

**SHINING A LIGHT ON THE.....
Schroder Recovery Fund**

AT A GLANCE

Investment Objective	
The Fund's investment objective is to achieve capital growth for Investors through investment in companies that have suffered a severe setback. The Fund invests primarily in UK quoted shares. The investments are selected from those companies that have suffered issues in terms of profits or share prices, but where the management and the prospects are believed to be good. Investment will be in directly held transferable securities. The Fund may also invest in collective investment schemes, derivatives, warrants and money market instruments.	

Inception Date	5 May 1970
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000MQQS

Management	
Manager Name	Start Date
Nick Kirrage	21 July 2006
Kevin Murphy	21 July 2006

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	38.11%
Large	27.52%
Medium	14.74%
Small	12.04%
Micro	7.59%

Top 10 Holdings		
Total number of holdings	38	
Assets in Top 10 Holdings	42.83%	
Name	Sector	% of Assets
RBS Group PLC	Financial Services	5.83%
BP PLC	Energy	5.05%
Barclays PLC	Financial Services	4.78%
Apollo Education Group	Consumer Defensive	4.39%
Drax Group PLC	Utilities	4.13%
Anglo American PLC	Basic Materials	4.01%
GlaxoSmithKline PLC	Healthcare	3.87%
Pearson PLC	Consumer Cyclical	3.63%
HSBC Holdings PLC	Financial Services	3.58%
Centrica PLC	Utilities	3.56%

Volatility Measurements	
3-Yr Std Dev (volatility)	11.50%
3-Yr Mean Return (average)	6.93%

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FUND PERFORMANCE

Performance from 2012 to 31 August 2016:

	2012	2013	2014	2015	2016
Schroder Recovery Fund	34.41%	45.50%	1.67%	-13.23%	17.59%
Lyxor ETF FTSE All Share	11.67%	20.16%	0.93%	1.08%	9.77%

Performance over 1 year, 3 years, and 5 years:

	1 year	3 years	5 years
Schroder Recovery Fund	10.87%	17.90%	100.21%
Lyxor ETF FTSE All Share	11.88%	19.21%	55.21%

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.

UPDATE....

This is a fund we have followed for some time. The fund has been available to investors for nearly 45 years and the current team have run the fund for just over ten years. It is telling when the manager explained that this fund is not there to take all your money, just 10% of everyone's money; the strategy is about holding for the long term rather than making a short term win.

Nick started by explaining that there are two types of value investors; those in the Ben Graham camp who buy the cheapest items in the shop and those following Warren Buffett who buy quality businesses at cheap valuations. The quality value side has done better over the last ten years. This fund is in the Ben Graham camp focusing on deep value companies.

He started by explaining what this means for investors; companies can see a significant drop in share price before they recover and it can be painful.

An example is Lonmin who are producers of platinum and in 2015 they spoke at a value conference highlighting this share as one to watch. In 2008 6,500 shares were worth £130,000 by 2015 when the share price was at a depressed level this value was just £9,750. After highlighting the share in 2016 the share price dropped further, so the value of the shares was just £800!! Today the shares have recovered slightly and 6,500 would be worth £12,577.

The point of this is that there are opportunities to make a lot of money but they can and will get it wrong. Other examples, in 2015 Apollo Education was one of its worst performers down 76%; it remains in the top ten holdings. Some stocks do come out and it is about learning lessons from those that they lose money on. In 2011 they lost all their holdings in Blacks Leisure which was a good business but what wasn't clear at the time was that the leases on shops were strangling the business. It eventually went bust but still exists after being purchased by the JB Sports Brand.

Another example was Wagon who were a car part manufacturer for Peugeot; in 2008 with a cyclical downturn and off balance sheet finance issues, the company share price collapsed. They had to do a

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rights issue which they didn't participate in and effectively lost all the investment. Despite this the fund still outperformed the market by 3%.

It is important to add that holdings in companies can vary so the loss is a proportion of the fund. Currently the top holding makes up 5.36% of the fund so a 100% drop in that share price would hurt the fund performance but investors wouldn't lose all their money.

Obviously the upside is really important to the strategy; Avis Europe suffered in 2007 and 2008 delivering negative returns but in 2009 it turned this around with a return of 568%. Dixons is another stock which was unloved by the market and was part of the fund. In 2012 it returned 189%, 2013 71% and 2014 44%. The point being that although they remember more about those that haven't worked, when stocks work they do very well for the fund (and investors). It is therefore about learning from those that haven't worked and seeing if things could have been done better. Sometimes as with Avis and Dixons it is about holding to allow things to improve.

Financials remain a major part of the fund and one stock that they highlighted was RBS. Their argument is that although most people would say this is a really bad share, RBS have made really big steps. The loan balance sheet has halved and capital ratio is up 153%. Therefore, the risk profile of the bank has changed dramatically but it remains unloved. Additionally, retail banks can and will make money going forward with little competition. It is very hard to replicate an RBS; the reality is that many customers might be unhappy with their bank but very few do anything about it and customers will need loans and therefore banks, in the future. The fund continues to hold around 20% in financials including HSBC, Barclays and RBS.

In summary this remains a well-managed fund but will drift in and out of favour. Looking at performance over 3 years it is nothing exceptional but over the longer term the gap becomes wider. There are risks with the fund as have been highlighted and this may not appeal to all investors. Clearly the argument from Nick is that as a blend this may be a good way for investors to invest in unloved companies, without taking the risk of holding the shares directly. There are other value fund managers and it may be worth comparing performance and style with these managers before making any potential investment.

The source of information in this note has been provided by Schroders and is correct as at September 2016. 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. We would also recommend that you receive advice before following up on any decision.