



Results analysis: Schroder UK Mid Cap

SCP looks well positioned to benefit from a potential recovery in UK mid-caps.

Update
30 June 2026

- Schroder UK Mid Cap (SCP) has released its financial results for the half-year period ended 31/03/2026. The trust's NAV declined by 4.4% and its share price by 1.9% over the period, compared with its benchmark, the FTSE 250 ex-Investment Trusts Index, which fell by 2.9%.
- Main detractors from performance included positions in multi-utility company Telecom Plus, private hospital operator Spire Healthcare, and specialist media business Future, while the use of gearing also had a modest negative impact on performance.
- These were, however, partially offset by positions in the financials and industrials sectors, such as asset management firm Man Group, as well as shipbroking and maritime data business Clarkson. Strong stock selection in the consumer discretionary sector also contributed to performance.
- SCP's discount narrowed from 7.0% to 4.7% over the period under review. Circa 1.6% of the shares in issue at the start of the financial year had been repurchased by 31/03/2026. SCP's discount currently stands at 4.9%.
- On 20/05/2026, the board announced a proposal to undertake a 100% tender offer, which was supported by Saba Capital Management, as well as a three-year standstill arrangement with the activist investor. Shareholders overwhelmingly approved the resolution at the general meeting held in late June, and c. 34.7% of the shares in issue as at 23/06/2026 were tendered.
- An interim dividend of 6.5p for the ongoing financial year will be payable on 07/08/2026, representing a 3.2% year-on-year increase. Combined with the final dividend of 16.1p paid in FY 2025, this equates to a 12-month yield of c. 3.2%.
- Board chair, Harry Morley, said: "UK mid cap equities remain among the most attractively valued in the developed world, underpinned by strong fundamentals and meaningful scope for re-rating over time."

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higher oil prices and concerns about potentially higher inflation and interest rates. The trust was further impacted by its use of gearing, as well as by positions in companies that have faced operational and/or execution-related issues, although managers Jean Roche and Andy Brough remain constructive on the long-term outlook for most of these businesses. In addition, the managers highlight that they saw more earnings upgrades than downgrades among their holdings during the period. As a result, they believe that the fundamentals of their investee companies remain strong, saying that the sell-off in UK mid-caps has been driven primarily by investor sentiment.

Currently, UK mid-caps are trading at multi-decade valuation lows compared with their own history, UK large-caps, and most other developed markets. Combined with strong company fundamentals, the managers believe that the asset class offers plenty of scope for a potential re-rating. In fact, they think that the undervaluation of UK mid-caps is already being recognised, notably by trade buyers and private equity firms, which continue to acquire UK-listed businesses at significant premia, and by the

Kepler View

UK mid-caps faced a challenging backdrop during the six-month period to the end of March 2026, particularly in the wake of the outbreak of the Iran war and its knock-on effects, including

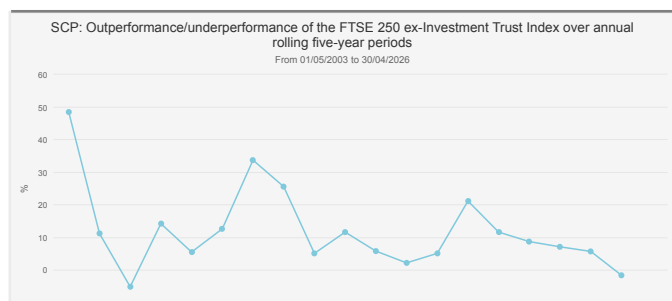


companies themselves, which have been repurchasing their own shares at an elevated pace.

With the US and Iran undergoing peace talks and oil prices having fallen back to pre-war levels, we believe the market environment could improve for UK mid-caps going forward. For example, lower inflationary risk could enable central banks to resume their interest rate-cutting cycle, resulting in lower discount rates for equities, reduced borrowing costs, and potentially increased risk appetite from investors. In addition, the managers believe that their emphasis on well-managed, cash-generative businesses with strong balance sheets could provide resilience if the market environment remains subdued. They also highlight that many UK mid-cap companies generate revenue internationally and have negligible exposure to the UK, meaning that Jean and Andy have the flexibility to adjust the portfolio's exposure to the domestic economy, depending on where they see the strongest outlook. In addition, we think **Schroder UK Mid Cap (SCP)** should be able to adapt to different market environments, as it holds different categories of stocks: 'unique' stocks, which are companies with quality characteristics, and 'flex' stocks, which are more cyclical businesses.

Finally, we view the exit of Saba Capital from the shareholder register as well as the agreement of a three-year standstill period as important developments. This means that the trust should be free from further disruptions from the activist investor going forward. Given these developments, as well as the appealing valuations of UK mid-caps, we believe now could be an attractive entry point into a strategy that has a track record of outperforming the market over full market cycles. For instance, since its launch in 2003, the trust has outperformed its benchmark in nearly 90% of annual rolling five-year periods, as the chart below shows. To us, this suggests a degree of repeatability in SCP's investment process and its ability to deliver outperformance.

Fig.1: Rolling Returns



Source: Morningstar

Past performance is not a reliable indicator of future results.

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