

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

**AT A GLANCE**

<b>Investment Objective</b>	
The Fund aims to provide capital growth by investing in equity and equity related securities of UK companies that have suffered a severe setback in either share price or profitability. The Fund is actively managed and invests at least 80% of its assets in equity and equity related securities of UK companies. These are companies that are incorporated, headquartered or have their principal business activities in the UK.	

<b>Inception Date</b>	5 May 1970
<b>Fund Factsheet Link</b>	<a href="https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR05PYU">https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR05PYU</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Kevin Murphy	21 July 2006
Nick Kirrage	21 July 2006

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	17.59%
Large	42.32%
Medium	18.32%
Small	19.53%
Micro	2.25%

<b>Top 10 Holdings</b>		
<b>Total number of holdings</b>	36	
<b>Assets in Top 10 Holdings</b>	44.33%	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>
Standard Chartered PLC	Financial Services	5.27%
Anglo American PLC	Basic Materials	5.10%
BP PLC	Energy	4.95%
Pearson PLC	Communication Services	4.78%
Morrison (Wm) Supermarkets PLC	Consumer Defensive	4.52%
South32 Ltd	Basic Materials	4.21%
The Royal Bank of Scotland Group PLC	Financial Services	4.11%
Sanofi SA	Healthcare	3.83%
Barclays PLC	Financial Services	3.80%
GlaxoSmithKline PLC	Healthcare	3.76%

<b>Volatility Measurements</b>	
<b>3-Yr Std Dev (volatility)</b>	17.59%
<b>3-Yr Mean Return (average)</b>	-7.72%

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## FUND PERFORMANCE

Performance from 1<sup>st</sup> January 2014 to 30<sup>th</sup> June 2020:

	2014	2015	2016	2017	2018	2019	2020
<b>Schroder Recovery Fund</b>	1.67%	-13.23%	30.15%	7.33%	-4.47%	8.98%	-28.44%
<b>FTSE UK All Share Index</b>	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
<b>Schroder Recovery Fund</b>	-24.07%	-21.41%	-9.61%	114.85%
<b>FTSE UK All Share Index</b>	-12.99%	-4.60%	2.86%	92.50%

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

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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.*