SHINING A LIGHT ON……
SCHRODER US MID CAP FUND

This is an update on the fund rather than a review of the process and management style. Details on this have already been made available via previous updates.

Update

We benchmark all US Funds against the MSCI North American Index. The Index is focused on large cap stocks. Traditionally investors have opted for small / mid cap stocks due to their ability to significantly outperform large cap over the long term. Therefore this remains a fair benchmark to test the fund.

The fund has outperformed the index over a 3 and 5 year period by around 7%. In 2011, 2014 and this year the fund has lagged the index. We touched on this with the manager and she explained that large cap stocks have outperformed small and mid-caps for the last two years. She went on to say that mid-cap stocks are relatively expensive and therefore investors have moved out of these stocks to large cap which again has pulled down the index.

This helps to explain the sluggish performance but also the fund is not an aggressive small / mid cap fund. It is defensively managed. There are 117 holdings with the top holdings having less than 2% weighting. This means that if the sector is out of favour no one stock dominates the portfolio and it provides a cushion on the downside, on the flipside no one stock can dominate on the upside.

For this reason our view remains that the fund will work well as a blend with a large cap fund but we are less convinced that this would be a good standalone fund for those wanting to purely invest in the small / mid cap space.

Stock picking is part of how the management team look to add value with the fund focusing on three areas – mispriced companies (65% of the fund), turnarounds (10%) and steady eddies (25%). Three companies which Jenny highlighted demonstrate how she views the US and where it is in its economic cycle.

The average age of cars in the US is 11 years, these cars need servicing and independent garages are beneficiaries of this. Snap-on responds to this market by providing equipment to these garages. One of the key things about the business is that they are not reliant on one large business but several independent businesses.

Ryder is a commercial transportation company. The market again is not reliant on one large business but several small businesses. For smaller companies needing a distribution strategy the cost of setting up a fleet of lorries and maintaining this is very expensive to do. Therefore they can outsource the whole process to Ryder who take on the logistics and are responsible for supplying drivers, trucks and maintaining the fleet.

Finally Lifepoint Hospital plays on Obama Care. Costs for health care have risen by 15 to 20% a year over the last 10 years at a time when wages have remained static. The problem for hospitals was that if people came into hospital without cover the hospitals would still have to treat them which would squeeze profit margins. Obama Care has created a safety net for many of those who previously couldn't afford cover which means the hospitals will get paid and the margins increase.

Listening to Jenny explaining about these three businesses there appears conviction in what she believes but still the holdings remain low which means any correction in share price will have a minimal impact on the returns of the fund.

The management team are well respected and over the long term the fund has outperformed the index. However, there are other small and mid-cap funds which have more conviction and are likely to capture more of the upside although these are likely to be more volatile. Therefore the view is as a blend this remains a good fund but as a standalone investment the jury remains out.

Fund performance

The table below shows performance over the last five years and going into 2014:

	2009	2010	2011	2012	2013	2014
Schroder US Mid Cap Fund	23.41%	21.83%	-2.05%	3.51%	32.65%	6.30%
iShares MSCI North America	15.39%	16.55%	-0.55%	5.15%	27.12%	8.65%

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.

The source of information in this note has been provided by Schroder and is correct as at September 2014. 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. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.