

## **SHINING A LIGHT ON..... SCHRODER UK EQUITY FUND**

### **At a glance**

The Schroder UK Equity Fund is one of their flagship funds with assets over £600 million with a bias towards large cap stocks. It currently has just under 50 stocks with the top ten making up 40% of the fund.

It has produced consistent outperformance of the index with relatively low volatility so it could work well with a more volatile fund.

The potential concern for investors is the manager who only took on the fund in July 2013 and therefore only has a short track record. However, the manager previously worked at Neptune and managed the UK Special Situations fund where he built a good reputation.

In this update we will provide some background to the manager and how the fund is positioned.

### **Who are the team behind the fund?**

The fund manager is Alex Breese and he has shown over a fairly lengthy track record, that he has been able to outperform his peer group. He joined Schroders in July 2013 to take over the UK Equity Fund. Previous to that he joined Neptune in 2005 as an analyst and became the Fund Manager of the Neptune UK Special Situations Fund at the end of 2006. He was also head of UK Equities at Neptune.

Over an eight year period he has outperformed his peer group seven times. So his reputation and skill is good, and certainly a manager to monitor and watch.

### **Fund highlights?**

We started by discussing his view of the market and he is positive about the market but with some caution. Inflation is at its lowest level since records began which is good for consumers (the danger is obviously deflation), unemployment is down to 5.8% and wages are gradually rising. He remains of the view that the UK looks relatively cheap and below long term averages but earnings growth needs to come through.

Ignoring the short term volatility around the election, one concern that Alex has is around the US and he feels the market is pretty mature, and valuations are close to full. If the market starts to re-tract then this could have a negative impact globally and is something to consider.

Alex explained his style for stock selection which is mixture of upside opportunity blended with a margin of safety. So he is looking for areas like management turnaround, unrecognised growth and cyclical recovery blended with franchise quality, strong balance sheets and valuations.

Stocks ride through a cycle. So for example, those with negative sentiment are the likes of Balfour Beatty and DeLaRue, those which are benefiting from the market seeing positive change include the likes of Tesco and 3i and then the stock falls into Positive Sentiment. The stocks in negative sentiment have a lower position and then gradually builds through the positive change and then reduces and is sold at the point of positive sentiment.

# LWM Consultants Ltd

---

The average holding is three years.

The fund is currently underweight resources and overweight media. Some of the positives for the fund include Carnival which has benefited from a fall in oil prices and the shares are up nearly 40% over the last twelve months, Sage Group in the software space has seen a 30% growth in share price and SynergyHealth which is one they have now sold and had a 50% growth in share price.

Drax is a holding that has done less well for the fund, suffering from political negativity and a fall in oil prices. Its shares are down 50% over the year.

Touching on oil, he explained that the last time we saw such a fall was in 2008 and history shows that normally in the following year there is a spike in prices. However, he does feel prices will be lower for some time.

The lower prices having a direct benefit in the consumer space and act as positive tail wind. The areas he sees as benefiting from this include bookies, pubs and supermarkets. Areas he sees as suffering are the luxury brands which are reliant on the global wealthy for their business (especially oil rich countries).

Clearly Alex has been able to introduce his style into the fund and been able to keep consistent performance. The fund is 75% FTSE100 and therefore might be considered alongside a small / mid-cap fund. The style has a proven track record but many consider waiting to see if a manager can repeat the performance in a new environment. This would be something that a potential investor needs to consider.

In conclusion a large cap fund with a good track record but a new manager who has a proven track with a previous company.

## Fund performance

Performance for the past five year's vs the benchmark.

	2010	2011	2012	2013	2014	2015*
<b>Schroder UK Equity Fund</b>	20.82%	-7.65%	16.47%	28.82%	1.99%	3.51%
<b>Lyxor ETF FTSE All Share</b>	15.40%	-4.61%	11.67%	20.16%	0.93%	2.70%

	12 months	3 years	5 years
<b>Schroder UK Equity Fund</b>	7.67%	50.26%	81.02%
<b>Lyxor ETF FTSE All Share</b>	6.92%	35.69%	58.15%

### **\*1 January to 31 January 2015**

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

## **Conclusion**

We have followed this manager for some time previously using the Neptune Fund he managed. There is no guarantee he can repeat the success he had previously. The fund at Neptune was much smaller but on the plus side he has much greater support within Schroders which he wouldn't have had at Neptune. The fund itself has a good track record and he has continued that performance. Potential investors need to consider carefully whether they believe Alex can continue this going forward.

*The source of information in this note has been provided by Schroders and is correct as at February 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*