

SHINING A LIGHT ON..... SCHRODER US MID CAP FUND

At a glance

The US market is notoriously difficult for active managers to outperform; the argument is that it is highly efficient and therefore investors would be better to hold a fund that tracks the index rather than paying for active management.

We test all our funds against the index and although over short periods funds may underperform our aim is to identify managers who consistently add value. The Schroder US Mid Cap Fund has posted strong performance figures over the last five years although in 2011 and 2012 the fund struggled against the S&P500.

The manager is Jenny Jones and she has managed the fund since its launch in 2005. One concern we would have as investors is the lack of conviction; the top ten holdings have less than 2% weightings and the number of holdings is around 116. However, blended as part of a portfolio this fund can work well.

Who are the team behind the fund?

Jenny Jones who has managed the fund since launch in 2005; she is supported by a team of sixteen research specialists. Prior to working at Schroders she worked at Morgan Stanley Investment Management and is based in the US.

What is the story behind the investment?

Since March 2009, the US market has more than doubled.

The US economy is still on the road to recovery. Consumer sentiment has improved and nationally housing prices are recovering.

Opportunities remain in cyclical parts of the economy (i.e. those that tend to contract faster in recession and grow faster in recovery) and demand for autos, housing and rebuilding inventories will help boost the economy and support company profits.

Interest rates are likely to remain low and although tapering has started this will be a gradual process.

There are differing views as to whether investors can gain much more from holding US stocks, some argue that certain sectors are now expensive others argue there are still plenty of opportunities. In this environment we believe a good active fund manager picking out the attractive special situations can outperform the general market.

LWM Consultants Ltd

Fund highlights?

The fund is split into three areas – mispriced growth opportunities which accounts for around 65% of assets, steady eddies which accounts for 29% and the smaller balance in turnarounds. The steady eddies will flatten performance in strong bull markets.

The manager was keen to highlight some investment stories which illuminate her style. Parexel is a leading global bio/pharmaceutical. The company guides drugs through the FDA process. Large pharmaceutical companies can no longer afford to do this and are therefore happy to outsource. Parexel has benefited and has continued to see revenue growth. Jenny describes this as a mispriced growth story and believes there is more to come.

Another company she likes is Harman International Industries. This was established as a consumer electronics business and moved into developing high end stereo systems for the likes of BMW and Audi. They are now moving more mainstream which is reducing costs and increasing the top-line profits.

The query we have with this fund is the number of stocks held and even when the manager highlights good individual stories one wonders why if she has so much conviction she invests less than 2% in the stock. This perhaps demonstrates a more conservative approach which some investors may like. We believe as a standalone US play this may not be the best option for investors but blended with other funds it may work well.

Fund performance

The table below shows performance over the last five years and going into 2014:

	2009	2010	2011	2012	2013	2014
Schroder US Mid Cap Fund	23.41%	21.83%	-2.05%	3.51%	32.65%	1.05%
iShares MSCI North America	15.39%	16.55%	-0.55%	5.15%	27.12%	-0.05%

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

Although the manager is passionate about some stocks we didn't feel there was conviction within the portfolio. Blended with more aggressive growth oriented US Funds this provides balance. We will continue to hold a small exposure to the fund in the portfolios however we look for other options with higher conviction holdings.

The source of information in this note has been provided by Schroder and is correct as at February 2014. 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.