

## **Schroders Investment Conference – June 2018**

We recently attended an investment conference hosted by Schroders. The conference covered an overview of the markets and specific views from regional managers. The views contained in this document are those of Schroders and do not necessarily reflect our own views. Any reference to a share or fund is not a recommendation to buy or sell.

### **Economic Update: A Wobbly World Economy? Stuart Podmore**

The conference started with a look at the world economy. Stuart explained that there is a great deal of uncertainty particularly around geopolitics and the political situation in the UK. Within this he believes stock picking is more important than ever.

In terms of whether we are heading towards a recession he feels we are in an extended cycle that has not been seen before and therefore how long this continues is uncertain. He feels the global economy is in a slow down phase and with that comes uncertainty.

But it is not all doom and gloom. China data beat expectations in Q1 and they have been cutting rates. Within this retail data sales and industrial production are up but exports and fixed asset investment is down. The UK saw a strong Q1 but much of this was about businesses stock billing with Brexit looming.

In the US inflation softened with wage growth steady and productivity up. The Fed have paused rate rises and might even cut them to extend the cycle.

The trade war is a concern and the eventual outcome is now less certain and could be the driver that forces the US into a recession. The US could start to see tariff inflation coming in and the percentage share of world GDP has shifted as China continues to grow and take over from the US.

The UK remains unloved and undervalued by investors. The earliest trade deal could be 2025. There is a probability of an election and although consumers feeling a bit more confident, businesses are gloomy.

Europe is unloved and the emissions regulations and slowing industrial production has not helped. But wage growth is improving, there is strong employment and credit growth.

### **Europe: A Contrarian Call James Rutland**

Sentiment to Europe is extremely negative. Flows into the region are weak and now below the levels seen in the Euro Crisis in 2011.

It has the weakest growth vs the US and China, and business sentiment is fragile. Those with strong balance sheets are not deploying capital.

In Italy there is political uncertainty which has dented confidence and the cost of finance has increased.

But there are positives. The consumer seems stronger with wages continuing to rise and unemployment falling. There are also positive signs from China and this will benefit the EU. There are also early signs of improvements across the Euro Area in turns of manufacturing data.

In terms of the fund he managers he explained the style is agnostic, but they have started to shift from growth to value. They believe that growth will start to slow and they want to be able to capture the turnaround in value.

Some of the buckets of investments they have are:

Diversified growth – ASMI, Galapagos

Value – Carrefour, OTE and UniCredit

Quality – Beiersdorf, Danone

Restructuring – ThyssenKrupp, Porsche, Akzo Nobel and GEA

## **Global Value**

### **Simon Adler**

The presentation focused on the reason to invest in value. The two main reasons were evidence and stock picking. The managers believe that history shows that the lower the price for the something the higher the potential return. They also believe that evidence shows that over the long-term, value works.

They believe now is a good time to invest as there is a big disconnect between growth and value. 92% of funds are invested in growth and when it turns, investors will be left in the cold.

Their strategies are based on proprietary data which includes building a ten-year model of the past. They have an archive of data and this includes over 1,200 companies.

## **Schroder Sterling Corporate Bond**

### **Jonathan Golan**

Jonathan started by explaining that sterling corporate bonds tend to go up when equities go down and therefore are a good way to preserve capital in negative markets.

However, investors tend to be underweight the asset class and yet it offers a good level of income; 20% income and 20% growth over 5 years.

This is about picking individual issuers away from the normal. An example would be Intu Properties. This is a retail company but owns 9 out of the top 20 malls in the UK. The yield on this is 9%. They had a small amount of rental growth in 2018 and there is considerable equity value. Other examples include Leeds Building Society, Virgin Media and Atlantia.

He believes the easy gains in the bond market are gone and therefore stock picking is the only way to win. The types of companies he likes are improving and yet unloved credit stories, senior financials where Brexit premium is excessive and defensive cash flow, generative sectors.

## **The attractive part of the UK market**

### **Jean Roche**

Jean was focusing on UK and explaining the Mid 250 is an interesting hunting ground. It is instantly being refreshed with IPOs, promotions into the FTSE 100 and relegations. Those companies in the FTSE 250 are constantly looking to get into the FTSE 100 and the difference in names from 1998 today is evident of that.

It offers a broader opportunity set with long term growth opportunities. They look for long term growth opportunities and opportunistic ideas, and look to avoid those in long term structural decline.

Companies like JD Sports and Right Move are examples of companies they like and have, or are about to move into the FTSE 100.

They are overweight consumer services as wages are growing faster than inflation and this is driving an increase in household expenditure which in turn is driving retail sales. The sales of vehicles are down but furnishings, pet products and services, restaurants and hotels, clothing and footwear are all doing well.