Results analysis: Schroder UK Mid Cap

SCP has delivered strong returns since the beginning of the calendar year.

Update
04 July 2025

- **Schroder UK Mid Cap (SCP) has released its financial results for the half-year period ended 31/03/2025. The trust's NAV declined by 9.3% and its share price by 4.4% over the period, compared with its benchmark, the FTSE 250 ex-Investment Trusts Index, which fell by 7.9%.**

- **Over the same period, SCP's discount narrowed from 12.3% to 7.9%.**

- **An underweight position in financials, stock selection in technology, and the use of gearing detracted from performance. This was partially offset by positive stock selection in industrials —particularly within the defence sub-sector.**

- **However, performance has been strong since the start of the second half of the trust's financial year, with SCP delivering a NAV total return of 10.7% from 01/04/2025 to 27/06/2025, outperforming the FTSE 250 ex-Investment Trusts Index, which has returned 8.4%.**

- **SCP's long-term performance record remains strong, with a five-year NAV total return of 61.8% compared to 52.5% for the benchmark.**

- **In March, the board announced a series of strategic initiatives aimed at enhancing shareholder value and improving market perception. These include a commitment to a more active share buyback policy, a reduction in the management fee, and a continuation vote.**

- **No share buy-backs were undertaken in the six months to 31/03/2025. However, since then (to 27/06/2025), the trust has repurchased 15,000 shares, equivalent to c. 0.04% of the shares in issue at the end of March. The board aims to continue utilising share buy-backs to prevent a wide discount to NAV from developing. The continuation vote will be held in 2028 and, if passed, triennially thereafter.**

- **The management fee has been reduced and is now based on the lower of two possibilities. The first is a newly introduced fee structure, charging 0.60% per annum of the trust's market capitalisation. The second is the previous fee structure, which charges 0.65% on assets up to £250 million and 0.60% on any amount above that.**

Analysts:
Jean-Baptiste Andrieux
Jean-Baptiste@keplerpartners.com

- **An interim dividend of 6.3p per share for the ongoing financial year will be payable on 08/08/2025, representing a 5% increase year-on-year.**

- **Gearing stood at 9.5% at the end of March and remained at a similar level at the end of May. This relatively high gearing reflects the opportunities that managers Jean Roche and Andy Brough are seeing in the market.**

- **Board chair, Harry Morley, said: "Emerging signs of an end to the era of the dominance of US technology stocks in global market returns may herald a return of equity investors to help to correct the valuation dislocation which has developed among UK mid-caps."**

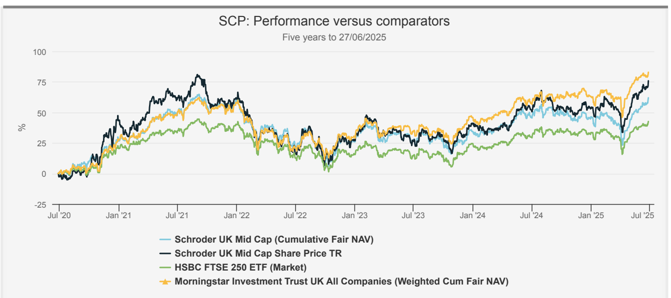
Kepler View

The six-month period to the end of March 2025 proved challenging for UK mid-caps, marked by continued fund outflows and rising long-term bond yields as inflation expectations were revised upward. Market sentiment was further dampened by concerns over the UK government's fiscal policies announced in the Autumn Budget (30/10/2024), which added to cost pressures for companies and impacted market perception of the UK's macroeconomic outlook. Against this backdrop, **Schroder UK Mid Cap (SCP)** was further affected by its underweight position in the financial sector and the underperformance of some of its technology holdings.

However, there were also some encouraging developments during the period. For instance, holdings involved in the defence supply chain stood out, with two of SCP's top five contributors—Babcock International and Chemring—coming from this part of the portfolio. In our view, SCP's sizeable allocation to the defence sub-sector is a distinctive and attractive feature, as it has one of the highest exposures to defence stocks among investment trusts. With geopolitical tensions rising and a growing consensus among European nations to increase defence spending and reduce reliance on the US, defence could remain a strong investment theme in the years ahead. The portfolio also offers exposure to unique investment opportunities that, like the defence names, may grow thanks to idiosyncratic factors. One example is Currys, the electrical retailer, which may benefit from a replacement cycle in electronic goods as well as rising demand for AI-enabled laptops—a market in which the company holds a 75% share in the UK.

In addition, performance has improved significantly since the end of the trust's first half of its financial year (to 27/06/2025), with SCP delivering a mid-teen NAV TR and outperforming its benchmark during that period. Despite this, we believe the FTSE 250 Index remains attractively valued, particularly relative to the FTSE 100, which may indicate undervaluation. As mid-caps have historically tended to trade at higher multiples than large-caps, the current discount of the FTSE 250 Index (relative to the FTSE 100) may provide a compelling entry point into UK mid-caps. Moreover, as investors have shown increased appetite for equity markets outside the US this year, we think there is a possibility that UK mid-caps may attract renewed interest, as they offer both attractive valuations

Fig.1: Five-Year Performance



Source: Morningstar

and growth opportunities. Given SCP's dedicated focus on this segment of the UK equity market and its strong long-term track record of outperformance, we see it as an attractive strategy for gaining exposure to this asset class.

Currently, the portfolio is tilted towards domestically oriented companies, as the managers believe these could benefit from recent Sterling strength, potentially lowering input costs and improving purchasing power for their customers. They also highlight that, on aggregate, the balance sheets of UK corporates and households remain robust, which could support domestic consumption. In addition, the managers note that UK mid-caps have been actively repurchasing significant quantities of their own shares, a trend that also applies to SCP's holdings. For instance, 20% of the trust's holdings have ongoing share buyback programmes, which may support share prices by increasing earnings per share and signalling confidence to the market.

Finally, we believe the strategic initiatives introduced by the board strengthen SCP's investment proposition. In particular, we think the new management fee structure aligns the manager's interests with those of shareholders, as it is now tied to market capitalisation.

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