

# Schroder US Mid Cap Fund

## Fund Update

### Covering April 2013

#### Overview

The Russell 2500 delivered -2.2% (in sterling terms) as sterling strengthened over April. Size mattered this month as large caps, represented by the S&P 500 index, were ahead. However, the Russell 2500 is still winning the year-to-date battle over the S&P 500.

Our investment approach continues to target three types of opportunities: 'mispriced growth stocks' – stocks where the market continues to undervalue a company's growth prospects (in our view); 'steady eddies' – strong companies with recurring revenues and/or cash flows, and 'turnarounds' – firms that are addressing their problems – often with a new management – which are likely to outperform over time.

#### The market and the drivers of fund performance

The Russell 2500 index delivered a return of -2.2% (in sterling terms) as sterling strengthened over April. However, large caps, as represented by the S&P 500 benchmark were ahead. The defensive sectors, led by consumer staples and utilities, outperformed this month.

Schroder Mid Cap Equity underperformed the benchmark over April. Our strongest contributors, led by good stock selection, were producer durables, consumer discretionary and healthcare. The most significant detractor to performance was within the financial services space, where we were hurt by our underweight to REITs and poor stock selection in the financial data and systems industry. Key stock contributors this month included **Ross Stores**, **Life Technologies**, and **Life Time Fitness**. Long-term holding **Ross Stores**, operator of off-price stores, reported strong March sales and continue to forecast an increase in April comparable-store sales. **Life Technologies**, a market leader in human genome sequencing received a takeover offer from Thermo Fisher Scientific. **Life Time Fitness** reported strong company earnings for the first quarter of 2013 and raised the lower-end of its guidance for the full year. Main detractors included **Yamana Gold**, **Sealed Air Corp.** and **Avnet**. **Yamana Gold**, a gold producer, fell with the declining price of gold. **Sealed Air** detracted as Wall Street analysts were sceptical about its ability to meet its earnings estimates however, we continue to hold the company and it has since reported a strong quarter. **Avnet**, an electronics components supplier, fell on disappointing economic data points and fears about a weakening global economy.

#### The market outlook and portfolio strategy

We continue our search for quality stocks with good growth prospects selling at attractive valuations and see opportunities in several areas. Overall levels of market valuation are not cheap, but we do feel we can work with them. We believe in the US recovery story, however, we are somewhat cautious because of the unbridled enthusiasm with which this thesis has been embraced by a number of market participants. Within technology, while we were early investors in the area of cloud computing, which we ultimately exited on high valuations, we are finding interesting companies to own network performance space. In energy, we are finding some opportunities in companies that are second derivative beneficiaries of the expansion of oil and gas drilling in the shale areas. This would include, for example, companies manufacturing pipes for drilling and pipelines and transportation companies moving energy products to market. While healthcare remains an area with much uncertainty, we are finding interesting ideas in companies which will benefit from the larger insured patient populations the new law will bring. We are mindful of reimbursement risks and tend to avoid companies with significant exposure to that risk.

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