M&G UK Recovery Fund Q&A

What type of stocks does the Fund invest in?

The Fund invests mainly in early stage businesses or companies which the M&G investment team believe have problems that can be resolved by management action. Their aim is to buy shares that are relatively cheap and have the potential to significantly increase in value as the company issues are resolved, or as the company grows in size.

Why has the Fund recently performed poorly after doing well for so long?

During the recent uncertain economic climate, 'safe' stocks have been highly sought after and performed well. The style of the UK Recovery Fund is to buy riskier, 'out of favour' stocks and to aim for large gains as their value rises. This style has been less well suited to the economic climate over recent years. Also, a few of the selected stocks, particularly in the oil sector, have not performed well and this has hurt performance. However, the fund manager believes there is now some potential for these stocks to recover and perform well over time. There has been no fundamental change to the Recovery Fund investment team, or its investment approach, and so the Fund could be well positioned to claw back some of its losses over the coming years, although this is not guaranteed.

The Fund often holds very different stocks to its benchmark index. Should this be expected?

Yes. The aim of the fund is to hold shares in companies that are believed to be relatively cheap until the potential of the business is fully reflected in the share price. This involves investing at least part of the portfolio in smaller companies that may not be listed on the main stock exchange. As such, the performance of the fund is likely to differ from its benchmark over both the short and long term.

Do the Trustees regularly monitor the Fund and assess whether it remains appropriate for Plan members?

Yes. The Trustees review the performance of the Fund on a quarterly basis and have regular meetings with Hymans Robertson, the Plan's investment consultants. The suitability of the Fund is discussed with Hymans Robertson, who offer their view of the Fund alongside the overall structure of the Plan's investment options.

What could lead the Trustees to change the Fund?

The Trustees have set up a series of 'review triggers' for the Fund, which are given below:

1. Departure of the lead Fund manager and key decision maker, Tom Dobell.
2. Excessive change in the size of the Fund.
3. A significant change in the philosophy or processes at M&G.

A breach of one of the triggers would lead to a discussion with the Plan's Investment Consultants on how suitable it is to keep the Fund (especially as it forms part of the Specialist Lifestyle strategy). If the Trustees believe that the Fund is no longer suitable, it would be replaced.

I don't like to see the value of my Fund go up and down a lot in the short term. Is this Fund right for me?

Probably not. By its nature, the performance of the Recovery Fund can go up and down a lot in the short term. However, in the long term, it is expected that the poorly performing stocks should 'recover' and hopefully the Fund will perform strongly again (although this is not guaranteed). If you want more stable returns in the short term, then a different fund may be more appropriate.

Who are M&G and why are they considered strong in this area?

M&G is a fund management company, owned by the Prudential, that has been well established and recognised for many years. The UK Recovery Fund was launched in May 1969. The current lead Fund manager, Tom Dobell, took over in 2000 and, since this date the Fund has grown in size, as a result of which the UK Recovery team has expanded. Tom Dobell has two deputy Fund managers and a further five support staff. The team are also able to draw upon the wider M&G equity team.

Diversified Assets Fund Q&A

What sort of things does the Diversified Assets Fund invest in?

The Diversified Assets Fund invests in a range of different asset classes, such as equities, government bonds, property, commodities and corporate bonds. The idea is that, by investing across a range of asset classes, when one asset class does poorly the impact on the overall fund will be reduced as other assets will perform better.

Why does this type of fund move up and down by less than a fund invested wholly in the stock market?

Equities (shares of companies) only form part of the Diversified Assets Fund. When the stock market is doing well, equities perform strongly and this has a positive impact on the performance of the Fund. However, this is restricted by the percentage of the Fund that is held in equities. Similarly, when equities are doing poorly, the negative impact on the Fund's performance is limited by the amount of the Fund invested in equities. The other asset classes in the Diversified Assets Fund are typically less volatile than equities and are expected to contribute more stable returns to the Fund. Therefore, we would expect the Fund to move up and down by less than a fund invested wholly in the stock market (such as the M&G UK Recovery Fund), subject to the performance of the other, typically more stable, asset classes in the Fund.

Why are the Trustees introducing a second manager alongside BlackRock in the Diversified Assets Fund?

BlackRock is the world's largest asset manager and has expertise in both index tracking and actively managed funds. However, by introducing a second manager, the Trustees are aiming to offer a fund that is more diversified and which benefits from different manager styles. Introducing a second manager will reduce the fund's exposure to BlackRock, thereby reducing the Fund's 'manager risk' i.e. the risk experienced as a result of only having one manager run your fund. Schroders (the new manager) and BlackRock have different ways of running diversified funds. The approach of Schroders is to generally hold a relatively high weighting in equities, in a bid to maintain long term growth. However, they have what's known as a 'volatility cap'. This means that if they think the returns on the Fund are becoming too volatile, the Fund will be immediately rebalanced. By contrast, BlackRock don't invest for a particular level of return but instead 'invest in risk'. They invest based upon the level of risk they believe their investments will generate and allow returns to occur naturally at a given risk level. As a result, their fund typically contains fewer equities than the Schroders fund and holds more bonds. These two differing styles should create a further layer of diversification for the Diversified Assets Fund, without compromising returns.

Who are Schroders and what is their experience of managing diversified funds?

Schroders is a fund management company that is well established and highly regarded. As a large, long established diversified growth manager, Schroders are well placed to manage a fund of this type. The Diversified Growth Team at Schroders is made up of eleven people and they can call upon the experience of an investment team in excess of one hundred people.

Members should note that the performance of funds is not guaranteed and that the value of unit prices can fall as well as rise. Past performance is not a guide the future.

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