Schroder UK Smaller Companies

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed according to a well-established and clearly articulated approach. Experienced investor Andy Brough heads the team.
- The process is rigorous and thorough, incorporating a strong element of accounting analysis in addition to assessing the drivers of company growth in terms of product and business strategy.
- The team members consider themselves long-term investors in companies and are active in promoting good corporate governance.

Key characteristics and expected outcome

- The team has a balanced approach to investing in the UK small-cap market. Stylistically, compared to other funds in the peer group, the fund resides in the blended space.
- Investors are likely to be best served by holding this fund for the long term. The team operates with a long-term investment horizon, but they are mindful of short-term influences and will adjust position sizes accordingly.
- The philosophy means the fund should not be expected to participate in shorter-term rallies from companies with weaker balance sheets and/or those in challenged industries. It will also struggle when strong fundamentals are not being rewarded.
- Smaller-cap investments usually exhibit larger drawdowns in times of crisis than large-cap companies and can be higher risk. Consequently, the fund would usually be part of a broader equity portfolio.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. 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 5 means the fund's historic volatility is between 10% and 15%.

The team has a balanced approach to investing in the asset class and, over time, the risk outcome is in keeping with peers and the market. However, given the idiosyncrasies of the asset class and the often-challenging liquidity backdrop, investors should always be prepared for variable risk/return outcomes. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	31 May 1987
Manager(s) Since:	Andy Brough (Mar 94)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	FTSE UK Small Cap ex IT
IA Sector:	UK Smaller Companies

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 long-standing UK smaller companies fund managed by an experienced practitioner. The team employs a long-term approach, preferring companies with strong balance sheets and the ability to grow organically with a view to becoming the mid and large caps of the future. Within its sector, the fund features in our 'Smaller-Cap, Flexible' category.

Investment Team

The fund manager, Andy Brough, joined Schroders in 1987 and heads the well-resourced UK Small and Mid Cap team. He has managed the Schroder UK Smaller Companies fund for over 20 years and is responsible for the Schroder UK Mid 250 fund, as well as institutional mandates. He works closely with fund manager, Jean Roche, who joined in 2016. Previously, Ms Roche was an analyst / fund manager at Hargreaves Hale (now Canaccord), and before that worked on the sell-side for ten years at Panmure Gordon and Morgan Stanley.

Investment Philosophy

The team believes they can grow investors' savings by thoroughly analysing smaller companies' accounts and strategies, with the aim of identifying those that are reasonably priced and able to grow organically into the mid and large caps of the future. They believe that pricing power is a strong contributor to profit growth.

Investment Process

The process starts with quantitative screening of the stock universe using both internal and external sources, incorporating a variety of growth, return and valuation factors which help to prioritise the fundamental research. The team stresses the importance of contact with company management and they undertake an extensive program of meetings with senior management. They aim to understand the strategies being pursued by management and assess the characteristics and competitive dynamics of industries and sectors. Companies and industries are classified within the following framework: "Unique Stocks", companies that operate in industries where demand for their goods and services exceed supply, which gives them pricing power and drivers organic growth, and strong cash flow; "Flex Stocks", companies which are cyclical stocks or franchises in transition, amongst which the team search for trading opportunities; "Stocks to Avoid", companies that operate in industries where supply exceeds demand, which are typically experiencing long-term decline and which will not provide investors with successful growth opportunities. Using these classifications, the team invests in a portfolio of attractively priced Unique and Flex stocks.

Portfolio Construction and Risk Controls

The fund typically comprises 70 to 120 holdings and the long-term approach is reflected in a low turnover of stocks. Up to 20% may be invested in mid caps to capture the continued growth of holdings that increase in size. The rest of the portfolio incorporates stocks listed on the AIM and FTSE Fledgling indices as well as the FTSE Small Cap index. The portfolio is subject to a series of risk management and control systems including PRISM, the in-house system, which takes a multi-dimensional approach to assessing potential risks. The team considers the structure of the portfolio, in terms of the stock and sector contributions to risk, to ensure they are comfortable with the levels of risk held in aggregate.

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