

SHINING A LIGHT ON THE.....
Schroder European Alpha Income Fund

AT A GLANCE

Investment Objective	
The Fund aims to provide income and capital growth by investing in equity and equity related securities of European companies, excluding the UK.	

Inception Date	2 nd May 2012
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000O623

Management	
Manager Name	Start Date
James Sym	1 st November 2012

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	30.45%
Large	26.47%
Medium	25.30%
Small	15.71%
Micro	2.07%

Top 10 Holdings		
Total number of holdings	74	
Assets in Top 10 Holdings	37.43%	
Name	Sector	% of Assets
Roche Holding AG Dividend Right Cert.	Healthcare	5.52%
AXA SA	Financial Services	4.50%
Grupo Catalana Occidente SA	Financial Services	3.84%
Zurich Insurance Group AG	Financial Services	3.75%
Total SA	Energy	3.62%
Dometic Group AB	Technology	3.47%
Sanofi SA	Healthcare	3.35%
Aurelius Equity Opportunities Se & Co	Financial Services	3.14%
KBC Group SA/NV	Financial Services	3.13%
ABN AMRO Bank NV	Financial Services	3.11%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.88%
3-Yr Mean Return (average)	6.69%

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FUND PERFORMANCE

Performance from 1st January 2013 to 30th August 2019:

	2013	2014	2015	2016	2017	2018	2019
Schroder European Alpha Income Fund	40.49%	0.95%	13.42%	24.22%	16.30%	-16.24%	9.11%
iShares MSCI Europe ex-UK ETF	24.53%	0.04%	4.07%	19.51%	16.37%	-9.95%	17.28%

Performance over 12 months, 3 years, 5 years, and since launch:

	1 year	3 years	5 years	Since launch
Schroder European Alpha Income Fund	-7.21%	18.58%	41.69%	145.37%
iShares MSCI Europe ex-UK ETF	4.06%	31.04%	51.52%	112.13%

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....

James was a fund manager at Cazenove Capital Management, who were taken over by Schroders in 2013. He moved across to Schroders with this fund. The fund tends to fish in the less well-loved part of the market. The fund has a value slant and will underperform when growth is in favour. In terms of value he is looking for good quality companies where the market doesn't share the same optimism.

At the moment you have bond proxy companies in favour and overpriced. An example he used was Nestle vs AXA where the extreme between the two, and potential, have never been greater. AXA have transformed their business so there is much less market and underwriting risk and it is paying a 7% dividend. However, the market is not reflecting this within the share price.

James believes that the market is starting to turn and where you will make money going forward is in parts of the market where others are not fishing.

Examples of the types of business that James likes include:

Dometic – they are makers of fridges and ovens for camper vans, with a 50% market share, and now developing heaters to go inopeds to keep delivery food warm

Bankinter – this is a well-run Spanish Bank which focuses on white collar workers and is increasing market share

IPSOS – increasing growth rates but market continues to de-rate the stock

The process is about meeting companies and understanding the businesses. They want those diamonds in the rough and more than likely out of favour. Although growth and bond proxies have

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been in favour, they think there is an inflection point, and this will reverse. The fund has a strong positioning to financials, and they believe as it reverses the fund will benefit.

Although this has a value slant there is more science to their approach. They are not just buying in an area that is cheap. They are looking to discover what will change the share price, and then what is the downside risk if they are wrong. Positions depend on their conviction; they may start lower and build a position.

Fundamentally the way to look at this fund is this. In the past this fund has done very well, however in the last five years it has lagged as bond proxy and growth strategies have driven the market up. Many of the European strategies fall into this camp. If there is a rotation away from this, then this fund is perfectly placed to take advantage of this change. The question for any investor is whether they think this is the case, and then that will determine whether this might be an option for them.

It is worth adding that during the period of underperformance the team have stuck to their process, and however uncomfortable this has been, they believe that investors will be rewarded for their loyalty to the strategy. Time will tell if this does play out.

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