

SHINING A LIGHT ON..... SCHRODER RECOVERY FUND

Update....

The team behind the Schroder Recovery Fund have a fantastic reputation however this fund may have dropped out of people's line of sight. In this update with Kevin Murphy we talked about the fund and where it is positioned.

Kevin started by explaining that everything comes down to the question "what is the value of the stock market, and what would I get from that point?" Evidence shows that the cheaper the company over the long term the better the return. In theory therefore to achieve returns every investor should follow this style of investing.

The problem is that there are periods when this style of investing is out of favour and it is very hard for investors to hold steady. Going back over time value has been out of favour during the late eighties, early nineties, tech boom and over the last couple of years. For those who haven't experienced it, it makes it very hard to cope with. Kevin added that all the evidence shows that there is a rebound and when that happens investors are significantly rewarded. His view is that this will come through over the next 3 to 5 years.

One significant holding in the fund is banks and he explained that during 2006 to 2007 these were seen as good businesses with high barriers to entry. When bad news filtered through from the US investors ignored this thinking it had nothing to do with the UK, this bad news became a torrent and investors got scared. At that stage they were looking to get out at any price. People still don't want to invest because they remember the bad news. This is an ideal time to be investing, the time to get out is when people get excited about the investment and want to get back in.

Banks have only been cheaper in early 2009 and late 2011, today these are profitable businesses building excess capital and investors will be rewarded for this. This theme will play out. Mining is a sector they are just going into with the likes of Anglo American. The feeling is that the balance sheet when viewed vs assets is very attractive and it has a very strong management team. As fear reduces the upside potential is massive for a patient investor.

In the last twelve months they have sold the likes of the Daily Mail, St Ives and Direct Line who were cheap and out of favour 5 years ago but are now loved and in favour today. They have added to the likes of HSBC, Lloyds and Morrison and added new holdings in Aquarius Platinum, Drax, Pearson and South 32.

The fund is skewed towards banks, basic materials and oils and gas. For investors this is a volatile fund and it doesn't work every day but for those who are prepared to sit back and wait it can be rewarding. Kevin added that they don't rush into buying shares, building positions slowly.

In summary this fund invests in those shares which tend to be unloved however for the patient investor they can be rewarded. If the belief is there, then this is certainly a fund to consider but it is volatile and investors may feel other funds offer better opportunities.

LWM Consultants Ltd

Fund performance

Performance over the last five years, and 2016 to 31 January:

	2011	2012	2013	2014	2015	2016
Schroder Recovery Fund	-13.96%	34.41%	45.50%	1.67%	-17.41%	-3.48%
FTSE AllSh	-3.46%	12.30%	20.81%	1.18%	-4.63%	-3.08%

Performance over 1, 3, 5 and 10 years

	1 year	3 years	5 years	10 Years
Schroder Recovery Fund	-17.41%	15.79%	41.52%	107.48%
FTSE AllSh	-4.63%	12.46%	30.38%	61.79%

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.

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