Schroder European Recovery

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed according to a deep value style, with an emphasis on identifying stocks that have endured significant challenges and are out of favour.
- The team are experienced in the application of the process and have demonstrated discipline in maintaining their approach, even in times of adversity.
- The Global Value team members work in a collegiate and highly organised way, undertaking diligent valuation and accounting analysis to underpin this distinctive process.

Key characteristics and expected outcome

- There are not many funds offering the pure application of a long-term value and recovery investment approach. The fund is likely to be meaningfully exposed to underperforming areas of the market that the managers / team believe have significant scope for re-rating.
- Such positioning results in a highly differentiated performance outcome when compared to the index and most peers. Recovery investing can endure long periods of underperformance when either the individual stocks remain out of favour or the style struggles. The other side of the coin is that investors also enjoy periods of powerful positive performance as re-rating occurs.
- Investors must therefore have a long investment time horizon and tolerance for significant fluctuations in absolute and relative performance.
- With its distinctive, deep value investment style, the fund is a differentiated offering within the IA Europe ex UK sector, where such approaches are few and far between.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The fund's risk characteristics are illustrative of its differentiated nature and the requirement for investors to be prepared for periods of shorter-term struggles, as well as bursts of strong returns. Its five-year realised standard deviation is above that of European equity benchmarks and its maximum drawdown has also been larger. We believe these characteristics are a fair reflection of the profile that investors should expect. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	23 March 1989
Manager(s) Since:	Andrew Lyddon (May 18)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI Europe ex UK Value
IA Sector:	Europe excluding UK

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A European equity fund managed according to a disciplined value approach. The team looks for companies that have suffered a significant operational and/or share price setback but have the potential to recover over the long term. Within its sector, the fund features in our 'All-Cap, Value' category.

Investment Team

The fund is managed by Andrew Lyddon, an established member of Schroders' Global Value team. The Global Value team is headed by Simon Adler, and it incorporates several fund managers who run value and income-orientated portfolios across UK, European, global and emerging markets. They benefit from Schroders' extensive resources.

Investment Philosophy

Contrary to prevailing wisdom, the team believes that stock markets are inefficient because market participants do not always behave in a rational way, and often extrapolate short-term trends, both good and bad. Furthermore, they believe that investors often underestimate the potential for mean reversion in earnings. Therefore, the focus of their approach is the identification of mis-priced securities where they see the potential for a recovery in profits, however challenging the backdrop may appear.

Investment Process

The approach is framed by the identification of stocks that are appear cheap and, through additional research, the analysis of the degree to which they are trading substantially below their long-term value. This is an innately contrarian style and leads the team towards companies that have endured significant operational and/or industry headwinds and consequently, are often unloved and out-of-favour. The process starts with several quantitative screens designed to identify potential candidates. Price relative to 10-year average earnings is a key screen, but they also look at other metrics including enterprise value, net operating profit after tax and price/tangible assets. The screens narrow the investable universe into a subset of undervalued companies that are candidates for proprietary research by the team. They then construct a financial model for each company. This is based on at least 10 years' worth of company accounts to help understand how a firm has performed through a full economic cycle. Their analysis of these companies focuses upon the nature of their business models, balance sheets and capital allocation decisions. The balance sheet analysis is designed to ensure the business can survive further adversity, while the business model assessment helps the managers judge the factors that will drive a turnaround and understand the potential extent of any such improvement in profitability. The team can then complete the "7 Red Questions" checklist. This is designed to uncover value traps and address key investment risks in a disciplined and repeatable way. The information and analysis gleaned from each of the questions feeds into the overall assessment of whether the risk/reward trade-off is attractive for a given company.

Portfolio Construction and Risk Controls

Fund positioning is not constrained by the benchmark. The portfolio typically comprises between 30 and 70 stocks, with no more than 10% in any one stock or 35% in any one sector. There is a maximum limit of 50% in any one country and the fund is permitted to hold up to 10% in cash.

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