

**SHINING A LIGHT ON THE.....
M&G Recovery Fund**

AT A GLANCE

Investment Objective	
The Fund aims to provide a higher total return (the combination of capital growth and income), net of the Ongoing Charge Figure, than that of the FTSE All-Share Index over any five-year period.	

Inception Date	23 rd May 1969
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=FOGBR04SAX

Management	
Manager Name	Start Date
Tom Dobell	31 st March 2000

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	25.80%
Large	12.93%
Medium	23.60%
Small	22.83%
Micro	15.55%

Top 10 Holdings		
Total number of holdings	79	
Assets in Top 10 Holdings	43.88%	
Name	Sector	% of Assets
BP PLC	Energy	9.09%
HSBC Holdings PLC	Financial Services	8.22%
GW Pharmaceuticals PLC ADR	Healthcare	5.81%
Lloyds Banking Group PLC	Financial Services	3.49%
Oxford BioMedica PLC	Healthcare	3.32%
Tullow Oil PLC	Energy	3.08%
IWG PLC	Industrials	3.01%
CRH PLC	Basic Materials	2.86%
Rio Tinto PLC	Basic Materials	2.54%
First Quantum Minerals Ltd	Basic Materials	2.47%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.32%
3-Yr Mean Return (average)	9.46%

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FUND PERFORMANCE

Performance from 1 January 2013 to 30 April 2019:

	2013	2014	2015	2016	2017	2018	2019
M&G Recovery Fund	14.25	-9.51%	-5.11%	19.84%	10.71%	-15.97%	14.70%
FTSE All Share Index	20.81%	1.18%	0.98%	16.75%	13.10%	-9.47%	12.35%

Performance over 12 months, 3 years, 5 years and since fund manager tenure.

	1 year	3 years	5 years	Since fund manager tenure
M&G Recovery Fund	-1.65%	28.27%	10.36%	190.93%
FTSE All Share Index	2.62%	33.33%	35.16%	153.56%

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....

We understand the unique aspect of this strategy. However as it celebrates 50 years, over the last 15 years this fund has underperformed the index and seen significant outflows of money. The fund manager has been at the helm for 19 years and although we understand the style has been out of favour, 15 years seems a long time to wait.

There have been some recent changes with Michael Stiasny and David Williams coming on board as deputy managers, with Tom being the third manager since the fund was launched in 1969. The fund does make a positive impact. It focuses on people (working in partnerships with management teams), it looks to understand plans and strategies as well as cash flow into the business.

The unique aspect of the fund is the engagement with the company, helping with restructuring, refinancing, corporate governance and as patient long-term investors. This approach has helped create and retain thousands of jobs through investment in struggling or developing businesses, supported the development and launch of new drugs and medical devices, and supported hundreds of companies come back into profit.

They have four stages – stage 1 are unloved companies, stage 2 stabilising, stage 3, recovering well and stage 4 mature. Examples of companies they talked about were GW Pharma which they have supported since 2003 and has recently launched a cannabis-based drug. Ei Group owns c5000 pubs in the UK and was a heavily indebted business. Debts have now been paid down and they have started to reduce holdings to this.

Kier is a new holding they nearly ran out of money, putting 21,000 jobs at risk. They believe this has the potential to be an excellent business and want to support it through this phase. Micro Focus had a shock profit warning and they know the management team who were at Easyjet. They purchased at a distress level and have seen a rapid turnaround.

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In terms of refinancing they help around one company a month, examples being PetraDiamonds, Mothercare, fastjet and Troy Resources. There are plenty of ideas and they have recently added Petrofac, WH Ireland, ITV and Dignity and sold Dixons Carphone, UDG Healthcare and African Petroleum.

They remain very positive despite the performance. Two thirds of the portfolio is in stages 1 and 2. They believe many parts of the portfolio look very cheap and companies are making good progress. They also pointed out that the last time the UK market looked so good was in the 1940s.

In summary, at the heart of this strategy lies the interaction with companies and restructuring. It has also had a positive impact on jobs and in turning companies around. If investors are interested in a fund with a moral compass, then this is really where it sits. If they want a fund that will outperform the FTSE All Share, then this is questionable. Our guess is that investors want the performance as the fund has seen assets fall from about £7 billion to just over £2 billion in a short period of time. This does mean that the fund has less money to invest and the spiral down could be terminal.

The source of information in this note has been provided by M&G and is correct as at April 2019. 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.