

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

AT A GLANCE

Investment Objective	
The Fund aims to provide income and capital growth in excess of the FTSE All Share (Gross Total Return) index (after fees have been deducted) over a three to five year period by investing in equity and equity related securities of UK companies. The Fund is actively managed and invests at least 80% of its assets in a concentrated range of equity and equity related securities of UK companies. These are companies that are incorporated, headquartered or have their principal business activities in the UK. The Fund typically holds 30 to 50 companies.	

Inception Date	31 May 1987
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04RWU

Management	
Manager Name	Start Date
Kevin Murphy	18 May 2010
Nick Kirrage	18 May 2010

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	22.30%
Large	46.85%
Medium	18.19%
Small	12.16%
Micro	0.50%

Top 10 Holdings		
Total number of holdings	33	
Assets in Top 10 Holdings	44.69%	
Name	Sector	% of Assets
BP PLC	Energy	5.21%
Anglo American PLC	Basic Materials	5.08%
Pearson PLC	Communication Services	5.02%
Tesco PLC	Consumer Defensive	4.72%
Morrison (Wm) Supermarkets PLC	Consumer Defensive	4.66%
GlaxoSmithKline PLC	Healthcare	4.53%
Standard Chartered PLC	Financial Services	4.29%
Imperial Brands PLC	Consumer Defensive	4.03%
Sanofi SA	Healthcare	3.59%
Aviva PLC	Financial Services	3.57%

Volatility Measurements	
3-Yr Std Dev (volatility)	16.55%
3-Yr Mean Return (average)	-6.00%

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FUND PERFORMANCE

Performance from 1st January 2014 to 30th June 2020:

	2014	2015	2016	2017	2018	2019	2020
Schroder Income Fund	4.52%	-6.95%	24.37%	8.52%	-1.71%	7.45%	-26.21%
FTSE UK All Share Index	1.18%	0.98%	16.75%	13.10%	-9.47%	19.17%	-17.51%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since Fund Manager Inception
Schroder Income Fund	-23.16%	-16.95%	-4.45%	66.06%
FTSE UK All Share Index	-12.99%	-4.60%	2.86%	80.14%

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 update has been written at the time of the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

The two managers use an investment strategy called value investing. In its most simplistic state this is about buying a company at a cheap price and then waiting for a catalyst to change that value. There is a counter argument that value no longer really exists because these types of companies tend to be old economy rather than new economy. So, unless they can adapt then they will just get weaker. For this reason, there are very few value managers operating in the market. It is also worth adding that the holdings in both the income and recovery strategy have significant cross over. This update covers both strategies.

Coming into the year they felt markets were elevated, and in fact they were the highest they had been since 1870. Even adjusting for inflation, the markets were too high. What happened was the fastest bear market anyone had seen lasting just 22 trading sessions. The bounce back was very quick, and they expect this to continue in 2021. Because of the speed they were not able to pick up all the opportunities that came up.

However, the style of investing will not change, and the funds are both tilted towards the weakest parts of the market – banks, insurance, telecoms, retail etc. Although in retail the only play is M&S. In this market the five areas they have focused on are:

1. Fix the roof – they know things will get worse before they get better. Much of the work has been looking at balance sheets which includes debts, liquidity, and pension liabilities. This

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identified that most of the holdings were in good shape, however, where they had concerns, they sold out. An example would be HSBC

2. Get to the coal face – this is about looking at everything and finding the opportunities
3. Trust your process – the key has been to stick to the process even when the fund has underperformed
4. Interlinked with three is keep your discipline
5. Be brave – markets like this are when they make money. They showed a list of all of the holdings and how much upside they believe. It is worth adding the FTSE has not recovered like other markets due to exposure to banks, oil majors etc. You could argue the FTSE 100 is one big value trade and this fund is heavily weighted to this part of the market

New ideas to the funds include Rolls Royce, M&G, ITV, and Carnival. With Rolls Royce they believe they can double their money in the next 3 to 5 years. Much of the downside is already priced in over the decline in aerospace and legacy problems. However, part of the business is about maintaining older engines which generates significant cash. There are also other sides to the business including defence, which are being ignored by the market. They considered Ted Baker but felt although the price was at a level, they felt the risks were too great. On the flip side Imperial Brands had a favourable risk environment and a price they were comfortable with.

Although many believe interest rates and inflation will remain low, they believe interest rates and inflation will go up which is good for value stocks. Therefore, they feel their funds are perfectly placed to make the most of the opportunities within the UK market.

In summary, this is one of best teams of value managers in the UK. They have suffered significant underperformance, however, if investors think the UK is undervalued then this might be a means to benefit from the upside when it comes. It may be worth considering that if investors think that most of that upside will come from the FTSE100 then would a tracker fund be more cost effective?

The source of information in this note has been provided by Schroders and is correct as at July 2020. 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.