, such as e-commerce, are diversified geographically. As a result, the fund has been slightly less volatile than its average peer and has experienced smaller drawdowns, so its risk-adjusted returns have also landed at the top of the category. And in years when the category generated negative returns, this fund lost less money than the category average. That said, Kanovich's five-year tenure remains short and has coincided with a period of calm markets.

People Pillar: Positive

Rezo Kanovich has been portfolio manager of this fund since January 2012. He was promoted to this position after working as an analyst on Oppenheimer Global OPPAX, making him one of the handful of managers who have risen through the ranks at Oppenheimer. Both funds employ a similar low-turnover, high-quality, growth-oriented approach, so in total, Kanovich has had 12 years of experience employing this investment process. Earlier in his career, he worked as a consultant and investment banker, with a focus on the healthcare industry. This background has been useful, given his predilection for healthcare stocks. His more-established track record upgrades this fund's People rating to Positive.

His analyst team is relatively green. Andres Avalos-Vitiello joined Oppenheimer in mid-2012; and prior to that, he was an MBA student at Pace University. He hails from Mexico and received his undergraduate accounting degree there. Samir Mainthia joined in late 2015 after five years of industry experience and an MBA from Wharton.

Former manager Rohit Sah used a macro-oriented, more tactical process that produced strong but volatile performance from 2004 to 2011. When he left in February 2011, a team of long-tenured Oppenheimer managers such as George Evans, Frank Jennings, and Rajeev Bhaman temporarily ran this fund.

Kanovich invests between $500,000 and $1 million in this fund.

Price Pillar: Neutral

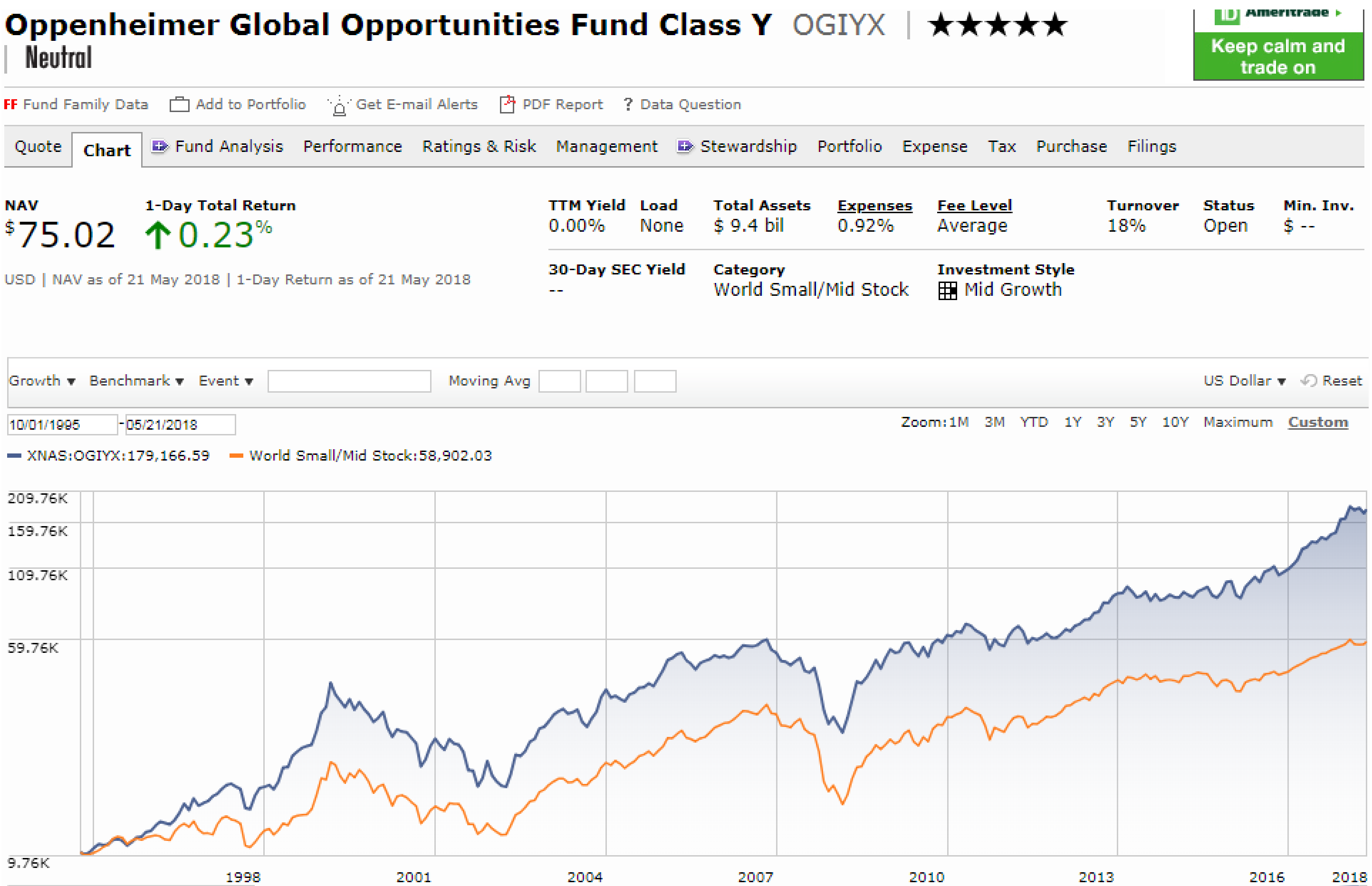
Average fees underlie this fund's Neutral Price rating.

Oppenheimer implemented a new breakpoint schedule for its advisor fees on April 1, 2016, which resulted in about a 20% increase in fees across share classes.

This fund's three largest share classes--A, Y, and I--together account for 95% of the assets in the fund. Prior to the fee hike, this fund carried very low expenses. Now, the A and I share classes are slightly below the category group median, but the Y share class is above.

On the same day as the price change, Oppenheimer closed this fund to new investors. While this has helped stem inflows, assets continue to grow thanks to the fund's strong performance.

20% to:



Significant key-person risk.

by **Patricia Oey**
07/05/2017

Oppenheimer Global Opportunities' two decades of strong returns rely too much on one person (a concern we don't share). Key-person risk limits this fund's Morningstar Analyst Rating to Neutral.

Frank Jennings has managed this fund since 1995, giving him one of the longest track records in the industry. Like many of his colleagues on Oppenheimer's global equity team, he pursues a low-turnover process focused on identifying well-run companies operating in growing industries. The portfolio has long had a mid-cap tilt, as he leans toward names with high return potential, such as smaller healthcare or technology names with marketable intellectual property.

His willingness to bet big on his highest-conviction ideas is the fund's most daring trait. Through the years, the fund's top two positions often have been mid- to high-single-digit stakes. Unprofitable Nektar Therapeutics NKTR has been a top holding for more than five years, and as of May 2017, accounted for 9% of the portfolio. Jennings first bought the biopharmaceutical firm in 2003 and maintains the large position because he believes the diverse application potential of its proprietary technology will soon turn the small company profitable.

His bold portfolio has generated impressive results--its three-, five- and 10-year returns have all been in the top decile of the world small/mid stock Morningstar Category. More recently, the fund has grown more volatile relative to peers, and Jennings has been tempering the portfolio's risk profile. New adds have to have fairly healthy balance sheets. He also raised the fund’s number of holdings to 118 from 93 during the past year, although the top 10 continues to account for about a third of the portfolio.

Jennings, who is 69 years old, has been working solo for the past four years, although in May 2017 he hired a new analyst. When Jennings retires (you should split the allocation evenly between ODIYX and OSMYX, unless Oppenheimer has added Funds to their 401K list, in which case you should contact us again), it's unlikely the new manager would run this fund in a similar fashion. The fund also has more than $300 million in unrealized capital gains and no realized losses. If the fund were to experience significant outflows, shareholders could see a large capital gains distribution.

Process Pillar: Neutral

This high-conviction process yields a portfolio with some big bets and a higher risk profile. We give this fund a Neutral Process rating.

Jennings searches the globe for firms with strong three- to five-year growth prospects, but trading at attractive valuations. His average three-year turnover of 20% is less than half the category average of 55%, which reflects his long-term focus. He is not afraid to veer away from the benchmark and currently invests in about a third of the portfolio each in small-cap and mid-cap stocks.

This fund has more than $5 billion in assets, making it a relatively large mid-cap fund. Most of the growth has come from performance and not new money from investors. To increase the fund’s capacity, Jennings has been trimming small caps and adding large caps while maintaining his mid-cap allocation. During the past 12 months, he has made about 25 net additions, bring total holdings to 118. The fund still keeps 33% of its assets in its top 10, however. That is significantly higher than most international small-cap managers, where the average is closer to 10%.

For new adds, Jennings is focuses more on companies with healthy balance sheets and strong cash flows, such as Dolby Labs and Spanish infrastructure company Ferrovial. However, the portfolio's debt/capital and returns on invested capital have not improved and remain below the category average.

The portfolio continues to have the same large bets it always has, with healthcare and technology stocks currently accounting for 28% and 27% of assets, respectively. Within its healthcare allocation, biotech accounts for about a third, with the remainder in tools, equipment, and mid-cap pharma companies. Many of the fund's consumer discretionary names (20% of the portfolio) are online retailers. While the fund can invest around the globe, it mainly holds firms domiciled in the developed world and has typically had almost no exposure to emerging-markets companies.

The fund usually owns about 100 names, but a few of Jennings' favorite ideas have been at the top of the portfolio for a long time. He first purchased biotech company Nektar Therapeutics NKTR--currently at 9% of the portfolio--in 2003 and Advanced Micro Devices AMD more than a decade ago. The portfolio's concentration in Nektar and healthcare is beyond what the Oppenheimer risk-management team typically allows, and it has instructed Jennings not add to those positions.

Jennings believes the semiconductor industry has many growth drivers, so in addition to AMD, he also holds Applied Materials AMAT and Infineon. Another theme he likes is robotics and automation, and he owns names such as iRobot IRBT, Cognex CGNX, and Fanuc.

Performance Pillar: Positive

Long-term category-topping performance underlies this fund's Positive Performance rating.

During the past 15 years, on an annualized basis, Oppenheimer Global Opportunities was the best-performing fund within the world small/mid stock category. And during Jennings' 21-year tenure as manager, this fund handily outperformed its category average, its benchmark MSCI All Country World Index, and the MSCI ACWI SMID Growth Index.

The fund has tested long-term investors faith at times. Its bold portfolio can generate category-topping returns in one year and bottom-ranking results in the next. In 2014, the fund lost about 3.5% and ranked in its peer group's bottom quartile when a handful of names plunged by more than 60%, including a 3-D printing firm, a wireless payment services provider, and a biologic company. The following year, however, the fund gained 13.9%, thanks in large part to Swedish biometrics holding Fingerprint Cards, while the category and MSCI ACWI Index each fell more than 1%.

But the fund has held up well on a relative basis in down markets, like in 2011 and 2008. In 2011, when the category declined 11.8%, the fund declined 9.2%, as he had picked enough winners to offset steep declines among the fund's top holdings, such as Nektar Therapeutic's NKTR more than 56% drop and AMD's AMD 34% decline.

People Pillar: Neutral

This fund earns a Neutral People Pillar rating because of key-person risk.

Frank Jennings has been portfolio manager of this fund since he joined Oppenheimer in October 1995, giving him one of the longest track records in the industry. Prior to joining the firm, he had been managing director of global equities at Paine Webber Mitchell Hutchins, where he ran several global strategies. He also worked as a portfolio manager at AIG Global Investors and as an international economist at Prudential Insurance Company. This fund is his sole charge, and he invests more than $1 million in it.

For nearly a decade, Jennings had the support of one analyst, Heidi Heikenfeld. In early 2013, however, she moved to the emerging-markets team under Justin Leverenz. After four years of working alone, Jennings hired analyst Maire Lane, who has eight years of industry experience, most recently as a senior analyst for a long-short strategy at Wilson Capital Management. She joined Oppenheimer in May 2017.

Jennings is 69 years old and plans to maintain his current work schedule for the foreseeable future. He works in the New York office a few times a week (which is where Lane works) but otherwise works from home. (Again, no concern. Hughes Capital Management is run from our home.) When Jennings retires, it's unlikely the new portfolio manager would run this fund in a similar fashion.

Price Pillar: Positive

With below-average fees across its main share classes, this fund earns a Positive Price rating.

The front-load A shares, which hold about 70% of the fund's assets, charge a 1.19% annual expense ratio. The median fee for front-load world-stock category funds is 1.30%.

The next-largest share class, its institutional Y shares, charges 0.94% annually, 4 basis points below the median for comparable world-stock funds distributed via the institutional channel.

Overall, the fees are reasonable, as its fee peer groups (world-stock funds) include many large-cap funds.

I hope this helps, and urge you to call if you have any questions.

Our Best,
Devin

Our thoughts

"Diworsification" is ubiquitous. Why? Morningstar's Rekenthaler answered this question for robo-advisers on May 23rd: "robo-advice must achieve a certain level of complexity--or “sophistication,” as the providers would state the matter. Robo-advisors can avoid adding complex funds, but they cannot avoid elaborating their asset allocations. If they were to use only a small number of funds, with an easy-to-explain allocation, many potential buyers would forgo paying the advice fee by duplicating those portfolios on their own." This rationale also holds true for Brokers, with their non-fiduciary client incentives, and far too many RIAs, but makes no sense in this case unless Oppenheimer is using software designed for outside clients, not employees.