Schroders

Schroder Global Recovery Fund – Wholesale Class

Performance overview

The MSCI World Index rose 0.26% while Schroder Global Recovery Fund – Wholesale Class fell 5.08% (post-fees), underperforming by 5.34% (post-fees) for the quarter.

Drivers of fund performance

Lack of exposure to US tech stocks Nvidia and Apple weighed on portfolio performance in the quarter as these stocks performed strongly. Within technology we do own Intel, but it was also a detractor. The company is facing challenges in the chip market and has lagged behind in AI semiconductor technology. Intel has been making significant investments to regain its lead in chip manufacturing, with plans to spend $100 billion on plants in the US.

In the consumer staples sector, pharmacy chain Walgreens Boots Alliance was a detractor. The group cut its profit outlook and announced further store closures, citing price pressures on US consumers.

Molson Coors Beverage Group also weighed on relative performance. The company's recent results have been positive but it now faces a tough comparative given strong growth in 2023. Molson Coors reiterated its 2024 guidance.

Within healthcare, pharmaceutical group Bristol-Myers Squibb was another detractor. The company reported a loss in the first quarter due to charges related to recent acquisitions and lowered earnings per share guidance for the full year. However, revenues were robust amid strong sales of key drugs. The company is taking steps to cut costs, including reducing its workforce by 2,200 jobs.

Telecoms firm BT Group was the main individual contributor. BT's new chief executive unveiled a strategic plan involving a further £3 billion of cost cuts by 2029 and an increase in free cash flow, as well as a higher dividend. June brought news that Mexican billionaire Carlos Slim has taken a 3% stake in BT.

Anglo American, the British multinational mining company, saw a surge in its share price after receiving a takeover proposal from BHP Billiton. Ultimately the proposed deal proved too complex. Anglo American will now focus on its own restructuring plans.

Portfolio Activity

A new position in the portfolio is food producer Kraft Heinz. It has a world class collection of food brands. The free cash flow yield is strong and is likely to be used to benefit shareholders, whether through debt paydown, share buybacks or dividends. The debt load has become more manageable in recent years.

Another new holding is Anhui Conch Cement. We think it looks attractively valued even on conservative profit assumptions and it comes with a materially net cash and cash like balance sheet. It also increases the portfolio's direct exposure to China. The major risks are that fixed asset investment in China collapses and with it Anhui's revenue.

We exited the holding in Samsung Electronics. The shares have done well and we are seeking to reduce exposure to the sector following good performance. We also exited positions in NHK Spring and Western Digital as the shares had reached our assessment of fair value.

Another sale was AMC Networks. The balance sheet position has deteriorated and confidence in the stabilization of the core business has declined. However, the shares have bounced and we took the opportunity to exit.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested